August 2018

As August rolls around and the weather begins to warm up, our thoughts are with the nation's farmers. Many are battling a prolonged drought and wishing for rain.

On the domestic front, the corporate earnings season is approaching at a time when Australian shares are trading at 10-year highs. The lower Australian dollar, down 5 per cent this year to US74c in late July, should help boost companies with offshore earnings.

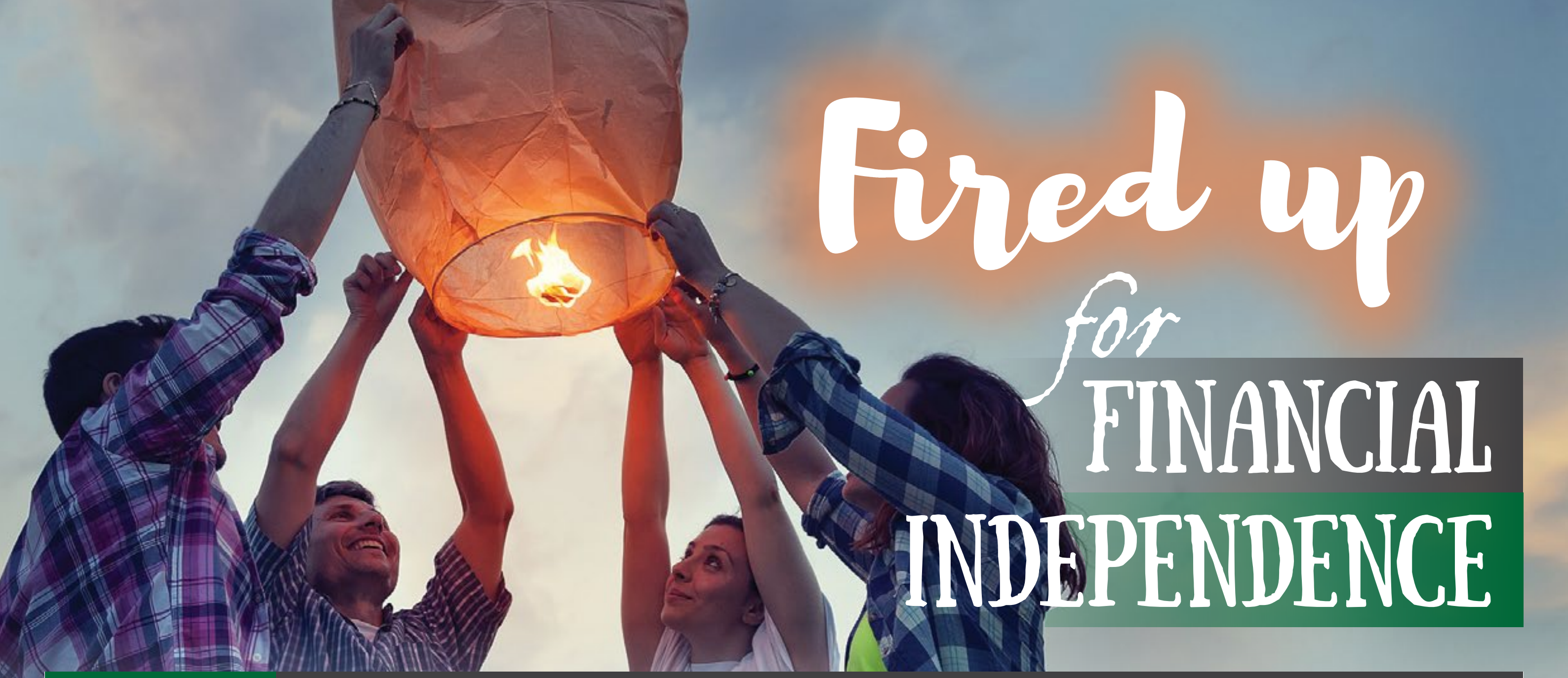
Inflation remains benign with an annual growth rate of 2.1 per cent in the June quarter, up from 1.9 per cent in March. Prices of petrol, health and tobacco rose strongly while prices fell for domestic travel, cars and vegetables. The unemployment rate was unchanged at 5.4 per cent in June but wage rises barely kept pace with inflation. Consumers felt the pressure in their hip pocket, with the weekly ANZ-Roy Morgan consumer confidence rating dipping 2.1 per cent to 118.9 in late July.

Falling house prices may also be weighing on sentiment, with the CoreLogic national Home Value Index falling 0.8 per cent in the year to June. Home prices fell in Sydney, Darwin and Perth, dragging down the national average.

In the US, June quarter corporate earnings reported so far have exceeded expectations, up 4.1 per cent on an annual basis despite ongoing global trade tensions. The IMF left its global growth forecast unchanged at 3.9 per cent for 2018 and 2019 which, if realised, would be the fastest growth in 7 years.

growing together.

Ivy Wealth
9/39 Murray Street
Hobart TAS 7000
P 03 6245 1777
E reception@ivywealth.com.au
W www.ivywealth.com.au



Fired up for FINANCIAL INDEPENDENCE

Millennials are often accused of living for the present and wasting their money on smashed avocado. So it may come as a surprise that younger Australians are at the vanguard of a growing movement committed to the old-fashioned virtues of thrift and saving, but with a modern twist.

Whereas the mantra of the Baby Boomers in the 1960s was 'turn on, tune in, drop out', their adult children also want to leave the rat race, but they want to do it with a substantial nest egg to allow them to pursue their dream lifestyle. The new mantra is 'Financial Independence, Retire Early', or FIRE for short.

The FIRE Brigade

The fundamentals of the movement come down to three lifestyle changes – living frugally, increasing income and investing the surplus – that they believe will help them achieve FIRE.

The godmother of the FIRE movement is Vicki Robin, the author of *Your Money or Your Life*. Robin suggested to her readers that they consider the 'hours of life energy' a purchase entailed. For example, a person earning $60,000 a year who is contemplating buying a $30,000 car should ask themselves whether owning the vehicle is a reasonable trade-off for six months of their life.

Robin's book came out during the pre-GFC consumption frenzy and failed to have much impact. However, over the last decade or so, increasing numbers of individuals and couples in their twenties and thirties have embraced its core message about stepping off the consumerist treadmill.

FIRE blogs, websites and books are largely devoted to money-saving tips such as trade your car for a bike, be content with fewer, cheaper items of clothing and forget about eating smashed avocado on toast at cafes. FIRE enthusiasts are also highly motivated to increase their income by working smarter, studying or starting a side business. When it comes to investing surplus income, they are also actively engaged with a preference for income-producing assets such as property and bonds and dividend paying stocks.

Fuelling the FIRE

It's not clear what has drawn so many Millennials to the idea of achieving financial independence earlier in life than their parents. It's possible that the GFC had the same kind of impact on them as the Great Depression had on their grandparents. It's also conceivable Millennials have less interest in flaunting status symbols than preceding generations. Or it could simply be the case that Millennials value freedom and autonomy and want to escape the rat race asap.

Being Millenials, technology is central to spreading the FIRE message. The favoured online hangout of Australian FIRE fans appears to be the Reddit, sub fiaustralia, which has 8,400 subscribers.[i] There are even Australian FIRE celebrities, such as 'Aussie Firebug'.[ii] While remaining anonymous, Firebug has revealed he's in his mid-twenties and determined to achieve financial independence by no later than his mid-thirties. He defines this as: "Having sufficient personal wealth to live, without having to work actively for basic necessities. For financially independent people, their assets generate income that is greater than their expenses."

While its adherents skew towards the young, people of any age can embrace the FIRE philosophy. Many older Australians with modest super balances are doing much the same things as FIRE devotees, albeit out of the fear of having to keep working past retirement age rather than the hope of quitting their job in their thirties.

A timeless approach

Despite its recent arrival, the FIRE philosophy is essentially a modern makeover of some timeless financial wisdom. Work hard, spend less than you earn and invest the surplus in assets that will grow your wealth and produce income when you retire.

It could be argued that 26 years without a recession and access to easy credit has made many Australians too relaxed about living within their means. If that's the case, the FIRE movement could be the spark we all need.

If you're interested in building wealth to enjoy a financially independent future, give us a call.

i https://www.reddit.com/r/fiaustralia/

ii http://www.aussiefirebug.com/about/

Making the *most* of a falling Aussie dollar

One of the major themes for local investors in 2018 is the fall in the Australian dollar, and it's not just Aussie travellers heading overseas who are affected. Currency movements can have a big impact on your investment returns, but where there's risk there's also opportunity.

The Aussie dollar has dropped from a high of US81c in January to recent levels around US74c, its lowest in 18 months. So, what's behind this decline and will it continue?

The interest rate gap

The US dollar has been rising against most other currencies this year, including ours. Part of the reason for this is the increasing interest rate differential between the US and the rest of the world.

The US Federal Reserve has lifted rates seven times since late 2015 from near zero to a range of 1.75-2.0 per cent. Federal Reserve chairman, Jerome Powell has said he expects to do so twice more this year and three times in 2019 due to solid growth in the US economy.[i]

By comparison, Australia's official cash rate has fallen over the same period and sits at an historic low of 1.5 per cent. Commentators expect the next move will be up, but possibly not until late next year.

Higher US interest rates relative to Australia make the US a more attractive destination for yield-seeking investors. As foreign money flows into the US market, demand for the US dollar increases and its value rises.

Threat of trade war

Also weighing heavily on the Aussie dollar are the threat of an escalating trade war between the US and China and falling commodity prices, notably iron ore.

The tit-for-tat tariffs placed on imports by the world's two biggest economies has the potential to impact the Australian economy more than most. Australia is viewed as a resources-based economy and any rise or fall in commodity prices tends to be reflected in the value of our currency.

When the first salvos in the trade dispute were fired in July, iron ore was trading at around US$63 a tonne down from a high of US$78 earlier this year and a peak of US$197 back in 2008. Australia is the world's biggest exporter of iron ore, most of it headed to China for steel production.

China's growth eased slightly in the June quarter to 6.7 per cent, the slowest in 21 months. If tariffs put a dent in China's economic growth and demand for iron ore, our dollar could head lower.

While currency movements are just one factor influencing investment returns, it pays to understand the impact of a falling dollar to capitalise on the benefits and reduce currency risk.

Managing currency risk

For local share investors, a drop in the Australian dollar is good for exporters and companies with offshore operations because it improves their competitiveness in overseas markets.

The currency effect can also increase the appeal of global shares. Local investors who own 'unhedged' global shares have already enjoyed the double benefit of rising international share prices and a falling Aussie dollar. Hedged returns perform better when the Aussie dollar is rising or flat while unhedged returns do better when the dollar is falling.

To illustrate the impact of hedging, Vanguard's International Shares Index Fund (hedged) returned 11.46 per cent in the year to June 2018 while the same fund unhedged returned 15.44 per cent.

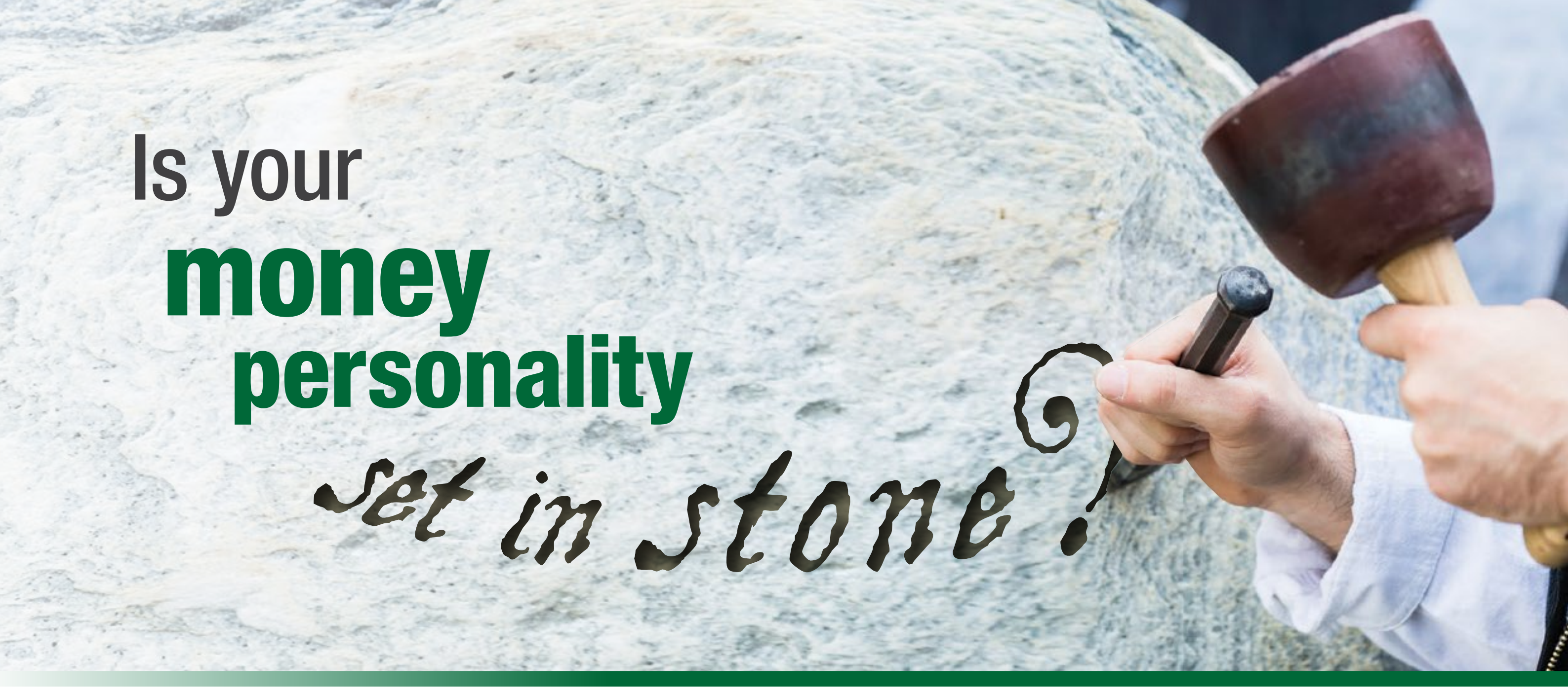
Avoiding the cash trap

While currency risk can be a challenge for share investors to manage, one of the biggest risks when the Aussie dollar is falling is to leave all your cash in the bank. At a time when historically low interest rates have already reduced the amount you receive from cash investments, your purchasing power is further reduced when you buy overseas goods.

While investment decisions should never be based on currency factors alone, understanding the impact of a falling dollar can help you minimise currency risk and make the most of opportunities.

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

i 'US Fed raises interest rates, expects 2 more hikes this year', by Akin Oyedele, Business Insider Australia, 14 June 2018, https://www.businessinsider.com.au/federal-reserve-fomc-statement-and-interest-rate-decision-june-2018-2018-6?r=US&IR=T



Is your money personality set in stone?

Our upbringings hugely influence the attitudes we have towards money. Did you observe your parents working hard to put food on the table? Was money a cause of conflict in your household? Was it spent freely, or were budgets obeyed?

The money attitudes you were exposed to as a child aren't necessary the ones you've taken on though. Some people exhibit money habits very different to the ones they grew up seeing, perhaps in a reaction to those circumstances or as a reflection of their personality. Take a look at a family of siblings and you might notice very different money personalities.

Here are four of the most common money personalities:

Avoider

As the name suggests, an avoider doesn't want much to do with money. They don't want to spend time thinking about it, which is why bills go unpaid and little attention is spent on investing and saving. There are many reasons why someone could be a money avoider, but two common ones are either feeling overwhelmed or confused around financial matters, or believing that money represents greed so it's bad to focus on it.

Hoarder

This money personality type excels with saving but struggles to spend. This can lead to Scrooge-like tendencies, as the hoarder finds it difficult to part with their money. They're anxious that money could be taken away from them and they must have substantial savings at all times. The hoarder doesn't have fun with their money – the greatest enjoyment they get is knowing it's untouched.

Spender

The opposite to the hoarder, the spender enjoys buying things for themselves and loved ones, making them very generous but sometimes irresponsible if they spend more than they earn. They risk falling into debt and struggle to save enough money for substantial purchases such as a house deposit. Delayed gratification is foreign to the spender, who'd rather buy on impulse.

Status seeker

Unlike the other money personality types, whose habits might go unnoticed at first, there's no mistaking the status seeker. They're the ones with the newest gadgets, flashiest cars, most fashionable clothes. The status seeker uses money to exalt their image. They have high standards and are deeply invested in how others see them. Like the spender, the status seeker risks going into debt if they can't afford their lifestyle.

Perhaps you identify strongly with one of these types, or can see yourself in several. None are inherently bad, but they all represent unbalanced attitudes to money.

While many of these beliefs can be quite entrenched, it is possible to change your thinking and foster a more positive money mindset.

Here are some tips to bring these beliefs into equilibrium:

Understand the emotions that drive your decisions

The money hoarder tends to be driven by anxiety, while for the status seeker it's insecurity. Identify your emotions – this observation will make you more aware of how you view and use money.

Create and maintain good money habits

A budget provides a clear picture of where money is going. They're useful for everyone to have, but are especially helpful for the spender and avoider.

Stop comparing yourself to others

The status seeker is the worst offender, but many of us also buy things to impress others. Focus on what you want and don't worry about keeping up with the Joneses.

Communicate with your partner about money matters

It's possible you and your partner are different money personality types. Ensure you're on the same page about shared spending, saving and long term goals.

Practice gratitude

Appreciating what you already have will cut down on any unnecessary spending and anxiety around your finances.

Get assistance

Whatever your attitude to money, it's always worthwhile having someone in your corner to assist you to make the most of your financial situation. We are here to help.