# February 2019

February is here and hopefully an end to January's record-breaking heat across the country. There has also been a lot of heat on the global economic stage. The US shutdown may have ended but the trade war between the US and China continues.

There are also further signs the global economy is weakening. The World Bank predicts growth of 2.9 per cent in 2019, down from 3.0 per cent last year and 3.1 per cent in 2017. China's economic growth slowed to 6.6 per cent in 2018, the lowest in 28 years but still a remarkably strong compared with developed economies.

In Australia, easing inflation also points to a slowing domestic economy. The Consumer Price Index (CPI) – the main inflation gauge - rose 0.5 per cent in the December quarter but eased from 1.9 per cent to 1.8 per cent on an annual basis. One of the major price falls was petrol, down 2.5 per cent over the quarter. According to the Australian Institute of Petroleum, the national average price for unleaded fuel fell 10.7 per cent in 2018, although it crept up to six-week highs of $131.8c a litre in January. Despite lower prices, consumers and business remain cautious. The Westpac/Melbourne Institute survey of consumer sentiment fell 4.7 per cent in January to 99.6 points, a 16-month low. The NAB Business Confidence index also dipped in December, from 3.4 points to a 3-year low of 2.8 points. Unemployment fell from 5.1 per cent to 5.0 per cent in December. The Aussie dollar jumped on the final day of the month to close at US72.7c, up from a January low of US68.7c.

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# Media curation in the digital age

Let's be honest, the number of folks who still read their favourite broadsheet over a morning coffee and croissant is dwindling. Most of us these days engage with our financial news on some sort of touchscreen device, with the content often suggested to us by applications and online news feeds.

That's right. The tech revolution has caused a watershed shift in the in the way media is delivered and how we consume it. Rather than editorial teams setting the day's agenda, it is algorithms. And people have mixed feelings about it.

Those who advocate for algorithmic curation say it avoids human prejudice in what gets screen time. The result however has often been that click bait and sensationalist headlines are preferenced over detailed financial analysis.

Now no one is arguing against some sort of filtration in the content we receive. There is simply too much news for any online platform to show us everything that is posted. But there are some questions regarding how this is managed, and how we as consumers can ensure we're still reading a variety of opinions.

## Tale as old as time?

Even in the golden age of print media, newspapers always had either progressive or conservative biases. We took this as a given. By the same token we also expected editorial oversight to ensure some level of impartiality in the topics discussed.

Social media on the other hand doesn't have this oversight. The algorithms that choose what we see, reflect the views of our tribe.

Now it is news to no one that most of us surround ourselves with people who share our values, online and offline. Problems arise however when these people become our sole source of information thereby creating a bubble, meaning we are not exposed to opinions that differ from our own.

These bubbles can evolve into echo chambers which reject alternative opinions. When this happens, respectful dialogue can turn nasty. We've all witnessed comment threads turned sour.

## Change on the horizon

The tech giants have been responsive to these issues recently. In 2018 Facebook made landmark shifts in the shape of its algorithm to promote 'meaningful' connections over branded content and to reduce the impact of sensationalist, clickbait articles.[i]

Similarly, Apple News, recognising that algorithms sometimes lack subtlety in their curation, put a team of journalists in charge of curating their feed.[ii]

## A foundation of trust

The question at the centre of this changing media landscape is who we trust. Algorithms? Experts? Our friends and family? The pack mentality we sometimes see on social media has led to many analysts commenting on an erosion of trust in both public institutions and subject matter experts.

But on a practical level we still put our trust in experts every day. We go to a doctor for our ailments, and a mechanic to fix our car. Much like a newsfeed simply couldn't fit all of the news on one wall, we simply can't know everything. As a result, we rely on others as sources of truth, or experts in their fields, all the time.

## Where to from here

It's up to you to find an approach towards consuming media that works for you. That might mean subscribing to a variety of publications you trust and doing further research to find out the whole story.

It also means having a sounding board you have faith in. The state of media is noisier than ever and the finance sector is not immune. The volume of opinions we're exposed to can be daunting for even the savviest of investors.

That's why we're here to help. It always makes sense to have an expert in your corner to cut through the clickbait and make sense of financial news as it relates to your individual circumstances, while also thinking big picture and taking into account the natural ebb and flow of markets.

*The news changes daily but media has changed for good. If you need help making sense of any of it, talk to us. We're always here to help.*

i https://chiefexecutive.net/zuckerberg-leading-facebook-back-roots/

ii https://www.nytimes.com/2018/10/25/technology/apple-news-humans-algorithms.html

# How to speak 'real estatese'

First-home buyers (and even second- and third-home buyers) are often baffled by the jargon used by real estate industry professionals. This can result in expensive misunderstandings unless you take the time to learn the lingo.

Here are some frequently misunderstood terms and concepts you should familiarise yourself with before you begin searching for your dream home.

## Conveyancing

Conveyancing involves transferring the ownership of a property from the seller to the buyer. Both the buyer and seller use a conveyancer or solicitor, who makes sure their legal rights are protected – and obligations met – during the transaction.

## Lender's Mortgage Insurance

Borrowers often mistakenly believe Lender's Mortgage Insurance is designed to protect them, when in fact it protects the lender.

Lenders prefer borrowers to have a 20 per cent deposit. This provides a buffer for the lender if you stop making repayments and they sell your property for less than its original value.

Lenders generally only provide mortgages to those with less than a 20 per cent deposit if they pay for Lender's Mortgage Insurance. This involves the borrower paying premiums on an insurance policy that guarantees the lender won't be out of pocket if the borrower stops making repayments.

If you want a policy that protects you, the borrower, you'll need to take out mortgage protection insurance. This will cover your repayments if you become ill or unemployed.

## Cooling-off period

Cooling-off periods are not the get-out-of-gaol-free card people often imagine them to be. If you put in an offer that's accepted (i.e. start a 'private treaty' sale), you'll typically have 3-5 business days to change your mind without incurring any major costs. (Depending on where the property is, you will usually still have to pay 0.2-0.25 per cent of the purchase price as a penalty for backing out.)

The exception is Western Australia and Tasmania; neither currently have cooling-off periods – you're on the hook for the full amount as soon as you sign the contract.

There is also no cooling-off period with auctions. If you're the successful bidder, you'll have to provide a 10 per cent deposit immediately and the remainder within the timeframe specified in the contract.

## Offset vs redraw

Once you've bought your home, your mortgage lender may offer the option of a mortgage offset account, redraw facility or both.

An offset account involves your mortgage account functioning as a transaction account. Let's say you have a mortgage of $400,000 and you and your partner are jointly paid $15,000 a month. When your salaries are deposited in your offset account, it reduces (offsets) your mortgage to $385,000. This means you pay less interest on that lower amount – at least until money starts coming out of the account to cover your monthly expenses.

A redraw facility allows you to put extra money into your mortgage then withdraw ('redraw') it later. For example, you could put an annual bonus of, say, $20,000 on your mortgage. You can leave the money there to stay ahead on your repayments or later redraw all or part of that $20,000 to, for instance, buy a new car.

## Fixed vs variable rates and split loans

Most lenders offer borrowers fixed or variable rates or a combination of both. A fixed rate means you pay a set interest rate and a set amount of money for an agreed amount of time. This provides certainty for borrowers on a tight budget or the ability to lock in a lower rate if you think rates will rise. A variable rate fluctuates depending on market interest rates, with the flexibility to make additional repayments and redraw.

You may like to hedge your bets with a split loan, which means a fixed interest rate applies to a certain proportion of your loan and a variable interest rate to the rest.

## Interest rate vs comparison rate

The headline interest rate is not necessarily the rate borrowers actually pay. The comparison rate accounts for any fees and charges on top of the advertised rate.

*Buying your first home can be a steep learning curve. If you'd like some help preparing your finances for a first or subsequent property purchase, please call us.*

# Don't short-change your medium-term goals

When it comes to setting financial priorities, medium-term goals often suffer from middle child syndrome, not taken as seriously as the oldest or indulged as much as the youngest.

The serious long-term goal of saving for retirement gets lots of attention, and rightly so. It's super important. And next year's trip to Bali will be so much fun, even if it does drain all your savings.

It's little wonder there never seems to be enough money left over to save for those in-between things you hope achieve in the not-too-distant future. Things such as your children's education, a home deposit, renovations or a new car.

Yet those medium-term goals – for spending approximately three to 10 years away - are just as important to the life you want to create for yourself and your family. So how can you make sure you've got them covered?

## Getting started

The first step is to find time to think about your medium-term goals. Write them down with an estimate of what each will cost, your time frame and how much you need to save each month to achieve them. The more specific you can be the better.

These goals will differ depending on where you are in life, but whether you are 25 and saving a home deposit or 55 and wanting to buy a boat, you need a plan. Otherwise you might be tempted to use high interest loans and credit cards or simply borrow more than you can afford.

Next comes the reality check. To work out whether your medium-term goals are achievable, you need to take stock of your current financial situation. Tally your income and expenditure to calculate how much you can afford to save and invest each month. There are plenty of free apps and online calculators that will help you do this.

Also look at what you owe. If you have any high interest debt, such as an outstanding credit card balance, you might consider paying this off first.

## Weighing risk and reward

Setting an investment time frame is important because it has a bearing on how much risk you can afford to take. That's because the longer your investment horizon the more time you have to ride out short-term market fluctuations.

Say you are saving for a holiday next year. You can't afford to risk losing money in a sharemarket correction, so you park your savings in the bank. The interest rate may be low, but your capital is guaranteed.

With medium-term goals you can afford to take a little more risk for a higher rate of return. The exact return you earn on your investments will change from year to year but historically shares and property do better over the medium to long term than cash or bonds.

Even so, the last thing you want is for your investment to fall 10 per cent just before you need to spend the money. One way to avoid this is to spread your savings across a range of investments and asset classes, reducing the risk of a large or untimely loss in any one of them.

## Finding a home for your savings

Unlike long-term savings which are locked away in superannuation until you retire, you want your medium-term savings to be accessible. And unlike a bank savings account, you want an investment that will grow in value.

Alternatives you may wish to explore include managed funds and ETFs (exchange-traded funds). These options allow you to diversify your investments across the full range of asset classes and can be bought and sold whenever you want.

Some managed funds allow you to get started with a small initial investment and then make regular weekly or monthly contributions. Another approach might be to set up a direct debit from your pay into a dedicated savings account and every time your balance reaches, say, $5000 invest in an ETF.

*If you would like us to help create an investment plan that includes all your important life goals, the long, the short and everything in between, give us a call.*