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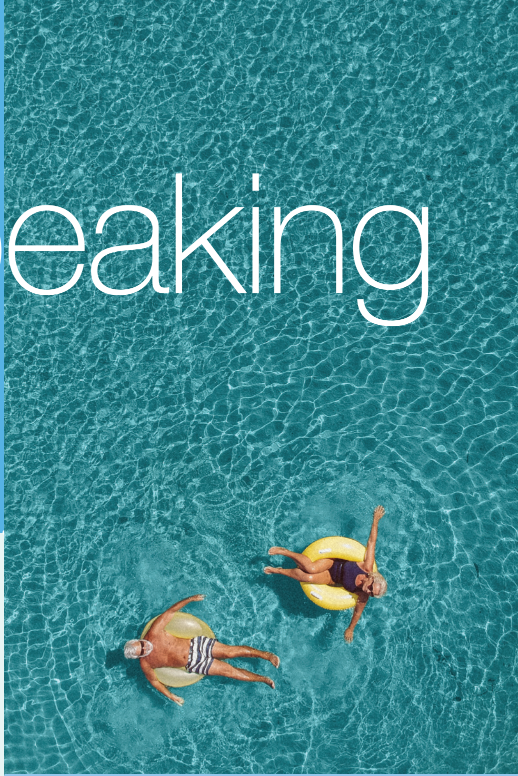

Economic outlook

International economy – US and China trade update

Trade wars continued to be a theme during the September 2018 quarter as tensions between the US and China escalated. In July, the US and China levied tariffs of 25% on $34 billion of each other's exports. This means consumers in the US and China now pay 25% more to buy tariff-affected products from each other.

In September 2018, the US imposed 10% tariffs on $200 billion of Chinese goods. China responded by imposing 10% tariffs on $60 billion of US goods. The US said that the current 10% tariffs imposed on China will become 25% tariffs by January 2019. China has promised to do the same.

These trade wars have reduced manufacturing activity around the world, apart from the US, since December 2017. Confidence across manufacturing has been affected by the uncertainty surrounding trade policy and this has translated into lower business investment.

To soften the blow of the trade war, the US and China have used government spending to assist those sections of the economy that have been affected.

In this issue

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Economic outlook continued

The outlook does not appear optimistic as neither the US or China appear willing to compromise because they will sacrifice too much domestic political goodwill by being the first to compromise. The most likely outcome is that new tariffs will lower future economic growth by restricting trade but this will be offset to some degree by greater government spending.

The worst-case scenario for an escalating global trade war that spills out beyond the US and China appears to have been avoided.

Australian economy – property update

In Australia, property markets were keenly watched during the September quarter as national house prices fell 2.7% over the last 12 months. This decline was led by previous market leaders, Sydney and Melbourne, which dropped 6.1% and 3.4% respectively over the period.

What has prompted the decline in property prices?

There are several reasons for the decline in house prices, with the major factor being higher mortgage rates. ANZ, Westpac and the Commonwealth Bank of Australia (CBA) and some smaller banks all increased interest rates during the September 2018 quarter.

Lending standards have also been tightened in response to both the regulator, the Australian Prudential Regulation Authority (APRA), and in anticipation of changes forthcoming from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. This tightening of standards has made it more difficult for people to get a home loan. The reduction in borrowing means there is less money to sustain continued growth in house prices.

An excess in the supply of new apartments and softer immigration numbers has affected unit prices in the important markets of Sydney, Melbourne and Brisbane.

What is the outlook?

The decline in housing financing coupled with weak income growth and tight lending standards will likely continue to act as headwinds for house prices going forward.

Also, if a global economic shock leads to higher unemployment in Australia this could trigger loan defaults and foreclosures. This would further exacerbate price declines.

However, if immigration continues at strong levels or wage growth improves, households may be able to bid up house prices once more. This is unlikely to eventuate as wage growth remains subdued. Also, immigration growth may be curtailed in the future given the populist trend to reduce immigration being seen in politics at the State and Federal level.

Source: IOOF

Living longer, living smarter

With life expectancies in Australia continuing to rise, you need to make sure your retirement savings can last the distance

Australia has an ageing population. With the Baby Boomer generation reaching retirement age, research shows that nearly one in six people living in Australia today is over 65 years old. As recently as 2012, that number was one in seven.[1]

Not only are more people reaching retirement age than ever before – they're also living longer thanks to advancements in modern medicine and improved knowledge of how to live a healthy lifestyle. And while a long retirement is something to look forward to, it can make a big impact on your retirement savings.

So how will your retirement compare to previous generations?

1. You'll be retired for longer

Average life expectancies in Australia have increased significantly for both males and females. Males who are currently 65 years old are expected to live to 86.9 years and females to 89.2 years.[2] In previous generations, people could expect to live for ten to twenty years after they retired. Now, it's common for people to spend up to thirty years in retirement – and in some cases, even longer.

2. Your retirement will cost more

Living longer means you'll need more money to fund your retirement. The Association of Superannuation Funds of Australia estimates that a couple will spend $60,604 each year to pay for a comfortable retirement, while a single person will spend $42,953 pa.[3] Even if you qualify for the maximum Age Pension and Pension Supplement, those payments will cover a little over half the amount you need for a comfortable lifestyle.[4] That's why you need to make the most of your super savings.

3. Your retirement savings need to keep working hard after you retire

Withdrawing all your super when you retire and leaving it in cash is unlikely to provide you with enough money to fund your retirement. To maintain a healthy income, you need your super to continuing working as hard as possible for you through-out your retirement. That may mean keeping your super invested in a diversified portfolio of assets based on the level of risk you're prepared to take (for example, shares, property, bonds and cash) so it can provide you with regular income.

To give you peace of mind that you won't run out of money, you may want to consider using part of your retirement savings to set up an annuity. An annuity can provide you with regular and stable income that is guaranteed to continue for a certain number of years or for the rest of your life – whatever you prefer. You can even elect for your annuity payment to be increased each year to keep pace with inflation.

Seek help from an expert

If you want to know how to make your retirement savings last the distance, speak to your financial adviser to find out whether an annuity could be suitable for you.

1 Australian Bureau of Statistics, 'Census of Population and Housing', 2016
2 Challenger and Thomson Reuters, 'Retirement and Aged Care Planning 2017-18'
3 The Association of Superannuation Funds of Australia, 'ASFA Retirement Standard', June quarter 2018. Figures quoted are for homeowners.
4 Age Pension rates are current as at 20 September, www.humanservices.gov.au
Source: Challenger

How an ETF can help your SMSF portfolio

SMSFs and exchange traded funds (ETFs) can potentially be a great match. They make it easy to invest across a broad range of shares and different asset classes, strengthening your investment mix and reducing risk.

Adding an ETF to an investment portfolio can add instant diversification, with generally lower fees than investing through managed funds.

Simple integration with SMSFs

Many SMSF trustees choose direct shares over managed funds due to cost, but this approach can create a significant administrative burden. It also makes it expensive to build adequate diversification into a portfolio.

ETFs can be a great alternative, as they offer the control and flexibility, plus the tax effectiveness and low cost of index funds.

ETFs can be very SMSF friendly and they comply with the rules around eligible assets for inclusion in an SMSF investment portfolio.

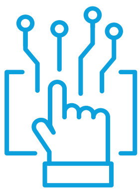
5 ways ETFs can help your SMSF portfolio

ETFs can be a great alternative to using direct shares. They offer all the diversification, tax effectiveness and low cost benefits of index funds, coupled with the control and flexibility that make direct share ownership so popular.

1. Cost effective

As the aim of an index ETF is to track the performance of an index or asset class, they are generally lower in cost compared to a product that is actively managed.

ETFs provide a great, cost-effective alternative as either a core equity holding or a fully diversified portfolio.



2. Easy diversification

ETFs can be a simple and low-cost way to diversify an SMSF investment portfolio across asset classes, investment strategies and geographic regions. You can invest in ETFs providing broad exposure within a specific asset class or diversify across asset classes to reduce volatility and help smooth investment returns over time.

Another approach is to invest in a diversified index ETF as the core of your SMSF investments. Diversified ETFs allow your fund to cover all the major asset classes with a single trade, giving you instant access to a widely diversified portfolio. They also automatically rebalance between the various asset classes to ensure they remain in line with their pre set asset allocation.

3. Simple and transparent

Unlike many managed funds, ETFs are very transparent, with their portfolio holdings readily accessible on the manager's website. Trading prices are available in real time whenever the ASX is open.

Because ETFs are traded on the ASX, they can be bought and sold during the trading day like a normal share through a stockbroker or online trading account. This makes it very straightforward to add to or reduce your SMSF's investment holdings whenever it's required.

4. Simple global investing

Given how difficult and costly it can be to access a well-diversified range of international assets, it's unsurprising most SMSFs have under 1.5 per cent of their funds invested in overseas assets[1].

ETFs can be an easy and low-cost way to boost the amount of international assets in an SMSF. Buying units in an ETF that tracks international share markets or specific industries can be a great way to access potentially higher growth companies like Apple or Amazon, or fast-growing emerging markets like India and South East Asia.

5. Tailored investment strategies

ETFs may make it easy to implement tailored investment strategies in your SMSF. They can be used as the 'core' of a share allocation, with directly owned shares or actively managed investment funds acting as smaller 'satellite' investments to create a customised SMSF portfolio.

As ETFs are traded in the same way s shares, they also make it easy and cost-effective to rebalance a portfolio if it moves away from the asset allocations set for each asset class. They are also a great tool if your SMSF needs to rapidly move cash into an investment market, or to invest while you decide on a long-term strategy.

Key things to remember

ETFs are a simple and cost-effective tool for improving your SMSF portfolio. With ETFs it's easy to:

- Diversify a portfolio across a broader range of assets (either a single asset class or a mix of assets).
- Invest in international asset classes, including those difficult for individual investors to access (such as global fixed interest and listed property).
- Keep transaction costs low.
- Create investment strategies tailored to your needs.

Source: Vanguard

1 ATO, SMSF Quarterly Statistical Report - March 2018

The automotive sector in a period of turbulent change

Transport is rapidly evolving and although there are few investment opportunities amongst vehicle manufacturers, the shift in power train technology from internal combustion to electricity, combined with ever-increasing levels of automation, creates a wealth of opportunities for investment.

September was a terrible month for the car industry as a whole. In China, sales in September were down 11% year on year, dragging down the third quarter to -7%[1]. Meanwhile, in Europe, changes to the emission testing regime made as a consequence of 'diesel-gate', caused sales to fall 23% year on year in September[2]. The US was the only brighter spot for the industry with the Seasonally Adjusted Annual Rate (SAAR) flat month on month at 17m vehicles[3]. But here too concerns are mounting, not least because of the impact of recently introduced tariffs on the steel and aluminium used by the industry.

Shift to electric vehicles is now virtually inevitable and accelerating

A proportion of the current pain in the automotive sector results from the underlying cyclicality of the industry and of the economy as a whole. Underneath this, however, are signals of more profound changes, which are driven by regulation and technology.

China is now the undisputed leader in sales of electric vehicles with over half of all electric vehicle sales globally sold in the country[4]. In Europe, the decision by the European Council in early October to support a 35% cut in CO2 emissions by 2030 effectively mandates a car market that is at least 30-40% electric[5].

The increase in oil prices has also come at an opportune time for electric cars. 2019 will see an acceleration in the pace of electric vehicle launches with roughly one a month being launched across all vehicle classes. Including plug-in hybrids alongside battery electric vehicles, the total number of models available will jump from 179 in 2018 to 216 in 2019, of which 132 will be battery electric[6].

Bloomberg NEF has pointed out that it took approximately five years to sell the first million electric vehicles around the world. This milestone was reached at the end of 2015. The fourth million however, was achieved in just over six months during the third quarter of 2018. The fifth million is expected to arrive even faster – by March next year[7].

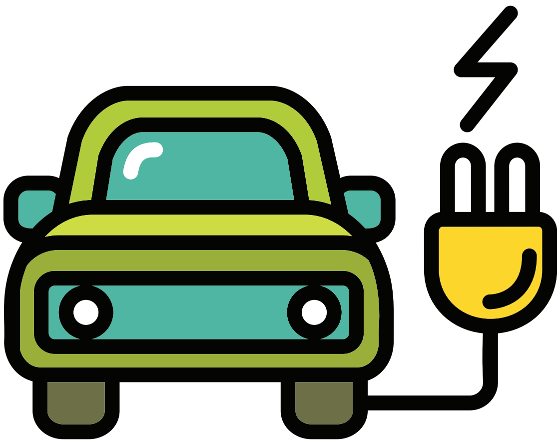
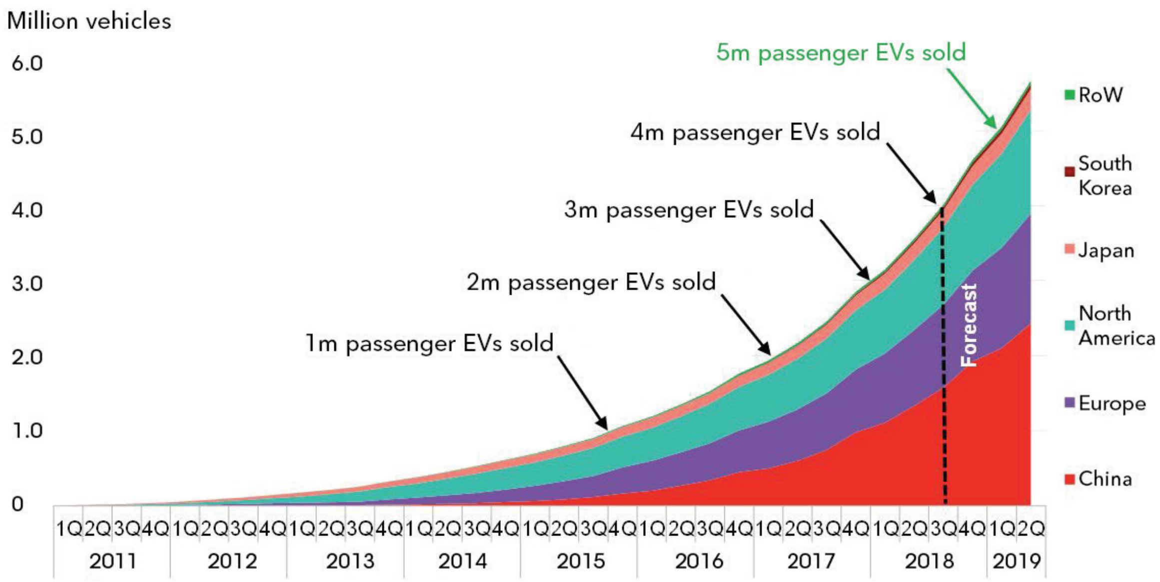


Figure 1: Cumulative global sales of electric vehicles[8]

Of course, these numbers need to be put in perspective. Total numbers of EVs are still only 1-2% of the total. However, it is notable that of the growth in car sales delivered in the year to the end of June 2018 compared to the previous year, nearly half was in EVs[9].



Source: Bloomberg NEF

And autonomy coming next

So while the shift to electric vehicles is now a reality for auto executives, in some ways the even more profound shift to autonomous vehicles is also ramping up. There are plenty of models today that have 'level 2 autonomous capabilities' such as advanced cruise control and autopilot. Further progress won't be immediate though. Commercially available level 4 autonomy, a car that you can essentially sleep in, is still a decade away according to most analysts.

Source: Pengana

1 Morgan Stanley analysis.
2 http://europe.autonews.com/article/20181005/ANE/181009765/w-european-car-sales-fall-23-on-wltp
3 RW Baird analysis.
4 https://qz.com/1303594/when-it-comes-to-making-electric-cars-theres-china-and-everyone-else/
5 Op Cit 1
6 Bloomberg NEF forecasts.
7 Ibid
8 Ibid
9 Ibid

Life insurance implication for primary carers:

What you can do to ensure that, when the work stops, the benefits do not

The birth or adoption of a child can be a wonderfully life-changing time in someone's life. With parental responsibility comes a potential change in finances for the growing household. As such, it makes sense to understand what's happening and what information new parents should know when it comes to their finances.

What's happening:

In Australia, there are 18 boys and 17 girls born on average each hour. The median age of new mothers is 31.2 and fathers is 33.3. It's estimated that 65% of mothers aged 25 and over were in some form of employment while pregnant with 37% working all the way until just one week or less before the birth of their child. Those mothers working in the private sector were almost twice as likely to leave at one week or less (41%) before the birth of their child than those working in the public sector (21%).

After birth, there is a predominance of women providing primary care however it's estimated that 1 in 20 fathers are now taking primary parental leave. In the private sector alone, 84,884 mothers and 33,306 fathers take parental leave in a year.

What you should know:

In terms of work, most employees are eligible to take unpaid leave with an entitlement to return to their pre-parental leave position. If the position no longer exists, an alternative position that is suitable is to be made available and which is nearest in status and pay to the pre-parental leave position. For pregnant employees, unpaid leave can start up to six weeks before the expected date of birth, or earlier if both the employee and employer agree.

For those parents who decide to take on a primary carer role, there can be a number of critical changes which may occur as a result of stepping away from paid work. Chiefly, the cessation of work can result in a potential inability to access certain product features and benefits. This can include income protection benefits when held within the superannuation environment, where conditions of release restrictions imposed within the Superannuation Industry (Supervision) Regulations (Item 109) limit benefits from being paid within a regulated superannuation unless they are for the purpose of continuing (in whole or part) the gain or reward which the member was receiving before the temporary incapacity.

Also, some Total and Permanent Disablement policies, which are typically linked to an inability to work in your own occupation or any occupation based on education, training or experience, may require a higher level of disablement if someone is no longer in full time or part time work, such as potentially not being able to dress, bathe or feed without help.

It is worthwhile exploring TPD benefits that support people insured who may no longer be working by allowing access to any occupation TPD definition based on their most recent occupation which is not limited to a specific number of prior months, in addition to the unique Extended Activities of Daily Living criteria, ultimately offering more ways to qualify for a benefit.

Source: Zurich

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