October 2019 Newsletter

It's October, a turning point in the year when the days begin to get longer and many states switch to daylight saving. Time to spring clean your home, your finances or your business ahead of the summer rush.

September was a month of continuing uncertainty on the global stage. The ongoing US-China trade dispute, political turmoil in the UK as the Brexit deadline looms and a drone strike on a Saudi Arabian oil processing plant all weighed on financial markets. Oil prices initially spiked then eased to finish the month up almost 5 per cent. As a result, Australians are paying more for fuel, with the average price of unleaded petrol rising to 149.7c a litre by the end of September, 8c above the 12-month average.

On a positive note, Australia's budget deficit shrank to $148 million in the year to May, effectively balanced and below estimates at the time of the April Budget. Our trade surplus hit a record $52.3 billion in the year to July, underpinned by another record surplus with China.

Nevertheless, business and consumers remain subdued. The Westpac-Melbourne Institute survey of consumer sentiment fell 1.7 per cent in September. With interest rates at historic lows and set to fall further, the proportion of people saying they didn't know where to put savings was a record high of 8.7 per cent. The NAB business conditions index also fell to near 5-year lows. Unemployment edged up to 5.3 per cent in August, the highest level in 12 months, while job vacancies fell 1.9 per cent in the year to August, the biggest decline in over 5 years. The Australian dollar rose slightly to US67.5c on US dollar weakness.

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

THE FULL NEST

Living with adult children

The number of young adults living in the family home well into adulthood is growing. ABS data indicates, amongst adults under 35, nearly one third are still at home, and the trend is on the rise.[i]

If managed well, multigenerational living can be beneficial to both your adult kids' financial goals and your relationship with them, that said it's not without its challenges.

What's behind the shift

Today's young Australians spend longer in higher education, stay single for longer or choose not to tie the knot at all and start families later than previous generations. They're also living through a period of sluggish wage growth, high underemployment and youth unemployment and despite recent corrections, a housing market that is inaccessible for many first home buyers.

There are however, young adults who use living at home as a strategic move, with 28% using it as an opportunity to save for their financial goals[ii] – like owning a home or planning for a big trip.

Benefits of having a kid at home

Helping kids save for their future isn't the only benefit of continuing to provide a roof over their head. For many, especially those who boomerang (returning to the nest after a period away), it offers the chance to build a relationship on a level footing. You get to know each other as adults which can be a wonderful thing.

Having adult kids at home can also mean you get help with the domestic duties and maintenance around the house or assistance looking after younger siblings.

Problems can arise

Despite the benefits, in some cases continued cohabitation can become detrimental to the relationship. Common gripes include: entitled kids who don't contribute to costs and chores, and overbearing parents who continue to treat their offspring as if they were tantrum prone toddlers.

Equally worrying is the added cost of having an extra mouth to feed and the associated costs of an extra member in the household. If you are a parent in this situation, make sure the not-so-empty-nest is not derailing your retirement plans. According to a 2018 study, Aussie parents spend a combined $235 million each week on adult children living at home.[ii]

Set boundaries early

Communication is key to making co-habitation with adult kids work. This means staying in touch to make sure everyone's expectations are understood and that boundaries are in place. If your kids are earning, are they paying board? How much are they contributing towards groceries and bills? And what about household labour?

On the parent's end, there also needs to be some flexibility. Are you happy to have your child's friends over to socialise? Are partners allowed to stay the night? Rules around curfews that may have been appropriate when they were a teenager may not be relaxed enough to allow your adult child freedom so as not to become resentful.

Both parties need to be aware of each other's boundaries and expectations early on to set the foundations for a happy domestic life.

Shared goals

While your adult kids are at home it's a great time to make their financial dreams a reality. Frame it as a shared goal, one that you all have a stake in. If both sides are willing and eager to uphold their side of the bargain, it will alleviate tension and make the goal more likely to succeed.

It might look like this: the parents allow their offspring to live with them rent free, provided the kid puts away 40% of their income towards a house deposit. You can have a system in place to prove this is happening and regularly meet to help make sure everyone is staying on track.

Not always the right choice

It's important to acknowledge that cohabitation is not the right choice for all families. If things aren't panning out well, be honest with each other. Then work together to find alternate living arrangements.

Modern kids are likely to come and go throughout their lives. Treasure the times you have living together while making them as fruitful for both your relationships and finances as possible.

i https://www.smh.com.au/money/planning-and-budgeting/young-adults-living-at-home-are-costing-aussie-parents-12-2b-a-year-20180527-p4zhtx.html

ii https://mozo.com.au/family-finances/2-18-report-what-stay-at-home-adult-children-cost-aussie-parents

BUILDING WEALTH IN DIVERSITY

What a difference a year makes. In recent months, Australian shares hit a record high, the Aussie dollar dipped to levels not seen since the GFC and interest rates were cut to historic lows.

Towards the end of 2018, shares were in the doldrums and while experts agreed the Aussie dollar would go lower most tipped the next move in interest rates would be up.

All of which goes to show that when it comes to predicting financial markets, the only sure thing is uncertainty. There's no avoiding market risk, but it does need to be managed if you want to build enough wealth to live comfortably in retirement and achieve other life goals along the way.

Thankfully, there is a way to reduce the impact of market volatility on your overall investment portfolio. Hint: it's not by putting all your money in the bank.

Mix it up

The best way to reduce the risk of one bad investment or a downturn in one market decimating your returns is to hold a mix of investments. This is what is referred to as diversification or not putting all your eggs in one basket.

To smooth your returns from year to year and avoid the risks of short-term market volatility, you need a mix of investments from different asset classes.

The difficulty of predicting the market in the short-term was certainly in evidence in the year to June 2019.

Investors who panicked at the end of 2018 and sold their shares would have missed out on the unexpected rebound in global shares.

A year of surprises

Australian shares returned 11 per cent in the year to June 30. Global shares returned 11.9 per cent while US shares returned 16.3 per cent, partly reflecting the fall in the Aussie dollar from US74c to US70c.[i]

The worst performing asset class in the year to 30 June was Australian residential property, down 6.9 per cent.[ii] But while the housing market downturn was constantly in the news, good news in other sectors of the property market went largely unnoticed.

The best performing asset class by far in the year to June was Australian listed property, up 19.3 per cent.

The gap in performance between direct residential property and listed property highlight another important aspect of diversification. You also need to diversify within asset classes.

Look beyond your backyard

Where property is concerned, that means investing across a range of property types and geographic locations. By diversifying your property investments, you reduce the risk of short-term price fluctuations in one location which can result in a big loss if you are forced to sell at the bottom of the market.

The same holds true for shares. Many Australians have a share portfolio dominated by the big banks and miners, attracted by their fully franked dividends.

The danger is that investors with a portfolio heavily weighted towards local stocks are not only exposed to a downturn in the bank and resources sectors but also the opportunity cost of not being invested in some of the world's most dynamic companies.

Time is your friend

Over the last 30 years the top performing asset class was US shares with an average annual return of 10.3 per cent. Australian shares (9.4 per cent) and listed property (9.2 per cent) were not far behind.[iii]

And then there was cash. In a time of record low interest rates cash in the bank returned 2 per cent in the year to June 30, barely ahead of inflation of 1.6 per cent. The return was better over 30 years (5.6 per cent), but still well behind the pack.

While it's important to have enough cash on hand for daily living expenses and emergencies, it won't build long-term wealth.

There's no telling what the best performing investments will be in the next 12 months, as past performance is not an indicator of future performance. What we can be confident about is that a portfolio containing a mix of investments across and within asset classes will stand the test of time.

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

i https://static.vgcontent.info/crp/intl/auw/docs/resources/2019_index_chart.pdf?20190730%7C193023

ii https://www.corelogic.com.au/sites/default/files/2019-07/CoreLogic%20home%20value%20index%20JULY%20 2019%20FINAL.pdf

iii https://www.vanguardinvestments.com.au/au/portal/articles/insights/mediacentre/stay-the-course.jsp

Caring for family *with a Will*

Few of us like to think about death, let alone plan for it. But far from being morbid, getting your affairs in order and drawing up a Will is one of the kindest and most caring things you can do for your loved ones.

Not only does a Will make your wishes clear but it ensures your family isn't wrestling with legal red tape at a difficult and emotional time.

Yet despite the advantages, it's estimated 45 per cent of Australians don't have a Will.[i]

Who needs a Will?

The short answer is everyone over 18. Even young adults have assets such as super, personal possessions, possibly a vehicle and some savings.

Once you reach an age where you have a partner and children, along with a home and perhaps other investments, the need for a Will becomes even more pressing.

What can be included in a Will?

Generally you can and should set out where you want your physical assets (property, cars, jewellery, furniture and collectibles), financial investments (bonds, shares, bank savings) and sentimental possessions (family heirlooms) to go.

Generally, assets you jointly own, such as a house bought with your partner, pass automatically to your co-owner. But if you own property under what is called a 'tenancy in common' you can distribute your share according to your Will.

Because superannuation is held in trust, it's treated differently to other assets. The trustee of your super fund has the final say on where your money, formally referred to as a 'death benefit', ends up unless it is paid to your estate.

If you wish to be certain your death benefit goes to the person you want it to, you should fill out a 'Binding Death Benefit Nomination' form and lodge it with your super fund. You can nominate your estate as the beneficiary and your death benefits, including any life insurance, will be distributed according to your Will.

Individual life insurance payouts don't automatically go through the policyholder's Will, but if that's what you would like you can nominate your estate as the beneficiary.

How watertight are Wills?

If you invest the necessary time, effort and expense into producing a well-drafted Will, you can be more confident your wishes will be respected.

The exception to this rule occurs when it can be argued a Will treats a dependant unfairly. Classic examples are a parent leaving more to one child than another or leaving everything to a new partner and excluding children from a previous marriage.

Assets don't need to be split equally, especially if one dependant has previously received financial assistance, or has dedicated years to caring for you. But be aware a dependant who feels dudded may successfully contest your Will.

What happens when there's not a Will?

If you die without a valid Will, legally referred to as dying intestate, the relevant state or territory laws will be left to sort things out.

Someone, typically your next-of-kin, will have to apply for a grant of Letters of Administration. An administrator will then be appointed. They will divide your estate according to set formula, which differs slightly in each state but generally goes to your surviving partner and children.

Even in a best-case scenario, dying intestate may mean one or more of your loved ones will have to go through an arduous bureaucratic process during a traumatic time. In a worst-case scenario, a partner, child or friend may receive far less than you would have wished.

What's next?

There are essentially four conditions a Will needs to meet:

- It has to be made by someone over 18 who is mentally competent
- It has to properly dispose of all assets
- It needs to be signed and witnessed appropriately
- It needs to be properly drafted.

While DIY 'Will kits' may be better than nothing, if you have substantial assets, a complicated family situation, or you just want peace of mind, you'll want to engage the services of a trusted solicitor.

A Will is just one part of the estate planning process. If you would like to know more, give us a call.

i https://www.tag.nsw.gov.au/wills-faqs.html