November 2020

November is here and it's shaping up as a big month at home and abroad. As the Melbourne Cup field burst out of the gates on Tuesday, the Reserve Bank is widely tipped to announce a cut in the cash rate. And then there's the US election on Wednesday (Australian time), which is still an open race.

The Federal Budget on October 6 was the start of a pivotal month on the economic scene. Budget estimates released later in the month revealed a deficit of $132.5 billion in the year to September. While the deficit is expected to peak next year, there are also some positive signs emerging.

The Consumer Price Index (CPI), the main measure of inflation in Australia, rose 1.6% in the September quarter and 0.7% on an annual basis. This is a sign that the economy is beginning to move again after price falls in the June quarter. The biggest increases were childcare (as temporarily free childcare came to an end) and petrol. Consumer confidence also improved, with the weekly ANZ/Roy Morgan index hitting an 8-month high of 99.7 points in late October. Unemployment rose slightly from 6.8% to 6.9% in September, a little less than anticipated.

In another sign of confidence, the value of new loans for housing rose 12.6% in August. The value of owner-occupier loans was up a record 13.6%, with first time buyers accounting for almost a third. The value of investor loans was up 9.3%. And used car prices rose almost 30% in the year to September, a sign that when we do decide to spend, we're bargain-hunting.

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Making your savings WORK HARDER

With tax cuts and stimulus payments on the way, Treasurer Josh Frydenberg is urging us to open our wallets and spend to kick start the national economy. But if your personal balance sheet could do with a kick along, then saving and investing what you can also makes sense.

One positive from this COVID-19 induced recession, is that it has made many of us more aware of the importance of building a financial buffer to tide us over in lean times. Even people with secure employment have caught the savings bug.

According to the latest ME Bank Household Finance Confidence Report, 57 per cent of households are spending less than they earn. This is the highest percentage in almost a decade.[i]

More troubling however, was the finding that one in five households has less than $1,000 in savings, and only one third of households could maintain their lifestyle for three months if they lost their income.

Whatever your financial position, if saving is a priority the next step is deciding where to put your cash.

Banking on low interest

Everyone needs cash in the bank for living expenses and a rainy day. If you've been caught short this year, then building a cash buffer may be a priority.

If you have a short-term savings goal such as buying a car or your first home within the next year or so, then the bank is also the best place for your savings. Your capital is guaranteed by the Government so there's no risk of investment losses.

But with interest rates close to zero, the bank is probably not the best place for long-term savings. So once your need for readily accessible cash is covered, there are more attractive places to build long-term wealth.

Pay down your mortgage

A question often asked is whether it's better to put savings into super or your mortgage. Well, it depends on factors including your age, personal circumstances and preferences, interest rates and tax bracket.

If you have a mortgage, then making extra repayments can reduce the total amount of interest you pay and cut years off the life of your loan. This strategy has the most impact for younger people in the early years of a 25 to 30-year loan.

If your mortgage has a redraw or offset facility, you can still access your savings if you need cash for an emergency or home renovations down the track. This may be a deciding factor if retirement is a long way off.

Boost your super

Making extra super contributions is arguably the most tax-effective investment, especially for higher income earners.

Even so, super is likely to be more attractive as you get closer to retirement, the kids have left home, and your home is close to being paid off.

You can make personal, tax-deductible contributions up to the annual cap of $25,000. Be aware though that this cap includes super guarantee payments made by your employer and salary sacrifice amounts.

You can also make after-tax contributions of up to $100,000 a year up to age 75, subject to a work test after age 67.

Invest outside super

If you would like to invest in shares or property but don't want to lock your money away in super until you retire, then you could invest outside super.

If you are new to investing, you could wait until you have saved $5,000 or so in the bank and then buy a parcel of shares or an exchange-traded fund (ETF). ETFs give you access to a diversified portfolio of investments in a particular market, market sector or asset class.

First home buyers might consider the Federal Government's expanded First Home Loan Deposit Scheme with as little as 5 per cent deposit. There are limited packages available and price caps on the home value, depending on where you live.

With tax cuts set to flow and a new appreciation of the importance of financial security, now is the perfect time to start a savings plan.

Contact our office if you would like to discuss your savings and investment strategy.

i https://www.mebank.com.au/getmedia/c27b0a0d-cc4e-470e-8a37-722d6f00af98/Household_Financial_Comfort_Report_July_2020_FINAL.pdf

Easy ways to boost your credit score

Most Australians are only vaguely aware – or completely unaware – of the fact that credit-reporting agencies monitor their financial transactions.

While most Australians don't give much thought to what's on their credit report, the credit score that's based on the contents of that report can have a significant impact on your financial choices. A modest score may mean you miss out on getting a mortgage or business loan.

There's no shame in relying heavily on your credit card or delaying bill or loan payments to help ride out the financial impacts of the pandemic. However, it is worth understanding how the financial decisions you're making can affect your creditworthiness.

Know the score

Australia's credit reporting agencies make it as easy as possible for people to access their credit scores. You should be able to get a free copy of your consumer credit report by contacting the relevant credit-reporting agency or putting in a request via its website.[i]

The two big players in the credit-reporting industry are Equifax and Experian, but Illion may also have a 'consumer credit report' on you. If you're based in the Apple Isle, the Tasmanian Collection Service will be keeping an eye on whether you're paying your bills.

Credit scores range from 1 to 1000 or 1200, depending on the agency rating it. If you discover your score is around 500 or better (again, depending on the agency) you can take comfort in the knowledge you're of above-average creditworthiness. If your score is lower, there are some simple remedies.

Credit repair 101

While credit reporting agencies guard the finer details of their credit-score calculations, they are transparent about what will cause people's credit score to fall and what is required to rectify the situation.

Here's what you need to do to boost your creditworthiness.

- **Sort out any unpaid bills**

  People often discover unpaid bills – the technical term is 'delinquencies' – on their credit report that they either didn't know existed or which they assumed were ancient history and covered by a statute of limitations.

  If you've been wrongly charged for something, act quickly to get the charge removed. Start by contacting the business that has mistakenly billed you. If that doesn't resolve the issue, contact the credit reporting agency.

  If you've been legitimately charged but didn't get the bill or were unable to pay it, contact the creditor and negotiate repayment arrangements.

- **Stop applying for credit**

  In the current unpredictable environment, it can be comforting to know you have access to plentiful credit in an emergency. But credit agencies view multiple applications for credit in a short period of time as a sign of financial distress, so think twice about applying for another credit or store card. Even if you don't ever get the card, the fact you've enquired about doing so is listed on your credit file.

  On this point, it's worth considering alternative options before applying for credit. While applying for JobKeeper or JobSeeker, or withdrawing money from your super account, may have other financial implications, your credit score won't be impacted.[ii]

- **Don't put off paying bills for too long**

  The Australian Banking Association recently announced that borrowers who have deferred bank loans will not have their credit rating affected until at least March 2021.[iii] That's welcome news, but don't assume all companies will be as generous.

  Unless the business you owe money to has put in place other arrangements, if they send you a bill for $150 or more and you don't pay it off within 60 days of the due date, your late or missing payment will stay on your credit report for the next five years.

Get on the front foot

Even if you think you've been careful in your spending, debts can quickly mount up or get lost in the bottom of a drawer, so it's worth getting into the habit of checking your credit score from time to time just to be sure.

This is particularly important if you are hoping to borrow money to buy a home, start a business, or for a major purchase.

If you'd like advice about getting your finances back into shape and maximising your ability to access credit in the future, please call.

i https://moneysmart.gov.au/managing-debt/credit-scores-and-credit-reports

ii https://www.societyone.com.au/blog/early-access-to-super

iii https://www.smh.com.au/business/banking-and-finance/credit-rating-amnesty-for-loan-deferrals-extended-20200913-p55v5y.html

OUTSMART YOUR BIASES:

using investor psychology to your advantage

When it comes to decision making, we don't always get it right. It is human nature to fall for several behavioural traps when making everyday decisions and also when trying to predict the future. Even the smartest people can succumb to their own biases when forming judgements and making choices.

While it's unrealistic to expect to never again make a bad decision, we can of course recognise and anticipate possible biases so we can make informed decisions. This knowledge helps us to better understand how our mind works so we can use this information to our advantage for our next financial decisions, investments and life choices.

Here are a few of the most common behavioural biases (and therefore traps) to be aware of and tips for how to overcome them.

Loss aversion

This bias is ruled by fear, as you are focused on what you can lose rather than what you can gain. Mark Twain posed the example of a cat who jumps on a hot stove once and never will again, even though the stove would be cold and potentially contain food later, as a way to illustrate loss aversion.

Overcoming this bias requires confidence and pragmatism, as often the fear and expectation of loss is greater than the loss itself. It can help to lower the cost of failure (for example, if you are investing) and increase the likelihood of success to feel more assured when making decisions.

Overconfidence

On the flipside, overconfidence can cause bad decision making as it means you'll take greater risks. Facets of this bias include an illusion of control, planning fallacy (such as underestimating how long a project will take) and positive illusions.

This type of bias is often linked to people with high self-evaluations, however anyone can fall into the trap of overconfidence. To avoid it, consider the consequences of the decision and explore all possibilities rather than just the best case scenario. Be open to feedback and advice from others to help balance overconfidence and to give you more options to consider.

Groupthink

Groupthink is where you are influenced by the ideas of others in order to reach a consensus in a group situation – this is also called the bandwagon effect. Something might not sit well with you but rather than voicing your feelings and being at odds with the group, you go along with it.

It is easy to get swept along with group consensus but there are ways you can minimise groupthink. Encouraging conversation and debate allows differing ideas and opinions to be considered – in a group scenario this enables everyone to have their voices heard.

Even when making a decision by yourself you can still be swayed by the opinions of others, so don't let these overpower your instincts. Think critically and have confidence in your own analysis.

The primacy/recency effect

This bias is part of the serial-position effect: why we can often remember the first and last items in a series the most clearly (and forget what comes in the middle). The primacy and recency effect are intertwined for this reason, and they are often used by teachers, speakers, lawyers and advertising, in order to make their message most impactful.

Awareness of this effect can help you understand why you're likely not using all information presented in your decision making, but only the first and last messages. Keep a record of all information to get a more accurate picture of the situation. It also helps to do your research so you won't just be influenced by the message from one source either.

These are just some of the biases that impact our decision making, from the day-to-day to the bigger life decisions. Having a trusted adviser in your corner can help improve your financial decision making, by providing market research together with considered advice through an external, unemotional lens. In fact recent findings from Russell Investments found one significant benefit of an advisers is they prevent clients from making silly behavioural mistakes.[i]

We can offer guidance to help you overcome your biases and make better choices, so don't hesitate to get in touch today.

i https://russellinvestments.com/au/blog/5-key-ways-advisers-deliver