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CONTENTS

Economic Comment

THE WORLD: The worlds' economic state is not inspiring confidence in professional investors. The commentaries vary only in the amount of gloom they see. However, there is an overall agreement on what lies ahead.

"Enter the low return high volatility world"
"Caution abounds – a low growth world "
"Growth down but not out "

There is wide agreement that China may present a problem for world economic growth but differing views on how that problem will play out. From an Australian point of view Chinese steel production and demand is falling and the Chinese government has targeted a reduction in steel production. Thus the export dollars from the Australian iron ore mining industry are likely to fall.

The most significant factor for Australian investors is the lowering of the official cash rate to 1.75% by the RBA. However, it is being strongly argued that rates may be further lowered to perhaps 1.25%.

Thus the return from the safety of investments in Australian cash, whilst still far above those obtained elsewhere in the world, nonetheless is not going to help those trying to gain an income from investments. This will be dealt with below in the overview on investment.

If the reality is that low growth is worldwide there is nonetheless some positive news. Although US growth is slowing it is soundly based. The share market remains fragile, but the great driver of the US economy, its Automobile industry, is enjoying considerable growth and US consumers have again embraced their traditional gas guzzling, monster SUVs with fervour, if little regard for the health of the planet. Its effect is to multiply growth and industrial output. Oil is cheap and may remain so, if not become cheaper. Europe is enjoying slow but steady growth. In historical terms this is the norm for Europe and so this is positive rather than negative. In China there is a stumble rather than a fall, with a deceleration of growth not a meltdown. The Chinese property bubble in part reflects Chinese attitudes and their building approach which sells both buildings and apartments as unfinished shells which the later owner/occupier will fit out. Thus they are investing for capital appreciation through demand and the building is not compromised by having been "lived in "and thus, in Chinese eyes, worth less. Thus much negative analysis of the China property bubble is analysis conducted wearing the cultural blinkers of the west, especially the Americans.

Geopolitical threats are the great unknown. How Europe will cope with the scale of the influx of Islamic refugees has yet to be played out both in terms of how they will be able to house, feed and employ such numbers and how the refugees will gel within these relatively inflexible cultures. The Eastern Ukraine dispute is

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REMINDER

Asset Test Changes January 1 2017

*Asset Test Changes

Full Pensioners: If your total assets are below the thresholds you will receive the full age	*1 Jan 2017*
Single, homeowner	$ 250,000
Single, non-homeowner	$ 450,000
Couple, homeowner	$ 375,000
Couple, non-homeowner	$ 575,000

Continued on Page 3

far from solved except from a Russian perspective, and islands in the South China Sea continue to exercise the energies of a variety of claimants. North Korea continues as the regional, if not global, loose cannon. The British exit from the EU is causing a welter of speculation and doom saying. In a greater world view the world is relatively stable with the great powers (or their agglomerations) dividing the world into stable spheres of influence. Terrorist activity may be exceedingly discomforting and alarming, but apart from the eastern Ukraine which though it may well be further occupied, there is little danger of any inter country war being initiated.

AUSTRALIA: Any economic comment on Australia is effectively a defacto political commentary, that said, after all the time that has passed since the GFC our market has still not returned to its 2008 highs and is not now likely to do so. Elsewhere the return to pre GFC highs has been bought by printing money with a consequent uncertainty as to whether it is a bubble or represents real value. The high point of the post GFC Australian market was May 2015, and in recent months after a low point in February it has tracked in a band between 5,200 and 5,400. **However, this misses the key value of the Australian share market over the long term. This is its continued payment of dividends, which by world standards are high. Historically this has been the case.** See chart over page.

In a commentary on the Australian share market on the ASX site published February 2016, David Bassane, chief economist of BetaShare, wrote an analysis of the value of dividends from Australian shares which is worth quoting at length. (Bold text my emphasis)

"With interest rates still very low around the world by historic standards, the chase for yield among investors remains intense. The need for decent income returns is all the more pressing considering Australia's population is getting older and more are entering retirement.

The good news for Australian investors is that the local share market still offers attractive income returns, **provided they are prepared to stomach the volatility in share price performance**. And despite recent downward pressure on corporate earnings, most companies seem likely to preserve their dividend returns to the maximum extent possible.

Dividends have been the quiet achiever of the Australian equity market, contributing significantly to the total return of the market over time. In the 12 years to the end of 2015 the compound annualised return for the S&P/ASX200 was 8.8 %, while the price index produced 3.2% - implying dividends produced 5.6% per annum - or two-thirds of the market's total return over the period. Even in the darkest of times, investors can expect at least some dividend return. Dividends keep on keeping on.

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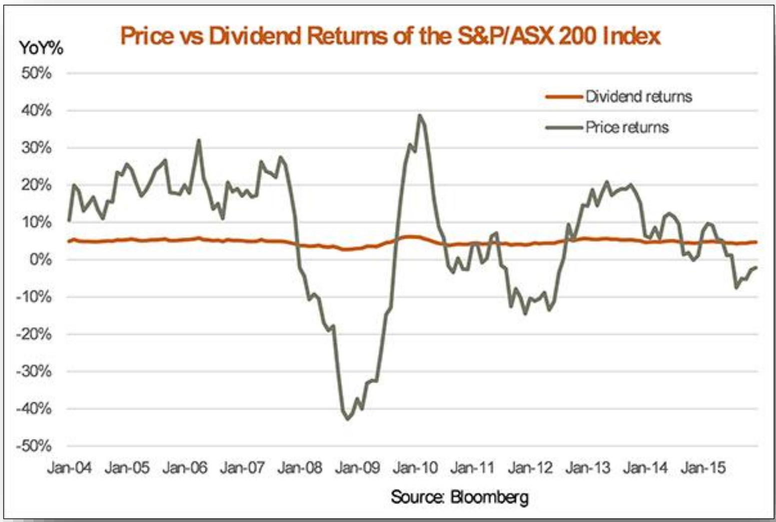
Asset Test Changes January 1 2017

In 2017, the pension will be decreased by $3.00 per fortnight for every $1,000 above the lower threshold.

Part Pensioners: The asset test thresholds are the point at which the pension cuts off.	*1 Jan 2017*
Single, homeowner	$ 547,000
Single, non-homeowner	$ 747,000
Couple, homeowner	$ 823,000
Couple, non-homeowner	$1,023,000

If you lose the age pension due to changes in the assets test you will be granted the Commonwealth Seniors Health Care Card to gain access to similar benefits to the Pensioner Concession Card.



Over 2015 the dividend return from the market (as measured by the S&P /ASX200 index) was 4.7%. The grossed -up dividend return (after accounting for franking credits) was 6.5%, more than three times the Reserve Bank's official cash rate of 2%."

By harvesting dividends investors can take advantage of this although their capital, because of share price fluctuation, may be up or down not only on any day but also intra day, nonetheless overall they are getting the best return for their income from that capital by being in the Australian market.

Conclusion: Although prospects for growth are not bright anywhere the world is far from disaster. Most commentators predict the volatility and instability in local and global markets will continue for some time. Thus our watch word is continuing prudence and a utilisation of the dividend income available via the Australian share market.

INVESTMENT OVERVIEW: Clearly 2016 will be a challenging year with little being gained from cash and with shares continuing to be volatile. However, as David Bassane's analysis makes clear the dividend yield from Australian shares remains significant in a low yield world environment.

If you think of your portfolio's Australian share holdings as a CBA share (Commonwealth Bank of Australia) you know that it will go up and down in value but will always provide an ongoing income even if the share price is shifting constantly. It is a valuable asset which would not be parted with lightly. You will rarely need to withdraw your total super savings accumulation on a day and thus whilst it has effectively a constantly shifting capital value nonetheless by harvesting its dividend stream an income may be maintained which is stronger than the return of cash albeit without the simplicity of knowing your net value is not constantly shifting.

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THE STATE OF SHARES

Clearly 2016 will be a challenging year with little being gained from cash and with shares continuing to be volatile. However, David Bassane's analysis makes clear the dividend yield from Australian shares remains significant in a low yield world environment.

Retirement is essentially about maintaining an income to live on whilst conserving as much capital as possible for trips, cars and other capital purposes. It may be worth touching base to discuss your portfolio and perhaps to reconsider whether you are comfortable with your current exposure to growth assets or may wish to consider greater exposure to Australian Shares.

THE BUDGET: For all the hype applied to the budget it is hardly "super ", if you will pardon the pun, and its policy thrust vies only with that of the Labor party in what seems to be a mutual quest to punish baby boomers and part them from their retirement dollars. **It must be remembered that the changes outlined below are proposals only and may or may not be made law.**

A positive: In a bleak budget for retirees there is one positive: Those aged between age 65 and 74 will be able to make super contributions regardless of whether they work or not. This will apply from July 1 2017. Thus for those who receive inheritances after age 65 they will be able to place some of this sum into super. Alas the rest is negative.

Super Contributions: In place of the current capacity for the eligible individual to contribute up to $540,000 into super on a three year bring forward basis and continue to do that up to age 65 there has been imposed a" lifetime cap" of $500,000 after tax dollars. This applies from 7.30 pm,3 May 2016, and so is now in place and we must operate as if it is law. It is retrospective to the extent that it will take into consideration contributions going as far back as 2007. Labor claims it will pass this measure.

There is little point in criticising the injustice of this or the impact it has made on the long term planning of many. If it becomes law, there are other tax advantaged ways to invest and so this misguided policy is largely wasted save for political point scoring.

The positive is that this cap has been indexed to AWOTE (average weekly ordinary times earnings) and thus will not infrequently move in advance of a CPI index.

Pre Tax Contributions: This has been limited to $25,000 per annum regardless of age. In a piece of complexity yet to be explained simply, it will be possible to carry forward unused cap amounts which can be carried forward for balances of super under $500,000. This will apply from July 1 2017.

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Future Newsletters

Paysafe is Heading Online!

In an effort to make our work place more environmentally friendly and to be more accessible to you our clients, our future newsletters will be delivered via email. The newsletters will also be accessible on the Paysafe website.

If you would like to receive future newsletters please contact the office with your current email address.

Transition to Retirement pensions: From July 1 2017 the internal tax rate on transition to retirement pensions will be taxed at the super rate of 15%. (Currently tax is 0%)

Limitation of tax concessions to super in the pension phase: From July 1 2017, the amount of total accumulated super which may be held, or transferred into the retirement income (pension phase) is $1.6 million. Sums over this amount will still be able to be held in super where the maximum tax is 15%. If excess monies remain in the pension phase they will be taxed at the top marginal rate of the time.

The $1.6 million cap will be indexed in $100,000 increments in line with the consumer price index.

THE NEWSLETTER: This is the first time the newsletter will be wholly delivered by email. The wide use of email as a mode of communication by so many of our clients, coupled with the massive recent changes to the charges for postage, plus the costs and delay occasioned by the printing and mailing of the newsletter, has effectively forced us to move with the times and deliver it by email.

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