August 2019

It's August and we are into the final month of an unusually balmy winter, after a record run of high temperatures for July in many states. Financial markets have also been running hot with new records set.

Global sharemarkets were riding high in July, fueled by higher than expected US growth, rising expectations that the US Fed would cut interest rates this month and hopes of further China-US trade talks.

On the flip side, global bond yields fell to record lows. Australian 10-year government bonds currently yield 1.21 per cent, down 1.45 per cent in 12 months.

The US S&P500 share index hit a new record high in July while Australia's All Ordinaries Index and ASX200 finally broke through their 2007 record highs set before the GFC. Australian shares were also buoyed by the second cut in official interest rates in as many months, to a new low of 1 per cent. Rising iron ore prices (up 72 per cent in 12 months) and further falls in the Aussie dollar to below US69c also helped boost our export sector.

Australia's trade surplus rose to a record high of $5.75 billion in May, including a record surplus with China. But in a worrying sign, China's economic growth fell to an annual rate of 6.2 per cent in the June quarter, its weakest in 27 years.

The International Monetary Fund (IMF) lowered its forecasts for global growth to 3.2 per cent in 2019. If accurate, this would be the slowest growth in 10 years. This is reflected in Australia's inflation rate; the Consumer Price Index rose to an annual rate of 1.6% in the June quarter, better than the 1.3% reading in March but still stubbornly below the Reserve Banks 2-3 per cent target.

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

WHERE IS THE BEST PLACE TO STASH YOUR CASH?

If like many Australians you're looking for ways to put some cash away for a rainy day, a holiday or to earn extra income, the job has just become a bit harder. It's also become more urgent if you are expecting a handy tax return.

In early July, the Reserve Bank cut rates to 1 per cent. Soon after, the Morrison Government got its tax package passed. As a result, those on incomes from $25,000-$120,000 got an immediate tax cut of up to $1080.

So, whether you are looking to make the most of your tax cut or other savings, here are some suggestions.

1.Throw it on the mortgage

For those who have a mortgage, tipping in a bit extra, especially in the early years, can save you substantial amounts. It can also shave years off the life of the loan, meaning you'll enjoy the priceless peace of mind that comes with paying off your home sooner.

Banks charge more for the money you've borrowed from them than the interest they pay on money you deposit with them. So, it may not make much sense to put money in a savings account paying 1.5 per cent interest when you're paying 3.5 per cent interest on your home loan.

Say you have a $400,000 loan at 4 per cent with 20 years to run. Using ASIC's MoneySmart mortgage calculator, by increasing your monthly payments by just $50, you could save $6,146 in interest and shave 7 months off the term of the loan.[i]

2. Up your super contributions

It's hard to go past super as a tax-effective investment option if you are happy to lock your money away until you retire.

Over the last seven years, while interest rates and inflation have been low, growth funds (where most Australians have their savings) achieved returns of 9.3 per cent a year after tax and fees, on average.[ii]

You can make tax-deductible contributions of up to $25,000 a year into super, this includes your employer's payments, salary sacrifice and any voluntary contributions you make. Once your money is in super it's taxed at concessional rates. New rules also allow you to ''carry forward" unused concessional contributions from previous years. Conditions apply so call us to see if you are eligible.

Most Australians pay little attention to super until they are approaching retirement. That means they fail to harness the power of compounding interest to the extent they could have. If you're a decade or two away from leaving the workforce with cash to spare, it's difficult to find a better pay-off than the one you'll (eventually) receive from channelling savings into super.

3. Invest in shares

For longer-term savings, it's tough to beat the returns generated by a share portfolio. Over 30 years to 2018, which included many ups and downs including the GFC, the average annual return from Australian shares was 9.8 per cent.[iii] Last financial year the total return from capital gains and dividends was 11 per cent.[iv]

Whether you are just starting out or wanting to expand an existing portfolio, we can help you align your investments with your goals.

If you would like to direct some extra cash into shares, there are now even 'micro-investment' apps such as Raiz and Spaceship Voyager, which you can access via your mobile phone.

4. Put it in the bank

Australia's current inflation rate is 1.3 per cent. If your bank is paying you less than 1.3 per cent you are losing money.

If you have a so-called high interest savings account paying you a standard variable rate of between 1.5-2 per cent, you're getting a near negligible return.[v] Also be aware of high introductory rates that revert to the standard base rate once the honeymoon ends.

Term deposits are currently paying around 2-2.25 per cent which is a bit better but not much.[vi]

Despite these low rates, it's wise to have some money parked in a savings account or in your mortgage offset or redraw account so that it's available in case of an unforeseen expense.

If you would like to discuss your savings and investment goals and how to achieve them, give us a call.

i https://www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/mortgage-calculator#!how-can-i-repay-my-loan-sooner

ii https://www.chantwest.com.au/resources/super-funds-on-the-brink-of-a-record-breaking-run

iii https://static.vgcontent.info/crp/intl/auwdocs/resources/2018-index-chart-brochure pdf?20180806%7C220825 (p4)

iv 'Year in Review', CommSec Economic Insights, 1 July 2019

v https://www.finder.com.au/savings-accounts/high-interest-savings-accounts?futm_medium=cpc&futm_source=google_ppc~1659806132~61996044697~kwd-1281462095~saving%20accounts%20interest%20rates~e~c~g~1t2~~EAIaIQobChMIqpag-O-a4wIVjw4rCh18wwQrEAAYAiAAEgIMwPD_BwE&gclid=EAIaIQobChMIqpag-O-a4wIVjw4rCh18wwQrEAAYAiAAEgIMwPD_BwE

vi https://www.finder.com.au/term-deposits

Working together to combat burnout

If both your first and last task of the day is to check your emails, you're not alone. Contemporary work culture, spurred on by advances in technology, has meant that we are expected to always be "on". Gone are the days of the 9-5. Many of us work at all hours, possibly even holding down side gigs, and that's before we take into account the labour we perform in other areas of our lives.

You may then have felt some sense of vindication, when earlier this year, the World Health Organisation listed burnout as an "occupational syndrome" on its revised International Classification of Diseases.[i] Burnout is not a new phenomenon, but it has become increasingly pervasive in the last 20 years. A hallmark, or a symptom of modern life.

The WHO classifies burnout as "chronic workplace stress" that "should not be applied to describe experiences in other areas of life".[i] This is a useful description, for burnout forms and ferments in contemporary workplaces. But as anyone who's suffered from it can tell you, its impact can be felt in all areas of your life.

A millennial issue?

There has been much media noise about burnout being a millennial problem. Critics have derided the term as another talking point of a lazy, entitled generation, while those in the throes of it, see it as the consequence of working more unstable hours, and earning lower wages than their parents.

A battle of the generations helps no one however. Burnout can just as easily be felt by a student working two bar jobs, a single mother nursing ad-hoc agency shifts, and an older business owner, trying to sure up their nest egg. Workplace stress can affect people at any age and in any profession.

Recognising the signs

Burnout looks different in everybody. It might be that feeling of not being able to get out of bed in the morning, or the inability to complete simple tasks, a phenomenon journalist Anne Helen Petersen calls 'errand paralysis'.[ii] Bills go unpaid, important emails unanswered – while the endless charade of busyness continues. For others it's harder to identify. The sensation of constantly running on empty, a feeling of unshakeable fogginess or an irrational and unceasing cynicism. Burnout is at once amorphous and yet universally relatable. A catch-all for our workplace exhaustion and ennui.

Lighting the fire

As individuals, there are many tools we can use to avoid burnout and make your workplace duties more manageable. Taking a frank look at your schedule; delegating certain tasks and deleting anything that is not essential is a good place to start.

You might also need a little 'me time' to break up the daily grind. Give yourself permission to do the small things that help you to unwind. This might mean a walk out in nature, a catch up with friends or even a quiet day at home with the family.

Intersecting stressors

The other important thing to remember is that workplace stress can be compounded when it intersects with other stressors in your life. You might usually be able to handle your busy work life but combined with additional family responsibilities or financial pressures, the finely balanced juggle can become too much to bear.

In these situations, it pays to be honest. The most radical act of self-care is admitting to a colleague or supervisor that you're struggling. Only then can you work together to find a solution.

Compassion and community

Christina Maslach, an academic in the field, lists breakdown of community as one of the main causes of burnout.[iii] A problem we can't combat alone. Perhaps then, one of the simplest ways to address it, is to make our own small contribution towards fostering compassionate workplaces. Everyone's capacity is different. So, check in on your colleagues. Ask if they're ok. Offer them a hand if they're feeling overwhelmed and dish out praise generously when they've achieved a goal. People need to feel valued, and when you approach your work in this spirit, it will come back at you tenfold.

We don't need to wear exhaustion as a badge of honour. If you're feeling like you're running on empty, be kind to yourself. And if you can, open up about how you're feeling. By working together we can all help minimise the impact of burnout.

i https://www.who.int/mental_health/evidence/burn-out/en/

ii https://www.buzzfeednews.com/article/annehelenpetersen/millennials-burnout-generation-debt-work

iii https://newrepublic.com/article/152872/millennials-dont-monopoly-burnout

Is the tide TURNING ON THE property market?

For the first time in years, the planets seem to be aligning for homebuyers and property investors. Interest rates are falling, property prices largely appear to be stabilising and constraints on bank mortgage lending have been relaxed.

It's welcome news for first homebuyers and anyone who has been waiting on the sidelines for a signal that the downturn in house prices could be at or near the bottom in key markets such as Melbourne and Sydney.

As is always the case though with the national housing market, the full story is more than a tale of two cities.

House price slide losing momentum

According to research group CoreLogic, in the year to July the national housing market fell 6.4 per cent. This fall was driven by the two biggest markets Sydney (down 9.0 per cent) and Melbourne (down 8.2 per cent).

Perth, still coming down from the peak of the mining boom, and Darwin suffered similar declines. Brisbane fell 2.4 per cent and Adelaide was down 0.8 per cent from a much lower peak. Hobart (up 2.8 per cent) and Canberra (up 1.1 per cent) were the only capital cities to rise in the year to July.

But in the aftermath of the May federal election and the first of the Reserve Bank's two recent interest rate cuts, the downhill slide in prices began to lose momentum.

In July, home values recorded zero growth nationally, with signs the housing conditions are stabilising. Most tellingly, prices rose slightly for the second month in a row in both Sydney (up 0.2 per cent) and Melbourne (up 0.2 per cent).

However the stabilisation in housing values is becoming more broadly based with Brisbane, Hobart and Darwin also recording rises in values.[i]

Reserve Bank opens the bidding

In hindsight, the Reserve Bank's recent decision to cut interest rates for the first time since 2016 could mark the beginning of the end of the downturn in home prices.

In June, the Reserve Bank lowered the cash rate from 1.5 per cent to a new historic low 1.25 per cent and followed up in July with another cut to 1 per cent.

Mortgage interest rates are also low by historic standards. In early July, the average standard variable mortgage rates of the big four banks were all around 4.9 per cent. The best available rates from smaller lenders are now below 3 per cent.[ii]

Banking regulator joins in

The Australian Prudential Regulatory Authority (APRA) is also doing its bit to breathe new life into the property market.

In July, the banking regulator scrapped a rule that required banks to assess new mortgage customers on their ability to manage repayments with 7.25 per cent interest rates no matter what their actual rate might be.

APRA will now require banks to test if borrowers can manage repayments at least 2.5 percentage points above a loan's current rate. With many mortgage rates for new customers currently around 3.5 per cent, this would mean banks would have to test whether customers could afford repayments of 6 per cent instead of 7.25 per cent.[iii]

As a result, comparison website RateCity estimates someone earning the average wage ($83,455) could see their borrowing power increase by $66,000 to $544,000.[iv]

Property investing beyond houses

Australians' love affair with bricks and mortar is legendary, but there is more than one way to profit from property.

If you're thinking of buying as an investment, rather than as a place to call home, there may be opportunities to invest directly in commercial property or via a managed fund.

Listed property trusts, property ETFs (exchange traded funds) and traditional unlisted managed funds offer a way to invest in a diversified portfolio of properties in Australia and overseas. As well as residential property they can invest in retail, office and industrial property.

If you would like to discuss your property investment strategy in light of recent developments, give us a call.

i All house price data from Core Logic, 1 August 2019, https://www.corelogic.com.au/sites/default/files/2019-08/CoreLogic%20home%20value%20index%20AUGUST%20FINAL.pdf

ii The Sun Herald, 7 July 2019,https://www.smh.com.au/money/borrowing/how-to-get-the-most-out-of-lower-mortgage-rates-20190704-p5245f.html

iii APRA, 5 July 2019,https://www.apra.gov.au/media-centre/media-releases/apra-finalises-amendments-guidance-residential-mortgage-lending

iv RateCity, 5 July 2019,https://www.ratecity.com.au/home-loans/mortgage-news/apra-changes-average-aussie-family-can-now-borrow-60k