Summer/Autumn 2017

Newsletter

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Market Update: What could go right in 2017?

Legg Mason Global Asset Management gave this title to their Annual Outlook Statement.

They noted that "things didn't always go as expected in 2016. The U.S election, U.K Brexit vote and the Fed's U-turn on rates took many investors by surprise."

Despite this "worries about volatility proved unfounded. Some asset classes posted solid gains, defying pessimism, showing that opportunity can rise despite the many real risks."

The question that we are now faced with is whether this will be the case in 2017, or will the current positive economic growth in the world wither and decline?

What follows is an overview of some informed opinion.

Dr Shane Oliver, Head of Investment Strategy and Chief Economist at AMP Capital, notes that "since the U.S election last November US and Global shares rallied around 8% and Australian Shares rallied around 12%". "Optimism regarding Donald Trump's pro-growth policies were not the only factor playing a role in this rally – global economic indicators have improved significantly in most regions – but it certainly played a role." **(Oliver's Insights 2 Feb 2017)**

Markets tend to anticipate economic change and thus this effect could quickly reverse as a result of perceived negative policies or political changes in the U.S, the U.K Brexit process, and the swing to the right and anti-EU separatism in the 2017 elections in the Netherlands, Germany, and France. As Brexit and Trump's election showed, sometimes the vagaries of the electoral process can confound rational analysis and economics.

Legg Mason's report notes, "Outside of the U.S, there's concern about China's growth as its financial system absorbs the expanding market for local debt." Of another major economy, that of Japan, it asks, "What's next for Japan if its aggressive spending and still expansionary monetary stance fail to ignite sustainable growth?"

Despite the somewhat concerned tone of the above, it is argued by financial data specialists Bloomberg that, in its phrasing," Panic over China is so last year." **(Bloomberg Feb 20 2017).** The view from **Martin Currie Investments Australia** is similarly positive, "We believe that in 2017 world nominal GDP growth will accelerate due to a stabilisation of commodity prices after five years of declines that have reduced inflation and nominal growth."

That optimism is also evident in Shane Oliver's overview. "Despite the likelihood of a bout of short term market turbulence we see share markets trending higher

MARKET UPDATE

The global political and economic climate is still such that the Share Market positives could turn into negatives very quickly

over the next 6-12 months" "some acceleration in global growth, rising profits in both the U.S and Australia."

All the positives may be negated by a gathering of geopolitical Storm clouds. The global political and economic climate is still such that the positives could turn to negatives very quickly. European elections excluded, Putin's ongoing confrontational aggression in the Ukraine, and continuing military conflict and confrontations in the Middle East and Afghanistan can quickly sour positive sentiment.

Given these conditions Paysafe will continue to advocate a prudent cautious approach to investment without advocating a rush to any one asset class. In the article "Three standout themes from 141 years of Australian Share Market Data " in the February 2017 ASX investor update newsletter, the author Romano Tenna, notes that from the birth of the Australian Share market in 1875, "Australian Shares have generated a positive return 80.1% of the time. Including negative years, it has returned an average of 10.8% per annum for the past 141 years." That said, he notes that – "we are in a period of unusually low returns, the fourth worst in the history of the Australian market."

The "Harvest" methodology of our investment Portfolios takes advantage of the ongoing dividend yield produced by Australian Shares and International Infrastructure. This ensures that any dividend return from the growth assets of the Portfolio are harvested to cash and thus quarantined from market volatility. Similarly, it harvests from the defensive funds. It also ensures that the investment balance of the fund is maintained and avoids the risk of the dividends being swallowed by market volatility and minimises the risk of an inadvertent rise in the volume of the Portfolio in growth assets i.e.: risk assets. This tries to optimise the yield produced from your portfolios, and limit the downside as much as possible, however it does not remove the constant movement of overall capital value as shares shift daily in value.

Proceed Carefully:

The assessment made by former Treasurer Peter Costello who now leads the Australian government's "Future Fund", probably best sums up what is the likely outcome for 2017.

"Peter Costello is adamant the global environment remains risky and offers little return." "Looking forward 5 to 10 years, we don't see a global growth economy which is going to support historic returns. We think there's a low investment growth outlook" "There's been a bounce in equity markets particularly since the election in the U.S, but markets might have run in advance of actuality." "they're anticipating a lot of investment and construction – if it does happen, it won't happen tomorrow." "We think on balance it's still a low return and risky environment." **(Reported Financial Standard 6 Feb 2017 Page 2)**

SUPER UPDATE

Recent changes to Super Contributions and Pension limits will apply from July 1 2017

Avoiding risk, careful prudent asset allocation and a defensive income harvest methodology will be our way forward in these difficult conditions. This aims to defend capital in a potential downturn and continue to harvest income whether things go well, or ill.

Where to now for Super?

After July 1 2017 the following changes apply.

Contributions

A non-concessional contribution is one where the contributor doesn't pay the 15% tax associated with a concessional contribution. Concessional (ie: deductible, salary sacrifice) contributions will be reduced to $25,000 for everyone, irrespective of age, who is working. Non-concessional (after tax) contributions will be limited to $100,000 a year. Those under 65 don't need a work test to contribute while those over 65 will still need to pass a work test of 40 hours in 30 consecutive days.

Pension Limits

One of the most reported aspects of the new changes is the $1.6 million limit a person can hold in the tax-free pension phase ie. An allocated or term account pension. If a person holds more than that they can simply rollover over the excess to the Superannuation phase or make a tax free withdrawal if they have retired or are over age 65. A person holding more than $1.6 million in super is only able to place $1.6 million into the pension phase. Until June 30 the concessional cap will remain at $35,000 a year for those aged over 50. Similarly the existing rules for non-concessional contributions still apply until June 30 2017. As a result anybody under the age of 65 with spare cash could consider making large non-concessional contributions to super. This has to be done carefully and there can be large penalties for excessive amounts. Please contact Rod and Noel in advance. For those over 65 who pass the work test you can still contribute $180,000 this financial year.

Defined Benefits

Defined Benefit Pensions are included in the assessment of the Pension Limits. Its cash value is the pension multiplied by 16. Ie: A Defined Benefit Pension of $40,000 has a value of $640,000 for pension limit purposes. It is added to any allocated or term pension held. If in any doubt contact Rod or Noel.

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REMINDER

Asset Test Changes 2017.

Changes to the Age Pension assets test are now law and took effect from 1 January 2017.

New Asset Test Limits

Changes to the Age Pension assets test are now law and took effect from 1 January 2017. The asset test limits are shown in the following tables.

New Age Pension LOWER assets test thresholds (for FULL Age Pension)

Age Pension assets-test free area

	Home owner
	1 January 2017
Single	$250,000
Couple	$375,000

	Non-home owner
	1 January 2017
Single	$450,000
Couple	$575,000

New Age Pension UPPER assets test thresholds (for PART Age Pension)

	Home owner
	ACTUAL for 1 January 2017
Single	**$542,500**
Couple	**$816,000**

	Non-home owner
	ACTUAL for 1 January 2017
Single	**$742,500**
Couple	**$1,016,000**

How the harsher Age Pension assets test works

The stricter Age Pension assets test will operate as follows: The taper rate for the assets test, which determines how much Age Pension you receive, will reduce your Age Pension entitlement by $3 a fortnight for every $1,000 of assets you own over the full Age Pension threshold, taking effect from 1 January 2017. **No Age Pension, but eligible for CSHC:** According to the revised Explanatory Memorandum accompanying the legislation introducing the Age Pension assets test changes, “Those whose pension is cancelled will automatically be issued with a Commonwealth Seniors Health Card, or a Health Care Card for those under pension age (and receiving a different Centrelink benefit), without the need to meet the usual income requirements.

Warning: The harsher assets test also applies to other social security pensions, including disability support pension, wife pension, carer payment, bereavement allowance, widow B pension and certain pensions administered by the Department of Veterans’ Affairs. According to the revised Explanatory Memorandum accompanying the legislation, the assets test also applies to parenting payment and allowances (widow allowance, youth allowance, austudy payment, newstart allowance, sickness allowance, special benefit and partner allowance).

Source—Trish Power September 14 2016

If clients have been affected and believe their assessment is incorrect, please contact Paysafe for an appointment with Noel or Rod. An appointment can look at whether it’s worthwhile to look at any strategies to reduce your asset test.

REMINDER

The harsher assets test applies to other social security pensions, including:

- **Disability Support Pension**
- **Wife Pension**
- **Carer Payment**
- **Bereavement Allowance**
- **Widow B Pension**
- **Certain pensions administered by the Department of Veterans’ Affairs**

The assets test will also apply to parenting payments and allowances including:

- **Widow Allowance**
- **Youth Allowance**
- **Austudy Payment**
- **Newstart Allowance**
- **Sickness Allowance**
- **Special Benefit and Partner Allowance**

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54/11 Resignation

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