January 2020

As 2020 gets under way and holidaymakers return to work, we wish everyone a happy and prosperous New Year. Our thoughts are also with our fellow Australians caught up in the catastrophic bushfires around the country; we wish you all a safe and speedy recovery.

December provided a busy end to an eventful 2019. Federal Treasurer, Josh Frydenberg announced a downgrade to near-term forecasts of economic growth, inflation, wages and business investment in the Mid-Year Economic and Fiscal Outlook (MYEFO). The Government now expects growth to return to the long-term average of around 3 per cent by 2021/22. Despite a small deficit in the year to October, the Budget is still on track to deliver Australia's first surplus in 12 years this financial year. Lower government spending, higher export income, low Aussie dollar and solid Chinese demand for our iron ore are all supporting the nation's bottom line.

The Australian dollar finished the year close to where it started against the greenback, at US70c after fluctuating between US67.08c and US72.68c over the year. This is supporting our trade surplus which stood at $4.5 billion in October, slightly down on the previous month.

Business and consumer confidence faltered before Christmas, as tax cuts and rate cuts failed to boost spending. For example, new vehicle sales fell 9.8 per cent in the year to November. The Westpac/Melbourne Institute survey of consumer sentiment fell to 95.5 points in December (below 100 denotes pessimism). While the NAB business confidence index fell from +2 in October to +0.1 in November (long-term average +5.8).

After its December meeting, the Reserve Bank said it would reassess the economic outlook in February 2020 and provide additional stimulus if needed.

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Turn your resolutions *into* strategies for success

If breaking New Year's resolutions is as much a tradition as the act of making them, you're not alone – about one third of New Year's resolutions don't even make it past the first month.[i] So why not try something different this year?

The main reason resolutions fail is because they're often formed without a strategy. A strategy has clear directions, timelines and consideration of resources needed, which is why they are much more likely to be acted upon.

If you've already set resolutions for 2020, it's time to develop a strategy to achieve them. Equally, if you've avoided making resolutions, now is a great time to think about what you want to achieve over the coming months and develop a road map.

Reflect on your goals

Think about what you want to achieve this year. Really want to achieve. Not only does this strengthen your vision, your chance of success becomes much more likely.

Many of us share similar goals. According to the website Envision Experience, the most common self-improvement goals people strive for are to improve their health and fitness, find their life purpose, acquire more skills for success, strengthen relationships, challenge themselves and improve their self-esteem and positivity.[ii]

While these goals may resonate for you, you need to set goals that are meaningful to you, not simply reflect what others want to change in their lives. Simply writing down "earn more money" or "lose weight" will make your goals more like resolutions, grandiose statements that have little direction and no intent. How will you see your goals through or even attempt to be accountable when you haven't created a finish line?

Think of the 'why'

Before creating your plan, think about why you want to achieve these goals. Your why will be the reason you get up early in the morning for the gym, or the late nights you'll spend studying. It is the core motivation that will you to keep focused while working towards your goals.

Creating your strategy

Once you have a clear idea of what you'd like to achieve and more importantly why, it's time to develop your strategy to succeed. Start by transforming your new year's goals into SMART goals – Specific, Measurable, Assignable, Realistic and Time-related. SMART goals were introduced in 1981 via a paper by George T. Doran in the *Management Review* journal and they have become a popular approach to goal setting, be it small or life changing.[iii]

The SMART criteria will help you define and strengthen your goals and form a framework for your strategy, recognising the resources you need and any potential challenges.

Say for instance you want to improve your fitness. By thinking *'Specifically'*, you narrow down the focus to committing to a running routine. To make the goal *'Measurable'*, you decide you want to be able to run 5km by mid-year. The person *'Assignable'* is you. By being *'Realistic'*, you plan for what results can be realistically achieved – for instance, using the Couch to 5k app three times a week to build up your cardiovascular endurance. The *'Time'*-related aspect of the goal is the date you have set yourself to achieve this (in this example, mid-year).

Once you're off and running, don't forget to set aside time to check in, to review your progress and reassess your initial strategy, so that you continue working towards success.

Managing multiple goals

As with resolutions, we can overextend ourselves with our goals. This doesn't mean you have to pick just one goal, but be realistic about how many you can manage. Someone who knows all about goals is Warren Buffett, who recommends writing a list of goals and narrowing it down to five.[iv] His theory is that all other goals are in fact distractions that will prevent you from achieving what matters to you most.

If you're striving towards more than one goal, it's a good idea to stagger them. You don't want to plan to train for a marathon, take on that big project at work and agree to volunteer for an event only to create competing pressures on your resources and time required to achieve them. Consider how your goals fit together or if they take time away from the other, and plan accordingly.

All strategies benefit from having a mentor or a coach to keep you focussed and accountable to the goals you have set for yourself. We can work with you to help you achieve your version of success this year with a clear financial plan for your future.

i https://philadelphia.cbslocal.com/2016/02/09/new-study-reveals-how-long-new-years-resolutions-usually-last/
ii https://www.envisionexperience.com/blog/the-6-most-common-self-improvement-goals-and-how-to-achieve-them
iii https://www.projectsmart.co.uk/brief-history-of-smart-goals.php
iv https://www.cnbc.com/2017/06/23/berkshire-hathaways-warren-buffett-shares-his-top-rule-for-success.html

2019

YEAR IN REVIEW

A year of highs and lows

It was a year of extremes, with shares hitting record highs and interest rates at historic lows. Yet all in all, 2019 delivered far better returns than Australian investors dared hope for at the start of the year.

The total return from Australian shares (prices and dividend income) was 24 per cent in the year to December.[i] When you add in positive returns from bonds and a rebound in residential property, Australians with a diversified investment portfolio had plenty to smile about.

Humming along in the background, Australia entered a record-breaking 29th year of economic expansion although growth tapered off as global pressures mounted.

Global economy slowing

The US-China trade war, the Brexit impasse and geopolitical tensions weighed on the global economy in 2019. Yet late in the year optimism grew that US President Donald Trump would sign the first phase of a trade deal with Beijing. The re-election of Boris Johnson's Conservatives in the UK also raised hopes that the Brexit saga may finally be resolved.

The US economy is in good shape, growing at an annual rate of 2.1 per cent. China has fared worse from the trade tensions, with annual growth of 6 per cent its weakest since 1992. In Australia, growth slipped to an annual rate of 1.7 per cent in the September quarter.[ii]

Despite the global slowdown, Australia continued its run of healthy trade surpluses thanks largely to a 29 per cent increase in iron ore prices.[iii]

Interest rates at new lows

The Reserve Bank cut the cash rate three times in 2019 to an historic low of 0.75 per cent. The US Federal Reserve also cut rates to a target range of 1.50-1.75 per cent. This was the main reason the Australian dollar lifted from its decade low of US67c in October to finish the year where it started, around US70c.[iv]

Rate cuts flowed through to yields on Australian 10-year government bonds which fell to just 1.37 per cent.[v] Total returns from government bonds (yields plus prices) were up by around 8 per cent.[vi]

Retirees and others who rely on income from bank term deposits had another difficult year, with interest rates generally below 2 per cent. After inflation, the real return was close to zero. It's little wonder many looked elsewhere for a better return on their money.

Bumper year for shares

The hunt for yield was one reason Australian shares jumped 18.4 per cent in 2019, the best performance in a decade.[vii] The market climbed a wall of worries to hit a record high in November on optimism about a US-China trade deal, then eased back on concerns about slowing economic growth.

Despite low interest rates and personal tax cuts, consumers are reluctant to spend. The Westpac/Melbourne Institute survey of consumer sentiment fell to 95.1 in December – anything below 100 denotes pessimism.[viii]

Property prices recovering

Australian residential property prices rebounded strongly in the second half of 2019, driven by lower mortgage interest rates, a relaxation of bank lending practices and renewed certainty around the taxation of investment property following the May federal election.

According to CoreLogic, property prices rose 2.3 per cent on average, led by Melbourne and Sydney, both up 5.3 per cent. When rental income is included, the total return from residential property was 6.3 per cent.[ix]

Looking ahead

Property prices are expected to recover further this year but with shares looking fully valued and bond yields near rock bottom, returns could be more modest.

The Australian government is under pressure to do more to stimulate the economy in the short term to head off further rate cuts by the Reserve Bank. More fiscal stimulus could inject fresh life into the local economy and financial markets.

Overseas, the US-China trade war is far from resolved and could remain up in the air until after the US Presidential election in November. There is also uncertainty over the Brexit deal and its impact on trade across Europe.

The one thing we do know is that a diversified investment portfolio is the best way to navigate unpredictable markets.

If you would like to speak to us about your overall investment strategy, give us a call.

i Econonomic Insights: Sharemarket winners and losers, CommSec Economics, 2 January 2019
ii Trading Economics, viewed 1 Jan 2020, https://tradingeconomics.com/indicators
iii https://dfat.gov.au/trade/resources/trade-statistics/Pages/australias-trade-balance.aspx
iv Trading Economics, as at 31 Dec 2019, viewed 1 Jan 2020, https://tradingeconomics.com/currencies
v RBA, https://www.rba.gov.au/statistics/tables/#interest-rates
vi Economic Insights: Year in Review; Year in Preview, CommSec 2 January 2020.
vii Trading Economics, viewed 1 January 2020, https://tradingeconomics.com/stocks
viii https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/economics-research/er20191211BullConsumerSentiment.pdf
ix https://www.corelogic.com.au/news/corelogic-december-2019-home-value-index-strong-finish-housing-values-2019-corelogic-national

2020 VISION FOR FINANCIAL FITNESS

What better year to have your financial health in tip top shape than the one requiring 20/20 vision!

The start of any year is always a good time to assess your financial situation and make sure you are on track to achieving your dreams, but the start of a decade is even more significant.

So where do you start?

Firstly, look at your current position. After all, if you don't know where you are, how can you know what you need to do, to achieve your financial goals?

Assess your income and outgoings, see how you can create a budget, to increase your savings and reduce your debt.

Don't be afraid to haggle

It's not just about cutting back on spending. You can also make savings without feeling any pain. For instance, instead of foregoing small pleasures, look at negotiating a better deal on your household bills.

So shop around for a better priced insurance policy; check your current internet provider's offering; and seek a cheaper deal with your electricity and gas provider or on your mortgage.

Has your variable home loan come down in line with the general fall in interest rates and others on the market? See if your bank can match that better rate. If not, you may wish to consider changing lenders but make sure the costs of switching don't negate the benefits.

Boost your super

On the other side of the ledger, you should also consider strategies to help build your wealth. For example, why not put a little extra into your super for your retirement? You can make concessional contributions of up to $25,000 a year. If your employer's compulsory Superannuation Guarantee contributions fall below this level, consider salary sacrificing or making a personal deductible contribution to top up your super balance. Concessional contributions only attract 15 per cent tax on your pre-tax income versus your personal tax rate. That means you keep $85 of every $100 invested.

If you didn't reach your concessional contributions cap last year, and your super balance was less than $500,000 at 30 June 2019, you can contribute that shortfall this year or carry it forward for up to five subsequent years.[i]

And if you are aged 65 to 74 and no longer working full time, you may still be able to make a voluntary contribution to super this year, provided you pass the work test.[ii] You need to have worked at least 40 hours over 30 consecutive days in the year you make the contribution.[iii] An exemption may apply for 12 months if you satisfied the work test in the previous financial year and your super balance is less than $300,000.

Revise your investments

On the subject of super, why not take a look at your investment mix. Make sure it's working for you in the current interest rate and investment environment while still meeting your risk profile.

And most importantly, consolidate your super. While some people have more than one fund to access better insurance or other benefits, for others, having multiple accounts means you could be paying extra fees without any added benefits. You might find this has been done for you, as since July 2019 the Australian Taxation Office has acquired inactive low balance super accounts with the intention of consolidating them into another existing account. But this only occurs if the balance is less than $6000.[iv]

You might also look at other avenues to save money. Perhaps consider depositing a percentage of your salary into a savings account to provide a buffer should some emergency occur.

Protect your family

The start of a new year is also a good time to check your Will is in order. Have your circumstances changed in the last 12 months? If so, you really need to update your Will to reflect your new lifestyle.

The new year, whether financial or calendar, always offers a good opportunity to assess where you are in building your financial wealth and making sure you are financially fit.

Why not call us to discuss how you can make the 2020s a decade with a perfect vision.

i https://www.ato.gov.au/Rates/Key-superannuation-rates-and-thresholds/?page=3

ii https://www.ato.gov.au/General/Gen/Definitions/?anchor=WorkTestExemption#WorkTestExemption

iii https://www.ato.gov.au/Individuals/Super/In-detail/Growing-your-super/Super-contributions---too-much-can-mean-extra-tax/?page=3

iv https://www.ato.gov.au/Individuals/Super/Growing-your-super/Keeping-track-of-your-super/