



FINANCIAL ONE



Summer Newsletter 2017

Welcome to the latest edition of our client newsletter,

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.

In the meantime we hope you enjoy the read.

The team at Financial One wish you a very Merry Christmas and safe and Happy New Year.

Financial One

Level 2, 100 Melville Street, Hobart, Tas,
7000

P 03 6235 0111

F 03 6234 7222

E info@financialone.com.au

W www.financialone.com.au

Facebook [financialonetas](https://www.facebook.com/financialonetas)

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2017 has been kind to investors

As we head towards the end of 2017, it's worth taking a look at how investment markets have fared over the year.

It turns out we've enjoyed a pretty good 12 months – especially if you haven't had a significant chunk of your wealth tied up in cash.

The last 12 months have been steady on a number of financial fronts. Even the official cash rate has remained unchanged for the entire year, and that's been a plus for local businesses. Reflecting this, Australian shares have performed well.

Double digit gains on shares

As I write in mid-November, the ASX 200 Total Returns Index has dished up gains of 11.27% for the year to date. This in turn has impacted our super savings – especially “balanced” funds, which typically have a solid investment in equities. According to research group SuperRatings, long term (7-year) returns for super funds continue to sit at around 8.2% annually. That's good news for our nest eggs.

All asset classes move in cycles, and reflecting the economic recovery that's taking place in many developed nations, international shares have been a strong performer this year.

The MSCI World Index (excluding Australia) notched up gains of 18.9% for the year to date. Past returns are no guide for the future, but returns like this are a compelling case to add global equities to your portfolio. An international share fund – either listed or unlisted, offers an easy way to do this. Contact my office for more details on investing in global shares.

Key property markets are cooling

Despite the robust gains on equities, residential property has once again attracted plenty of media attention.

According to CoreLogic, values in Sydney have begun to cool, with annual price gains of 7.7% as at the end of October. Values in Melbourne, where the market is still rising, have soared 11.0%. But the real scene stealer has been Hobart, where property values have climbed 12.7% over the past 12 months.

For property investors, the slowing pace of capital growth especially in Sydney, reflects tighter credit policies among lenders. The shift to lower risk loans and stricter borrowing limits is not necessarily a bad thing. Coupled with rate premiums for interest-only borrowers, this is forcing many people to consider whether a rental property really suits their long term goals.

Planes, trains and automobiles deliver strong gains

One asset class that can that be easy to overlook is infrastructure. Yet things like toll roads, railways, airports and utilities can be a steady performer for investors.

The ASX Infrastructure Index has achieved gains of 12.79% for the year to date. As with international shares, you could invest directly in individual infrastructure companies but an easier way to get a slice of the action is by investing in an infrastructure fund. This also has the advantage of spreading your money across a broader range of underlying assets.

With returns on cash still looking very ho-hum, it could be worth looking beyond savings accounts (where you'll be lucky to earn 3% before-tax), and think about where you could put at least part of your money to work in 2018 to earn a stronger return.

Call us to take a closer look at the range of investment opportunities that can help you achieve your goals for 2018 and beyond.

– by Paul Clitheroe AM

Paul Clitheroe AM, co-founder and Executive Director of ipac securities limited, Chairman of the Australian Government Financial Literacy Board and Chief Commentator for Money magazine.

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Digital payment options could see you spend more this Christmas

With the festive season just weeks away, Australians are gearing up for the annual peak spending period, and the growth of digital payment options could be widening the gap between what we regard as our spending limit and the balance of our bank account.

The disconnect between cards and cash

Credit cards make spending (and overspending) very easy, and a new breed of “digital wallets” like Afterpay, zipPay and PaytLater are replacing traditional lay-by.

The convenience of credit cards and digital wallets comes with a downside. Research shows a clear link between the way we pay for purchases and how much we spend.

An experiment by the Massachusetts Institute of Technology for instance, involved students bidding on tickets to a basketball game. Some were told they could only pay with cash, while other students were advised they would use a credit card to pay. Among the students using a card the average bid was \$60 – more than double the \$28 average among students paying with cash.

The pain of payment

There is a reason for this difference. It’s what psychologists call “the pain of payment”. When we take a note out of our wallet, we feel a sense of loss. By contrast, when we

use digital forms of payment we have no real sense of parting with hard currency. And that makes it easier to overspend.

On one hand, digital wallets don’t charge interest in the way credit cards do. But they do charge late payment fees. Afterpay for instance charges a \$10 late payment fee with a further \$7 fee if you still haven’t paid up within seven days.

On the face of it, these fees are low but they act in much the same way as card interest – being a charge on an outstanding balance. If you only owe a small sum, the fees can be the equivalent of a very high interest rate.

Keep it real – keep an eye on spending

With Australians expected to spend billions of dollars at the check-out this holiday season (last year we collectively parted with around \$48 billion), it pays to be mindful that no matter how you pay for purchases, at some point the money comes out of your hip pocket.

That makes it critical to keep track of how much you’re spending, and ensure you have enough to meet regular bills – both now and in the New Year, when statements for Christmas purchases start to arrive.

The plus of putting off festive shopping

By the way, if you haven’t yet given a thought to festive shopping, don’t feel too guilty.

A study by comparison site Finder found those who start buying gifts in October spend an average of \$716 on presents compared to \$343 among the chain draggers who leave gift buying until closer to Christmas Day.

Maybe allowing too much time to buy can encourage us to spend more, not less.

Contact us for expert advice, managing your cash flow over the holiday season, or at any time of year.

– by *Paul Clitheroe AM*

Paul Clitheroe AM, co-founder and Executive Director of ipac securities limited, Chairman of the Australian Government Financial Literacy Board and Chief Commentator for Money magazine.

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If you've always thought property prices only go up...

It may be time to reconsider some myths about property investment.

With so much emphasis on property in the media, it can be difficult to sort fact from fiction. But before investing in any type of asset—including property—it pays to consider the pros and cons, and any commonly held misconceptions.

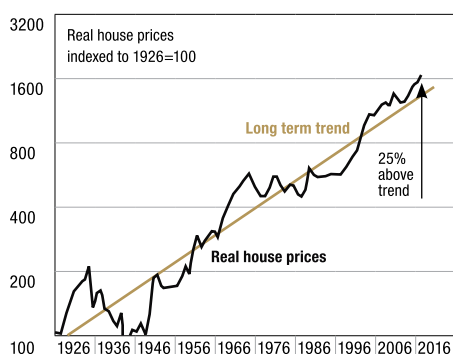
Here we bust 3 property myths.

Myth 1: Prices always go up

Believing that property always goes up is understandable—especially given prices have dramatically increased in our major cities in recent years.

But like most investments, the property market demonstrates cyclical patterns. That means, at times property performance can be stagnant and show little or no growth. And like many investment cycles, a boom can be followed by a bust.ⁱ

Australian house prices relative to their long term trend



Source: AMP Capital

Myth 2: All property is the same

When we think about property, we tend to think about it as one market. We generally take a macroscopic view. We hear about the performance of Australian property and may think that buying a property anywhere will turn out to be a good investment. But this approach can lead to decisions that fail to yield the results we expect.

Within the property market are countless micro-markets. And property prices can depend on the different economies they have links to—as we've seen in Australian mining towns where prices reached record highs in recent years only to be followed by a sharp decline.

Similarly, we hear general reports in the media that property prices are rising and this general sentiment can set unrealistic expectations. For example, specific price expectations in the CBD should be markedly different from those in a particular region or suburb. But we may tend to think that all prices in all areas will always rise. And this is where the danger lies.

Myth 3: Property's a sure thing

The combination of low mortgage rates and rising home values means debt levels have increased dramatically. In fact, the top

10% of leveraged Australian households have an average debt to disposable income ratio of 600%.ⁱⁱ

If you cannot afford to repay a home loan due to changes in personal circumstances, such as losing your job, your entire financial future can be put at risk. Any slumps in house prices could result in many people being unable to cover outstanding loan amounts if forced to sell.

Take a long-term view

It's important to think about property as a long term investment, even when buying a home to live in—and to borrow within your means so you're not financially stretched. Explore your capacity to repay a loan with our borrowing power calculator.ⁱⁱⁱ

And if you take on a home loan, consider buying insurance to help protect you in case your circumstances change and you're unable to meet your loan repayments.

When it comes to investing, it's important not to put all your eggs in one basket. That way you may be able to protect your money by spreading risk over different markets.

Speak with us to find out more about the types of investments that may suit you.

ⁱ <http://advice.realestateview.com.au/buying/beginner-guide-to-investing/4/>

ⁱⁱ <http://media.amp.com.au/phoenix.zhtml?c=219073&p=irol-newsarticle&ID=2122127>

ⁱⁱⁱ <https://www.amp.com.au/data/calculators/borrowing-capacity-calculator1>

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