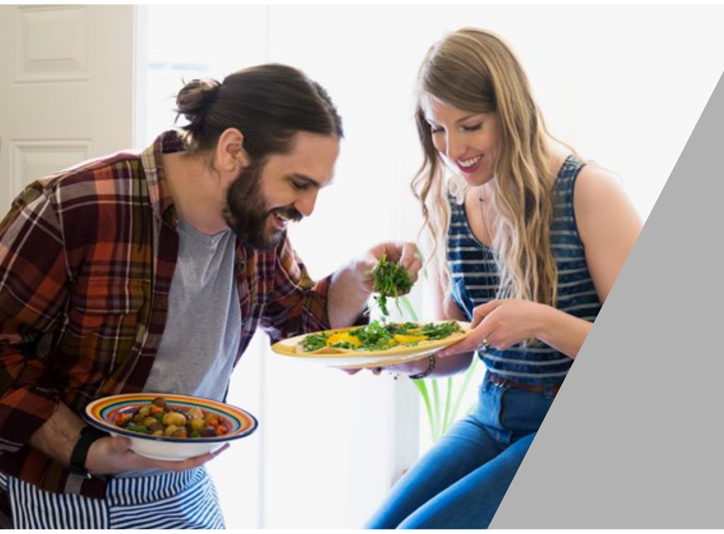
INSIGHTS

WINTER 2018

FINANCIAL ISSUES AFFECTING YOUR LIFESTYLE



MAKE THE MOST OF YOUR TAX REFUND

If the tax man brings you a present this year, don't blow it all at once. There are plenty of ways to put this extra cash to good use.

With the end of financial year fast approaching, you may be looking forward to a tax refund from the ATO after you declare your income or investment dividends. And depending on your employment situation, you might also be counting the days until you get your annual work bonus.

If you're expecting to receive a tidy lump sum this year, it can be tempting to treat it like "free money" and splurge on things you don't really need. But here's the thing – it's not free money at all. You earned it. And while the tax man has held on to it this past year, you haven't earned any interest on it.

So, is there a financial goal you've been unable to achieve because your income never quite stretches that far? Here are five ideas for making the most of a windfall this end of financial year.

1. Clear your debts

Having some extra cash on hand could help you knock your debts on the head once and for all. For starters, consider paying off your credit cards sooner rather than later, so you can break the debt cycle before the interest charges get out of control.

And if you're forever playing catch-up on your mortgage repayments, it might be a great opportunity to get ahead. The quicker you get your home loan out of the way, the sooner you can start enjoying a debt-free life.

2. Boost your super

Every bit extra that you put into your super could make a big difference when the time comes time to retire – especially when you take into account the effects of compounding returns.

So even if retirement seems like a long way off, you might consider putting all or part of your windfall directly towards your nest egg. Each financial year, you can make an after-tax contribution of up to $100,000[1] – or up to $300,000 at any time during a three-year period by applying the 'bring forward' rule if you are under 65 years of age and your total superannuation balance is less than $1.4 million at the beginning of the financial year.

Already past retirement age? You can still make voluntary super contributions up to the age of 74 if you're still working. And even if you're not, the federal government's new Downsizer Contribution Scheme from 1 July 2018 allows you to give your super a boost of up to $300,000 if you have extra cash to spare after selling your home.[2] But before you make any major financial decisions, speak to your financial adviser.

3. Create a stock portfolio

If you feel confident that your finances and super are on track, you might look at investing in other assets outside the super environment. By building a diversified investment portfolio, you could turn your one-off payment into a long-term strategy for growing your wealth.

If you're new to investing, it can be tricky to navigate all the options available – so it's best to speak to your financial adviser first. They can help you tailor the right portfolio to suit your financial needs, investment goals and risk profile.

1 Non concessional contribution cap for 2017–18 financial year.

FINANCIAL WISDOM

4. Save for a house deposit

Struggling to get a foothold in the property market? Your tax refund or bonus could give you or a family member a head start.

And remember, if you or a family member are a first home buyer, the new First Home Super Saver Scheme allows you to make extra super contributions to help save for a deposit. Under this scheme, super fund members can access voluntary contributions up to $15,000 in super per year (up to a maximum of $30,000 plus associated earnings) to put towards your or your family's first home from 1 July 2018.

5. Spruce up your property

If you already own your home, getting some extra cash could be a golden opportunity to increase its value through renovating. Even if you're not looking to sell it anytime soon, you might reap the rewards down the track if you ever decide to put it on the market.

The same goes for your investment property – and what's more, any amounts you spend on improving the property could help reduce your capital gains tax liability when you sell. And although you usually can't claim tax deductions for property improvements, you may be able to claim for necessary repairs and maintenance.

So if some extra cash does come your way this year, talk to your financial adviser. They can help you plan for the best by putting your money to work on achieving your short, medium and long-term goals.

2 Subject to meeting eligibility requirements.

WHAT KIND OF INVESTOR ARE YOU?

No two investors are alike – we all have our own goals, investment timeframes and risk appetites. That's why your financial adviser works with you one-on-one to understand your personal investment style and make sure your portfolio is the right match.

Ups and downs in the market are a natural part of the investment cycle, but they can affect everyone's emotions differently. Just as every person is unique, we all respond in our own way when things don't go according to plan.

So how do you react to market volatility – do you panic at the first sign of uncertainty or do you stay confident even when the markets fall?

For example, when the Dow Jones Index fell dramatically in February this year, sending shockwaves through investment markets around the world, some concerned investors considered selling up to avoid further losses – while others remained calm throughout the fluctuations.

But it's easier to maintain confidence during periods of volatility if you have a portfolio that matches your appetite for risk. That's where financial advisers play a vital role. At the beginning of the advice journey they ask a series of questions designed to find out what kind of investor you are so they can allocate your assets appropriately.

What are your goals and timeframes?

In your first meeting with your financial adviser, they would have asked you about your financial goals and investment horizon. Each goal may have a different timeframe – and even its own risk profile – and this can play a big part in shaping your overall strategy.

Your financial adviser makes sure that your investments support a combination of short, medium and long-term goals – from those you want to achieve in the next few years right up to your plans for decades into the future. They help you work out a specific timeframe for each goal, so you have an idea of how much your investments will need to grow during that period.

For example, you might be aiming to save for a house deposit in the next 12 months. Or else, you might want to focus on growing a healthy nest egg so you can retire in 10 years. As you move closer towards each objective, your investment horizon shortens and your financial adviser updates your investment strategy to match. That's why your annual reviews are so important – they're an opportunity to check that you're on track to reach your investment goals.

How much risk are you willing to take on?

Before tailoring your investment portfolio, your financial adviser has already completed a personal risk profile, to make sure you're comfortable with the level of risk you're taking on.

In general, the higher the risk, the greater the potential returns you can earn over time. But before you can reap the rewards of high-growth investments, you'll need to ride out any short-term fluctuations in the market.

Broadly speaking, investors can be grouped into three categories:

- **Conservative investors** tend to prioritise stability over capital growth. They want low-risk assets that will provide a steady income stream, even during periods of market volatility. A conservative portfolio will therefore be weighted towards defensive assets like cash, bonds and term deposits.
- **Balanced investors** are willing to take on some risk in return for moderate capital growth. Their portfolios may include a mix of growth and defensive assets, so they can generate some income while also enabling their capital to increase.
- **Growth investors** are confident about having a higher risk exposure so they can maximise their capital growth over the long term. Their portfolios are likely to include a high proportion of Australian and international shares, which may each experience greater short-term volatility.

Your risk appetite is likely to change as you move through different life stages. While you're young, you may be in a better position to pursue a high-growth strategy as you have more time on your side to cope with market fluctuations.

When you have your annual review, your financial adviser will ask you about any changes to your circumstances that may have impacted on your appetite for risk – and will then tweak your portfolio where necessary.

As you approach retirement, it might make sense to switch to a more conservative portfolio, with the guidance of your financial adviser. They can shape a strategy to protect your capital while creating a stable income stream for your golden years.

How do you react to volatility?

By their very nature, markets constantly go up and down. There are many factors that can cause these market movements, such as global trade, consumer spending and confidence, political events and even natural disasters. In times of volatility, however, it's understandable that some investors may feel nervous about the potential impacts on their wealth.

When completing your risk profile, your financial adviser has considered how well you're prepared to handle the highs and lows of the market cycle so you're not taking on unnecessary risk. And don't forget that, even though share markets regularly fluctuate, they tend to move upwards over time – which is why a long-term view is essential.

That's why you should always think of your investment plan as a marathon, not a sprint and remain focused on how you are tracking towards achieving your financial goals.

If you have any concerns about how your investments are progressing, your financial adviser should be your first port-of-call before making any major decisions. They can revisit your financial strategy to make sure it's still appropriate for your situation and goals.

How often do you speak to your financial adviser?

Your financial plan is just the beginning of your journey – and your financial adviser is there to guide you along the way. But that's why it's important to keep them in the loop about what's happening in your life and get in touch right away when things change.

To give your investments the greatest chance of success, it's important to keep the lines of communication open. So it's worth asking yourself if your goals have changed since the last time you talked to your financial adviser – and checking whether your plan is up to date.

Remember, your financial adviser is on hand when you need to speak to them. By letting them know about changes to your circumstances or goals, they'll be able to adjust your strategy and make sure your assets are suited to your investment objectives.

That way, you can be confident that your money is working as hard as it can for you, so you can stay on track towards achieving your goals.

STATE OF THE STATES

NSW continues to lead the nation in terms of economic performance, but Victoria is fast closing the gap.

CommSec's quarterly State of the States report analyses the performance of Australia's states and territories across eight key economic indicators.

The latest report reveals that NSW leads across five indicators: retail trade, dwelling starts, equipment spending, construction work and employment. However, an improving job market has put Victoria at a close second.

CommSec Chief Economist Craig James says, "The most recent data shows Australia's economies to be in good shape but there are broad differences in relative performance, especially with respect to population growth and housing activity."

New South Wales

As the best performing economy, New South Wales saw relatively high population growth underpinning home building and retail spending.

"New South Wales maintained the top spot on the retail rankings and also led the nation with construction work at record highs. Trend unemployment is also 8.3% below the decade average," Craig says.

Victoria

Victoria is ranked second on five of the eight indicators: economic growth, retail spending, population growth, housing finance and dwelling starts.

"High population growth and improvement in the job market have strengthened Victoria's position. December quarter wage growth figures also show Victoria leads the nation, with wages up 2.4% on a year earlier," Craig says.

Australian Capital Territory

The ACT held on to third place, bolstered by the territory's strength in housing finance and employment.

"The ACT has seen the strongest annual growth of home loans, up 8.4%, with the number of commitments up by 28% on the long-term average," Craig says.

Tasmania

In fourth position, Tasmania continues to benefit from faster relative population growth, while also posting a strong result for equipment investment. Annual population growth of 0.72% is 32.5% above the decade-average rate.

"Equipment investment in Tasmania was at five-year highs in trend terms, and home building starts are up 29.1% on a year ago – the fastest growth in two and a half years," says Craig.

South Australia

South Australia is in fifth spot, buoyed by record highs in construction and a solid result for dwelling starts. The state had the second fastest annual growth of retail trade, up 4.0%. However, South Australia's population growth rate was below decade averages, down 33%.

"South Australian construction work done in the December quarter was at record highs and up 19.1% on a year ago," Craig says.

Queensland

Queensland remains in sixth position, although the outlook is promising. Population growth is at four-year highs with the state also posting high job growth and a 26% increase in exports.

"Queensland has the strongest annual employment rate nationally, at 4.3%," Craig says.

Northern Territory

In seventh position, the Northern Territory is constrained by flagging population growth and employment prospects. However, a number of new projects are planned and exports are growing strongly, up 22% on a year ago.

"Economic activity in the 'Top End' is 28.9% above its decade-average. The Territory also has the fastest nominal annual economic growth rate in the nation, although this has slowed significantly over the past year," Craig says.

Western Australia

Western Australia continues to face challenges with the transition of resource projects moving from the production to the export phase.

"The good news is that dwelling starts in Western Australia continue to lift from four-and-a-half-year lows, while stronger export activity in the Western Australian economy is boosting incomes," Craig says.

To view the full report, visit https://www.commsec.com.au/stateofstates

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We are always available to discuss any questions or concerns you may have.

FINANCIAL WISDOM