April 2020

Welcome to our April newsletter which we bring to you at a time of enormous economic uncertainty. At times like these it's important to have someone to talk to, so we urge you to contact us if you have concerns about your finances.

The health and economic impacts of the coronavirus increased exponentially in March, as did the response of national governments and central banks. As part of a suite of emergency measures, the Reserve Bank of Australia (RBA) cut the official cash rate twice - first to 0.5 per cent and then to 0.25 per cent – as official rates in the US and Europe were cut to near zero. The RBA also began buying government bonds to bring yields down in line with the cash rate, as well as offering a term facility to banks so they can supply credit to small and medium businesses.

It's too soon to know if these emergency measures will stave off recession (technically two consecutive quarters of negative growth), but Australia was better placed than many countries heading into the crisis. The Australian economy grew 0.5 per cent in the December quarter, up 2.2 per cent over the year, while company profits rose 8.1 per cent in calendar 2019 to record highs.

Global markets remain extremely volatile. Australian shares fell around 17 per cent in March while US shares fell around 15 per cent. Crude oil prices fell more than 56 per cent as a production agreement between OPEC and other oil-producing nations broke down. Australian wholesale petrol prices fell to a 16-year low, while the national average price of unleaded petrol fell to a 13-month low of 127.6c a litre. The Aussie dollar fell about 5 per cent over the month to just below US62c, after briefly dipping below US56c.

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
Facebook ivywealth.com.au
Instagram ivy_wealth_tas

Peer to peer *lending*

Over recent years, a range of fintech challengers to Australia's traditional banking sector, dominated by the four Big Banks, have emerged. Smaller, nimbler operators harnessing the power of new technology for financial transactions are disrupting the big banks, including peer-to-peer (P2P) lenders.

What is peer-to-peer lending?

Banking always involves money from one group of customers (savers) being transferred temporarily to another group of customers (borrowers).

What separates out P2P lending, also referred to as 'social lending' or 'crowd lending', is that it facilitates an individual obtaining a loan directly from one or more other individuals. Banks are cut out of the process, or 'disintermediated'.

How it works

Imagine two individuals, Adam and Steph. Adam has $400,000 to invest and would like to get a decent return. He could put the money in a savings account, but the interest he receives will be negligible and he worries that shares are too risky.

Steph is a small businesswoman who needs $400,000 to scale up her business. She's applied for several bank loans but, despite the fact her business is doing well, she isn't able to get a loan as she doesn't own a home.

Wouldn't it be great if there was some sort of website that allowed Adam and Steph to make contact?

Well, there are now lots of these websites provided by the likes of Society One, MoneyPlace, RateSetter, Harmoney, ThinCatsAustralia, OnDeck, Bigstone, Marketlend.[i]

The Uber of lending

Just as Uber and Airbnb do, these P2P lenders provide the platform that facilitates transactions taking place and take a cut of the action – from the borrower, lender or both – in return. SocietyOne, for instance, has revealed it takes a commission fee of 1.25 per cent per annum from the interest paid by borrowers on its platform.[i]

In practice, loans facilitated by these P2P lenders are often more complex than the one-on-one transactions described above. An individual borrower may borrow from several lenders, just as an individual lender may lend to several borrowers.

Just like a bank, a P2P lender will perform a credit-history check on potential borrowers and assess their repayment capacity. But it's a case of caveat emptor for lenders, who bear all of the risk on what are usually unsecured loans. The P2P lender charges a commission or fee if the loan is repaid, but it doesn't provide lenders with compensation if it isn't.

The industry is still in its infancy and most Australian P2P lenders are private companies, so there is not much solid financial data available. However, the Australian Securities and Investment Commission (ASIC) reports P2P lenders wrote $433 million of loans in the 2017-18 financial year.[ii] Australia's first and largest P2P lender, claims to have facilitated $800 million in loans and to be on track to hit $1 billion by 2021.[iii]

What's the catch?

Whether you are a fintech lender or a traditional bank, the issue with lending money is that you may not get it back. This is why banks are so reluctant to give loans to those without a property or other assets they can sell off if things go pear shaped.

Those who bypass banks and use P2P lending platforms are playing a high risk/high return game. While Adam won't get much of a return if he puts his money in the bank, he needn't worry about losing any of it.

Steph will probably find it easier getting the money she needs through a P2P lender, but there's a trade-off. She'll have to pay a higher interest rate and hefty penalty fees if she misses any repayments.

Proceed with caution

While Australians may want more choice than has been provided by traditional banks, it's worth remembering that banks offer more safeguards than some of the newer entrants, such as the government guarantee on deposits. In the current market turmoil, safety and certainty are highly prized.

As things stand, P2P lending involves significant risks for both lenders and borrowers. If you need to invest or borrow money, please give us a call to go over your options before you act.

i https://www.canstar.com.au/p2p-lending/who-offers-peer-to-peer-lending-in-australia/

ii https://download.asic.gov.au/media/5074452/rep617-published-12-april-2019.pdf, page 5

iii https://www.societyone.com.au/about-us

Making peace WITH THE unknown

Life constantly challenges us with unknowns, yet some of these hit closer to home and harder than others in their impact.

The coronavirus is unprecedented in our lifetimes, so we are charting new territory in the world's response to this crisis. The uncertainty around its far-reaching impact is creating fear for many around the globe, as governments act to minimise the spread of the virus.

Due to the fast changing nature of the government response to this momentous challenge, there are significant unknowns. There are short term unknowns around the government's evolving response to the crisis and you could be concerned about the stability of your work situation. And longer term about how will this impact you into the future? Perhaps you're wondering when you will be able to retire as your super balance takes a dive? Will the economy and businesses survive the disruption? How will you be supported through this period?

You are not alone in experiencing these fears. As humans we like to deal with 'knowns' and plan accordingly, rather than be at the mercy of uncertainty and instability. Whether it's something as big as the coronavirus or a smaller unknown, there are however ways we can become more comfortable with uncertainty.

Planning for the unknowns

Planning for the unknowns sounds like a contradiction. After all, if we don't know how, when and if we will be impacted, how can we plan for it? Yet planning for potential outcomes can help us feel more in control and be one less worry to deal with.

You don't need to think of every possible eventuality, but given the challenges society is facing, consider what the implications mean for you and your family. What can you do to minimise the impact?

Then the next, possibly more challenging thing to do, is to accept that you can't plan for all eventualities and acknowledge that there may be some things out of your control. Focus your attention on the what you are able to have some control over and then look at narrowing the list down to what really matters most to you, letting the rest of the 'noise' dissipate.

Stay positive and engender connection

The situation is changing rapidly and it's tempting to constantly monitor news feeds, as it can feel more empowering to feel like you know what is going on. Just be mindful of taking breaks from the updates if they are fuelling feelings of uncertainty. Step outside and enjoy a little fresh air, call a friend or just do something small that gives you a bit of a breather and a little perspective.

The societal impact of the coronavirus is huge and is having a significant impact effect on many of our lives. It's important to remember that these changes aren't necessarily permanent and that we are all in this together.

Connection is important in helping us feel grounded and supported during a period of uncertainty. This crisis is first and foremost a health and human crisis, so we need to be respectful of not only our own health, but those of others. We can help those who are more vulnerable. There are many good news stories arising of people assisting and connecting with their neighbours and those in need.

Understanding the impact on the markets

Markets have experienced a significant downward trend as the impact of the coronavirus continues to develop across the globe. This has had a significant impact on investments and more broadly on superannuation account balances.

While it is understandable to feel unsettled, consider your long term financial goals. Avoid making rash decisions based on fear, as this can crystallise your losses and put you on the sidelines for when the market recovers and as history shows, it always does.

Especially during this period of uncertainty, I hope you are keeping well and looking after yourself. We are here for you every step of the way. Don't hesitate to get in touch if you need assistance.

Coronavirus safety net expanded

What does it mean for you?

In a rapidly evolving response to the spread of COVID-19, the Federal Government's second support package announced on 22nd March, has flicked the switch to more income support for retirees and workers.

Between the first $17.6 billion package announced on March 12, and this latest $66.1 billion package, the emphasis has shifted from stimulus aimed at keeping businesses up and running, to support for individuals to get them through the crisis.

Importantly, casuals and sole traders along with employees who lose work due to the coronavirus shutdown will receive help.

Retirees affected by falling superannuation balances and deeming rates out of line with historically low interest rates have also been offered some reprieve.

Minimum pension drawdowns halved

Self-funded retirees will be relieved the Government has moved quickly to temporarily reduce the minimum drawdown rates for superannuation pensions.

Similar to the response in the wake of the Global Financial Crisis, minimum drawdown rates for account-based pensions and similar products will be halved for the 2020 and 2021 financial years.

This means retirees will be under less pressure to sell shares or other pension assets in a falling market to meet the minimum payments they are required to withdraw each financial year.

Deeming rates cut again

In addition to the cut in pension deeming rates announced in the first stimulus package, the Government has cut deeming rates by a further 0.25 percentage points. This reflects the Reserve Banks latest cut in official interest rates to a new low of 0.25 per cent.

Deeming rates are the amount the Government 'deems' pensioners earn on their investments to determine eligibility for the Age Pension and other entitlements, even if that rate is lower than they actually earn.

This move will bring deeming rates closer in line with the interest rates pensioners are receiving on their bank deposits, especially those with lower balances.

From 1 May 2020, deeming rates will fall to 0.25 per cent on investments up to $51,800 for singles and $86,200 for couples. A rate of 2.25 per cent will apply to amounts above these thresholds.

Early access to super

More controversially, the Government has also announced it will allow anyone made redundant because of the coronavirus, or had their hours cut by more than 20 per cent, to withdraw up to $10,000 from their super this financial year and a further $10,000 in 2020-21.

Sole traders who lose 20 per cent or more of their revenue due to the coronavirus will also be eligible.

The Treasurer said the process is designed to be frictionless, with eligible individuals able to apply online through MyGov rather than going to their super fund.

While this provides an additional safety net for individuals and families who face the loss of a job or a significant fall in income, we do urge our clients to consider accessing their super as a last resort.

Taking a chunk out of your retirement savings now, after a big market fall, would not only crystallise your recent losses but it also means you would have less money working for you when markets recover.

So before you do anything, speak to us and look at other income support measures.

Relief for those out of work

All workers, including casuals and sole traders, who lose their job or are stood down due to the coronavirus shutdown, will be eligible for a temporary expansion of Newstart (now called JobSeeker) payments to new and existing recipients.

Individuals who meet the income test will receive a coronavirus supplement of $550 a fortnight on top of their existing payment for the next six months. This means anyone eligible for JobSeeker payments will receive approximately $1100 a fortnight, effectively doubling the allowance.

This measure includes people on Youth Allowance, Parenting Payment, Farm Household Allowance and Special Benefit.

Importantly, the extra $550 will go to all recipients, including those who get much less than current maximum fortnightly payment because they have assets or have found a few hours of part-time work.

Support for pensioners

Pensioners have also received additional support. On top of the $750 payment announced on March 12, an additional $750 will be paid to any eligible recipients, as at 10 July 2020, receiving the Age Pension, Veterans Pension or eligible concession card holders.

More support to come

This latest support package is unlikely to be the last as the Government responds to a rapidly evolving health crisis and progressive shutdown of all but essential economic activity.

If you have any questions about your investment strategy or entitlements to government payments, please don't hesitate to call.

Information in this article has been sourced from https://treasury.gov.au/coronavirus/households