NEWSLETTER

PAYSAFE ADVISORY SERVICES

Summer/Autumn 2018

CONTENTS

Market Update: Market Volatility in 2018?

During a 1953 US senate hearing, Charles Erwin Wilson, Eisenhower's Secretary of Defense and former General Motors CEO, delivered his much misquoted line, **"What's good for GM is good for America."** That statement may be used as a guide for markets in 2018, i.e. **"What's good for America is good for the world."** The question to be asked is therefore what is good about America and the world in 2018? The answer rather depends on where you are and what you are assessing. The US economy has been experiencing strong growth and for the first time in a very long time real employment has risen (4.1% unemployment) and now through a tight labor market real wages are slowly rising. The negative of this is that with rising employment and real wages comes increasing inflation and increasing interest rates.

The International Monetary Fund's **"World Economic Outlook"** (Jan. 2018, p.6) forecasts strong world growth and very positive US growth. It "marks up" Euro area economies "especially Germany, Italy and the Netherlands". The Japan growth forecast is positive with some moderation of growth in China. Despite these positive signs in other major economies the key to growth is what happens in the US.

Correction or US recession? In January and into February 2018 the US stock market, which has been operating at record levels with companies having price to earnings ratios which far exceeded what has historically been regarded as "normal", has now faltered and fallen dramatically during January 2018. Some economic pundits, such as AMP's chief economist Dr. Shane Oliver, have argued that the US stock market was long overdue for a correction. (Oliver's Insights, Feb. 2018, edition 3). He examined an extensive data set for US share market falls of greater than 10% since the 1970's. (He excluded falls of less than 10% as being "a dime a dozen i.e. normal"). On the basis of that considerable data set he concluded "Our assessment is that recession is not imminent in the US." He characterized the fall in the US market as the "necessary correction." (See below). Aberdeen Standard Investments, a respected major Global Investment House also have "a positive view on global economic activity in 2018 with strong earnings growth from US companies." (Aberdeen Standard, Feb. 2018). On the negative side however, Macquarie argues that in the US economy "wage and inflationary pressures will increase in the years ahead, as will the pace of rate hikes." (Business Insider, Feb. 13, 2018) Their conclusion, this "suggests a more volatile and challenging environment for equities."

Centrelink Assets Test

The new asset base for a full pension is - home owner: $253,750 single, and $380,500 for a couple.

The new asset base for a full pension is - non-home owner: $456,750,750 single, and $583,500 for a couple.

Cutout Point - home owner: $552,000 single, $830,00 for a couple.

Non-home owner: $755,000 single, $1,033,000 for a couple.

The information in this newsletter is general in nature and may not be relevant to your individual circumstances. You should refrain from doing anything in reliance on this information without first obtaining suitable professional advice. You should obtain and consider a Product Disclosure Statement(PDS) before making any decision to acquire a product.

Paysafe Advisory Services

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Market Update Continued:

The Australian market has followed the US lead in its correction and relative rebound. However Australian companies share price to earnings ratios are “normal” even if not cheap. Overall the earnings and dividends of Australian companies have been consistent even if some former stalwarts like Telstra and Myer have stumbled recently. The dividend stream of Australian companies remains the Australian Share Market’s great strength for retirement investors.

Thus for 2018, **“What’s good for America is good for the world.”** That being the case, in our view it’s more of the same as was applied in 2017 for managing the investment process. Avoid risk, make careful prudent asset allocation and use the defensive income harvest methodology in these difficult and unpredictable conditions. These processes aim to defend capital in a potential downturn and to continue to harvest the regular dividend income within portfolios whether things go well, or ill. On balance, despite volatility, it seems possible that it will be a positive year.

Money Outside Super: For many of our clients who have been unable to invest monies into super due to limitations on contributions or age limitations, we have been able set up ordinary money portfolios which effectively clone super investment structures. However, many clients have not wanted to invest above the risk of **term deposits**. This has placed them in the position of having to shop around for barely satisfactory returns in what has been a record low interest rate environment. Paysafe is now able to access a **12-month term investment** based on first mortgages which have been producing returns of some 5% per annum inclusive of costs. We believe that for many of our clients that this would be a viable and acceptable alternative to Bank term deposits. The investment manager has a long investment history and has been the recipient of a number of financial industry awards and is positively rated by the research houses which Paysafe (and its license Advocate Advisory) accesses as part of its assessment of the financial soundness of investments. The investment can pay a monthly income if desired. This makes it very attractive in providing an additional cash flow for your retirement income or building capital at a better rate than a term deposit. If you are interested, please contact Rod or Noel.

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