May 2019 Newsletter

May is here, and as the weather begins to cool the political climate is heating up. The federal election on May 18 bookends a busy period on the national political and economic front which began with the Budget on April 2.

Australian financial markets were surprised by an unexpected fall in inflation. The Consumer Price Index, Australia's main inflation measure, fell from an annual rate of 1.8 per cent to a record low of 1.3 per cent in the March quarter. This is well below the Reserve Bank's 2-3% target and leaves the door open to a cut in official interest rates to stimulate economic growth. The cash rate has been unchanged at a record low of 1.5 per cent since August 2016. Australia's 10-year bond rate is at 10-year lows of 1.78 per cent, indicating the market expects slower economic growth.

The Australian dollar fell half a cent on the inflation news and speculation about a rate cut, finishing the month at around 70.5 US cents. But Australian shares jumped to an 11-year high in line with Wall Street where shares hit a record high in response to better-than-expected company profit reports. The news from China was also positive, with economic growth steady at 6.4 per cent in the year to March.

The good news is that inflation is now well below average wages growth of 2.3 per cent per cent. Australian consumers remain positive on the back of lower prices and a strong jobs market. Unemployment held steady at 5 per cent in March, near decade lows, while the ANZ-Roy Morgan consumer confidence index rose to a four-month high in April, before dipping slightly in the final week.

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How to spot a scam

Con artists make entertaining subjects for Hollywood scriptwriters (think *The Wolf of Wall Street*, *Ocean's Eleven* and *Catch Me If You Can*), but there's nothing enjoyable about being conned and fleeced in real life.

On the latest figures available, Australians lose over $10 million every month to scammers.[i] There are plenty of rackets running at any one time involving pyramid schemes, identity theft, fake lottery wins and non-existent inheritances, but the unholy trinity of cons are:

1) **Investment scams**
2) **Dating scams**
3) **Fake billing scams**

Investment scams

The grift: According to the ACCC, investment scammers mainly target those in the 45-64 age group; people who are likely to have amassed some capital and wanting to set themselves up for retirement.

Investment scams usually involve traditional investment products, such as commodities, stocks and real estate. Nowadays, the investment often has something to do with cryptocurrency or binary options (i.e. betting on events, such as a company's share price rising.)

The fraudster typically cold calls, texts or emails the victim. They pose as a knowledgeable insider (e.g. a stockbroker) who's able to facilitate a low risk, high return investment. Often fraudsters will spend considerable time grooming victims and direct them to a professional-looking website or send them impressive-looking documents.

Red flags: Firstly, being called, texted or emailed out of the blue by someone offering an investment opportunity.

Secondly, being assured the investment opportunity involves no or negligible risk while offering incredible returns. Visit the ASIC's MoneySmart site to review the list of companies it's identified as dodgy and we can provide advice on any investment opportunity you may be considering.

Dating scams

The grift: Almost all online daters are guilty of gilding the lily. But if an online match seems too good to be true and they start requesting financial assistance, you're at high risk of losing your shirt (and not in a good way).

Romance scammers' MO is as straightforward as it is heartless. They create a fake profile, 'love bomb' their marks and possibly encourage them to 'sext', so they have embarrassing images to use as blackmail.

Then they start asking for money, gifts or bank account details, claiming a family member needs a medical procedure, or they want to buy a plane ticket to meet in person, or they need to transfer money to another country.

Red flags: It's rarely a good sign if there are puzzling inconsistencies (e.g. someone who claims to be an educated professional making basic spelling mistakes). Equally if the relationship escalates abruptly (e.g. professions of undying love after a few brief exchanges), or if your new paramour is cagey about revealing themselves or their personal details (e.g. they claim they are unable to Skype or won't reveal their address).

Fake billing scams

The grift: Fake invoices are sent to a businessperson for things such as office supplies or a domain-name renewal. A common variant of this swindle is fake notifications from the ATO claiming a tax debt needs to be paid urgently to avoid dire legal consequences.

Red flags: Businesses do have expenses and individuals do need to pay taxes so it can be easy to be taken in by fake bills, especially if you don't examine them carefully.

Two signs a charge is dubious are mistakes (e.g. the domain name you're being asked to renew is misspelled on the bill) or odd conditions (e.g. the ATO saying it will accept gift cards or bitcoin as payment).

If you have any doubts, Google the business or government agency then ring its helpline to confirm your debt is real. (Don't use any of the contact details supplied on the invoice.)

For information on the latest scams and who they are targeting, visit the government's Scamwatch site. The ATO also regularly updates its scam alerts.

Swindlers seek to leverage powerful emotions – greed, love and fear – to encourage their victims to act impulsively. If you receive an approach or a request for money that doesn't seem quite right, hang up or exit the website and do some background checks. If you're unsure we can help you spot the scam and protect your financial future.

And remember… as the saying goes, if it seems too good to be true, it probably is.

i https://www.scamwatch.gov.au/about-scamwatch/scam-statistics?scamid=all&date=2019-03

How much super is enough?

Most of us dream of the day we can stop working and start ticking off our bucket list. Whether you dream of cruising Alaska, watching the sun rise over Uluru, improving your golf handicap or spending time with the grandkids, superannuation is likely to be a major source of your retirement income.

The more money you squirrel away in super during your working years, the rosier your retirement options will be. The question is, how much is enough?

Estimating your needs

Financial commentators often suggest you will need around two thirds (67 per cent) of your pre-retirement salary to enjoy a similar standard of living in retirement.[i] Lower income households may need more because they typically spend more of their income on necessities before and after retirement.

The latest ASFA Retirement Standard estimates that a couple retiring today needs a retirement super balance of $640,000 to provide a comfortable standard of living. This would provide an annual income of $60,977.[ii]

Singles need a lump sum of $545,000 to provide a comfortable income of $43,317 a year. These figures assume people own their home and include any entitlements to a full or part Age Pension.

How do I compare?

According to the latest figures, the mean super balance for all workers is $111,853 for men and $68,499 for women. The mean balance at retirement (age 60-64) shows most people retiring today fall well short of the amount needed for a 'comfortable' retirement.[iii]

The gap between men and women persists at all ages. By the time women reach their 60s they have 42 per cent less super than men on average and are more likely than younger women to have no super at all.

How can I boost my super?

If your super is not tracking as well as you would like, there are ways to give it a kick along. When your budget allows, or you receive a windfall, consider putting a little extra in super. Even better, set up a direct debit or salary sacrifice arrangement.

- You may be able to make a tax-deductible contribution up to the $25,000 annual concessional cap but be aware that this cap includes employer contributions and salary sacrifice.
- You may also be able to contribute up to $100,000 a year after tax, or $300,000 in any three-year period. You can't claim it as a tax deduction, but earnings will be taxed at the maximum super rate of 15 per cent rather than your marginal rate and you can withdraw the money tax-free from age 60. Your age and the amount you have in super can restrict the amount of contribution caps.
- If you earn less than $37,000, your other half can contribute to your super and claim a tax offset of up to $540. The offset phases out once you earn $40,000 or more.
- If you are a mid to low income earner and make an after-tax contribution to your super account, the government will chip in up to $500. To receive the maximum, you need to earn less than $37,697 and contribute at least $1,000 during the financial year. The government co-contribution reduces the more you earn and phases out once you earn $52,697.
- Speak with your employer about directing some of your pre-tax salary into super. 'Salary sacrifice' contributions are taxed at a maximum of 15 per cent (30 per cent if you earn over $250,000). But stay within your concessional contributions cap of $25,000 a year, which includes employer contributions.

To work out the difference extra contributions could make to your retirement nest egg, try out the MoneySmart retirement planner calculator.

As the end of the financial year approaches and with the federal election looming, this is a great time to utilise your annual contribution caps and get a tax deduction for voluntary concessional contributions. If you would like to talk about your retirement income strategy, give us a call.

i Moneysmart, Last updates 27 Aug 2018, https://www.moneysmart.gov.au/superannuation-and-retirement/how-super-works/super-contributions/how-much-is-enough

ii ASFA Retirement Standard, 1 December 2018, https://www.superannuation.asn.au/resources/retirement-standard

iii Superannuation Statistics, March 2019, ASFA, https://www.superannuation.asn.au/ArticleDocuments/269/SuperStats-Mar2019.pdf.aspx?Embed=Y

Artificial Intelligence:

the future of finance

We often like to think of artificial intelligence as some fantasy of the distant future, the stuff of sci-fi movies. But the reality is, it's already here. From flight comparison websites to predictive text, AI is everywhere, but what is it exactly?

AI is the development of computer systems that have the ability to perform tasks normally requiring human intelligence. These processes include learning, reasoning, and self-correction. The first AI algorithms were in fact written way back in the fifties, but it's only been in the last twenty years, with huge advances in computer processing power, that we've really been able to see the tangible effects of AI in our lives and on our finances.

Big data, changing legislation and technological advances are feeding an AI revolution in the finance sector that is having wide-ranging repercussions for stock market trading and our personal finances.

Impact on trading

Since the late 90s when electronic trading became widespread, the proliferation of AI has totally changed the functioning of the global economy. Most of this is done through algorithmic trading, which, though nothing new, has been enhanced by huge advances in computational power.

Advocates of this sort of trading talk about how it eradicates human error, and removes emotion from investment decisions. While others argue that if algorithms aren't thoroughly back-tested over a long enough period—or if the input data is somehow compromised—people's assets are at risk. Many point to the inability of AI to predict the GFC as an example of this. The 2010 Flash Crash is another, wiping nearly $1 trillion USD from the market in seconds because of spoofing algorithms (which have since been banned), before rapidly rebounding.[i]

The truth is, as AI has developed so has its regulation, meaning hiccoughs experienced even ten years ago are less likely to occur today. And you need only look at changing rules around data sharing and instant transactions occurring globally, or the massive returns last year on quantitative hedge funds—which employ algorithms and machine learning to inform their investment decisions—to know that this sort of trading is here to stay.[ii]

Personal Finances

AI has already had a big effect on how we manage our personal finances. The credit card industry for example has benefited from increased data security and reductions in fraud as a result.

Similarly, banks are now able to analyse the data of billions of transactions to predict the spending of consumers and market their products accordingly. This same technology allows individuals to automate their expenditure, with many banking apps now sorting purchases by type and alerting users when they're reaching their limits.

AI is also changing processes around lending and borrowing. This is especially true in the developing world, where credit scores might not be available. Startups such as LenddoEFl in Singapore are tracking people's behaviours on their smartphones to glean the likelihood of them meeting their repayments.[iii] The algorithm they've developed recognises behaviours indicative of financial responsibility and therefore can advise lenders, with a high degree of accuracy, on whether the loan should be approved. This technology will be interesting to watch as banks tighten lending standards and start to look not just at salary but also spending habits to determine if a loan is approved.

The robots aren't coming… yet

In the world of AI, scholars often make the distinction between Artificial Intelligence, which is now common place in many industries, and Artificial General Intelligence (AGI), the sort that might mimic a human brain and create links between disparate ideas and deal in abstract notions.[iv] We are still a long way from achieving the latter. And it has been argued that there are some aspects of the human experience that can't be replaced by code, however clever it is.

When it comes to your financial life, technology can certainly provide us with useful tools. There is no substitute however for knowledgeable advice that takes into consideration your unique circumstances, goals and dreams. We can help you navigate this brave new world, while also assisting you in a way that no algorithm is yet capable of.

i https://www.reuters.com/article/us-usa-security-fraud/uk-speed-trader-arrested-over-role-in-2010-flash-crash-idUSKBN0NC21220150421

ii https://www.getsmarter.com/blog/career-advice/algorithmic-trading-hedge-funds-past-present-and-future/

iii https://www.marketwatch.com/story/ai-based-credit-scores-will-soon-give-one-billion-people-access-to-banking-services-2018-10-09

iv https://www.theguardian.com/future-focused-it/2018/nov/12/is-ai-the-new-electricity