November 2019

November is here, beginning with the "race that stops a nation", but not the Reserve Bank which meets on the same day. However, economists predict it will take a break from its recent run of interest rate cuts and keep the cash rate steady.

October began with the Reserve Bank cutting the official cash rate by 25 basis points to a record low of 0.75 per cent and ended with the US Federal Reserve cutting its federal funds target range by the same amount to 1.5-1.75 per cent. Slowing global growth and ongoing trade tensions were major concerns. The IMF downgraded its forecasts for global economic growth to 3 per cent this year and 3.4 per cent in 2020. Australia is tipped to grow 1.7 per cent and 2.3 per cent respectively. China's economy is holding up well despite the trade war, with growth of 6 per cent in the year to September.

Global stocks had a positive month on signs of a breakthrough in trade negotiations between the US and China. Despite the cancellation of the November APEC summit in Chile where phase one of a trade deal was to be signed, the Trump Administration has signaled it is keen to press ahead.

In Australia, inflation rose 0.5 per cent in the September quarter lifting the annual rate from 1.6 per cent to 1.7 per cent. This is still short of the Reserve Bank's target but may allow it to delay further rate cuts. Consumers remain cautious – the Westpac-Melbourne Institute consumer sentiment index fell to a 4-year low in October. Business confidence is also weak – the NAB business confidence index fell to a 6-year low of 0.3 points September. The Australian dollar firmed in October to US69c.

growing together.

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Steering through choppy seas

Like it or not, we live in interesting times. More than a decade after the Global Financial Crisis, the global economy is facing fresh headwinds creating uncertainty for policy makers and investors alike.

This time around it's not a debt crisis, although debt levels are extremely high, but geopolitical instability.

The ongoing US-China trade war and Brexit confusion in Europe have increased market uncertainty and volatility and put a spoke in the wheel of global growth. The International Monetary Fund (IMF) forecasts global economic growth to ease to 3.0 per cent over 2019. It expects Australia to grow at 1.7 per cent.[i]

Against this backdrop, there has even been speculation that the Reserve Bank may need to resort to 'unconventional measures' such as negative interest rates and quantitative easing to boost growth. These measures have been widely used overseas but are foreign concepts to most Australians. So what are they?

Why negative rates?

Negative interest rates have been a feature of the global financial landscape since the GFC, in Japan and in Europe. European central banks charged banks to hold their deposits, encouraging them to lend out cash instead to kick start economic activity.

So far, the Reserve Bank hasn't followed suit, but we are edging closer. The cash rate is at a record low of 0.75 per cent with further cuts expected.

The Reserve Bank has said it is unlikely to take rates below zero. Taking interest rates too low could run the risk of igniting another property boom.

If negative rates are off the table, another way to bankroll economic growth is quantitative easing.

What is quantitative easing?

In the aftermath of the GFC, central banks in the US, Japan and Europe printed money to buy government bonds and other assets. By pumping cash into the system they hoped to boost economic activity.

There has been much debate about whether quantitative easing worked as intended. What it did do was push investors into higher-risk assets such as shares and property in pursuit of better returns.

It has also increased global public and private debt to $200 trillion, or 225 per cent of global GDP. Until now, high debt levels have been supported by high asset prices. But when coupled with geopolitical and trade tensions, debt adds to the downward pressure on growth.[ii]

The slowdown in economic growth in Australia and elsewhere is reflected in falling bond rates. In recent times more than 10 European governments have issued bonds with negative interest rates.[iii]

In recent months, yields on Australian government 3-year and 10-year bonds have dipped below 1 per cent, an indication that the market expects growth to slow over the next decade.

What does this mean for me?

It seems more than likely that bank deposit rates will stay low for some time. That means investors seeking yield will continue to look to property and shares with sustainable dividends. But it may not be plain sailing.

Trade wars, Brexit, high asset prices and slowing economic growth are creating a great deal of uncertainty. Each new twist and turn in trade talks sends markets up in relief or down in disappointment.

After a decade of positive returns, and average annual returns of 7 per cent from their superannuation funds, investors may need to trim their expectations.

Time to plan ahead

If retirement is still a long way off, you can afford to ride out short-term market fluctuations. Even so, it's important to make sure you are comfortable with the level of risk in your portfolio.

If you are close to retirement or already there, you need to have enough cash to fund your pension needs without having to sell assets during a period of market weakness. For the balance of your portfolio, you need a mix of investments that will allow you to sleep at night but still provide growth for the decades ahead. When markets recover, you want to catch the upswing.

Successful investing requires patience but also adaptability. If you would like to discuss your overall portfolio in the light of market developments, give us a call.

i https://www.imf.org/en/Publications/WEO/Issues/2019/10/01/world-economic-outlook-october-2019

ii https://www.smh.com.au/politics/federal/200-trillion-in-global-debt-at-risk-if-trust-falters-oecd-20190909-p52pdr.html

iii https://www.ricewarner.com/can-super-funds-continue-to-meet-their-investment-targets/

STRETCHING

YOUR TRAVEL BUDGET FURTHER

Many Australians will soon be jetting or sailing away on their annual overseas getaway. Unfortunately, the value of the Australian dollar has been falling against the US dollar, British pound, euro, yen and even the Indonesian rupiah.

Here are some suggestions on how to maximise your travel budget and have a memorable holiday.

Get the right cover

Taking out travel insurance is a sensible precaution, but you don't want to pay more for it than necessary. Or pay for it, then discover it's worthless.

Always read the fine print about limits, excesses and exclusions. As with all insurance, the more comprehensive the policy, the more it is likely to cost. If you're motorcycling down Route 66, the expensive policy with greater coverage is probably a good investment. On the flip side, if you plan to laze away the days on a Fijian beach, you may be able to get away with a more basic policy.

While it's convenient to arrange insurance via a travel agent, airline or credit card, it can pay to shop around for the best price and most relevant cover. Some credit cards come with free travel insurance but, be warned, the coverage is often modest.

And while your health, car or home insurer may also offer you a discount on travel insurance, it doesn't necessarily mean you're getting value for money. Thanks to comparison sites, it's now easy to get quotes from a variety of insurers. So do shop around before making a final decision.

Go online

Travel agents have their uses but booking your own flights and accommodation can save hundreds, even thousands, of dollars.

Hotels are great if you want to keep things simple and stress-free. But if you're travelling as a group or wanting to immerse yourself in the city outside the walls of a hotel, Airbnb may be a cheaper alternative that gives you your own space to relax.

Thanks to the internet, you may even be able to arrange an international home-swap although this can take time. The two most popular sites for this are lovehomeswap.com and homeexchange.com.

A warning though – the digital age isn't all upside for holidaymakers. If you use your mobile while abroad, keep an eye on your data usage and phone calls, so you don't return home to eye-watering international roaming charges. Consider buying a local SIM card once you reach your destination (it will have a pay-as-you-go option or a flat rate for a set period). And only use your phone when you have access to free Wi-Fi at hotels, cafes and airports.

Choose the best payment option

Most travel experts these days suggest you carry a 'mixed wallet' for overseas trips, with a combination of some or all the following:

- **Cash.** You can exchange your Australian dollars for foreign currency before or after departure. Typically, the more conveniently located the moneychanger, the higher the commission. (This is why savvy travellers avoid changing money at airports.)
- **Pre-paid travel cards.** These are available at places such as banks and post offices. You pay to deposit specific amounts of foreign currency onto the card. You can then use the card to make purchases and withdraw cash from ATMs in your destination country. ATM fees are lower than if you used your regular bank cards, but you are generally also charged fees for loading up the card, using it to buy something in a currency other than the one it's loaded up with and deactivating the card.
- **Your Australian debit or credit card –** the upside of using these is convenience. The downside is possibly having to pay significant withdrawal fees, currency conversion fees, foreign transaction fees and cash advance fees.

Dodge the 'tourist tax'

It's also worth keeping in mind that you can save money and get a richer experience of the country you're visiting by acting like a local rather than a tourist.

For instance, buy alcohol from a supermarket rather than ordering it on room service. Catch public transport and dine where the locals eat rather than at overpriced restaurants next to major attractions.

Watching your travel spending does not mean you have to compromise on fantastic experiences and with a little bit of planning, you can still enjoy your overseas trip without breaking the bank.

MAKE YOURSELF ACCOUNTABLE FOR YOUR SUCCESS

When it comes to career or life goals, a crucial element often missing from the discussion is that of personal accountability. We expect businesses and government to remain accountable, but we often neglect it in regards to our own ambitions. Practicing personal accountability isn't easy, but if you embrace it, the effect can be transformative.

Transparency

A critical first step in any accountability process is transparency. This means being honest about your prior successes and failures, and using what you've learned from them to frame your strategy going forward.

Often what stops us from being honest with ourselves is an inability to accept responsibility for our own contribution to our successes or failures. This in turn can often result in a blame mentality. In every person's life there is a mixture of internal and external obstacles that prevent us from getting what we want. The problem with always blaming what's outside of us, is that we lose sight of what we can control. It reduces our power. The outcome can be inertia. To blame is to tread water. To be accountable is to build a raft.

Skin in the game

Indecision, procrastination and laziness are three common factors that get in the way of us achieving our goals. So how do we show some accountability and mitigate these habits? The answer is to put some skin in the game – to raise the stakes.

Let's take the gym as an example. Your building has a free one for the tenants, but you never use it. Maybe it's because it's not very well equipped, but you're also not really losing anything if you don't go. But say the gym charges a fee. It's probably better resourced, sure, but you're also getting charged every week. Nobody wants to waste money so you go. You've got skin in the game.

Let's extend the metaphor. You might decide to pay a bit more and join a class, or even splash out and get a personal trainer. Now you've really invested, because not only are you giving up your hard-earned cash, but you've got someone who will be disappointed in you if you don't make the session. Someone else to hold you accountable.

Engaging an ally

When a task is set for you by someone else, the stakes are naturally higher because you're accountable to them. It's much harder to let someone else down, than it is yourself. This is why it is important to engage an ally, when working towards your goals. And to be honest, the more the better.

Allies can sort fact from fiction, give constructive feedback and encourage you when you're feeling flat. And it is a lot harder to veer off course when you have a crowd cheering you on.

Practicing accountability

Practicing accountability becomes easier when you have in place a good set of processes. That's why we've come up with this four-step process.

1. **Make sure your goals are concrete**
   This means being specific about what they are and what they're not. You can't kick a goal if you don't know where the goal posts are.
2. **Ask any business leader, and they'll tell you accountability requires accurate reporting**
   This is where transparency and diligence come in. Make sure you keep records of your successes and failures, the tasks you did, the time they took, and what they cost. Then let this frame your strategy going forward, including incremental deadlines.
3. **Invest and put some more skin the game**
   This means giving up something that has currency to you in order to compel you to keep going. There needs to be an outcome, a material loss, that comes from not reaching your deadlines.
4. **Finally, engage an ally**
   This can be a mentor or a friend. Someone who checks in with you and encourages you but can also give constructive criticism.

If you've got big dreams and need some help making them financially viable, come talk to us. We can help make a plan, and ensure you stay accountable each step of the way.