Advice Matters

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Economic and market update

ANZ Wealth Chief Investment Office | August 2018

Wall Street leads shares higher

- Global shares rose 1.5% and 4.1% in hedged and unhedged terms respectively. Developed markets remained solid, while emerging market shares remain under downward pressure.
- Global share returns were pushed higher by strong returns to US shares. The S&P 500 rose 3% supported by strong earnings.
- Meanwhile major bourses in Europe fell as political risks in Italy and trade war concerns dominated sentiment.
- Trade tensions and the strong US dollar continued to weigh on emerging markets. The MSCI Emerging Markets index was flat.
- Despite the leadership spill locally, Australian shares performed strongly with the market supported by a solid reporting season and signs that the RBA will be on hold for some time.
- US Fed Chairman Powell indicated that considerable uncertainty is attached to the underlying economic drivers. The Fed will watch the data flow and are not necessarily set on a pre-determined tightening path. Markets expect another rate rise in September.
- In Europe, the Bank of England voted unanimously to raise rates by 25 basis points to 0.75% as employment is at a record high and real wages are picking up.

FOMC = Federal Open Market Committee.

Major asset class performance (%)

Asset classes	1 month	12 months	5 years (p.a.)
Australian Shares	1.4	15.5	8.9
Global Shares (hedged)	1.5	14.7	13.3
Global Shares (unhedged)	4.1	24.3	15.1
Global Emerging Markets (unhedged)	0.0	8.9	9.5
Global Small Companies (unhedged)	2.4	15.0	16.7
Global Listed Property	1.8	7.5	11.0
Cash	0.2	1.9	2.2
Australian Fixed Income	0.8	3.8	4.5
International Fixed Income	0.3	0.8	4.9

Source: JP Morgan & ANZ Wealth, 31 August 2018

Currency

Exchange rates	At close on 28/2	% change 1 month	% change 12 months
AUD/USD	0.72	-3.2	-9.5
AUD/euro	0.62	-2.4	-7.1
AUD/yen	79.8	-3.9	-8.7
Trade weighted index	62.2	-2.1	-6.2

Source: Bloomberg & ANZ Wealth, 31 August 2018. All foreign exchange rates are rounded to two decimal places where appropriate.
Please note: Past performance is not indicative of future performance.

Elders Financial Planning

FAMILY TRUSTS *explained*

(Feedsy Exclusive)

A family trust simply refers to a trust set up by a family group who wish to safeguard their collective assets. Such trusts can be used to provide tax benefits to the group in question, to protect assets from individual liability, or to ring-fence them for inheritance or investment purposes.

Read on and importantly seek advice when deciding if a trust is appropriate for you.

Key Terms

Before getting down to the benefits of a family trust, it is important to establish a few key terms;

Trust Deed

The trust deed is a document which outlines the provisions of the trust, and the terms and conditions it is bound by. This document will be signed by the settlor and trustee(s) before it becomes valid.

Trustee

The trustee is basically the manager of the fund, the person who is trusted with certain executive powers and responsibilities as outlined in the trust deed.

Settlor

The settlor is a third party, not otherwise involved in the activities of the trust. They are responsible for executing the trust deed and placing a nominal amount of money in trust for the beneficiaries.

Beneficiary

A beneficiary is anyone named in the trust deed who can benefit from the assets and wealth held in the trust.

Family Trust Benefits, Explained

Family trusts enable beneficiaries to enjoy the following benefits;

- Provide for family and children, including intellectually or physically handicapped beneficiaries
- Allow flexibility to make distributions to certain family members
- Protect assets from creditors in the event of bankruptcy (unless transfers are made with the intention to defeat creditors)
- Allow intergenerational transfer of wealth
- Take advantage of multiple marginal tax rates available within a family
- Provide a wealth creation vehicle as an alternative (or in addition) to superannuation or gearing
- Allow pooling of resources for greater diversification and purchases of larger valued assets

When Is a Family Trust Useful?

Any family which has assets worth protecting or comes into a substantial amount of money may wish to consider the benefits of a family trust. Remember that there can be more than one trustee – just as there will usually be more than one beneficiary – so creating a family trust does not just sign over the family's assets to the control of one member.

It is difficult to predict when someone might get into financial trouble or when an inheritance may need to be paid to a family member in the next generation. As such, it is better to set up a trust when times are good. This will then act as a financial shield on rainier days.

> If you think a Family Trust might work for your family's assets, first talk to your accountant or financial adviser.

HOW TO LIVE A *happy life*

What's the key to happiness? Research shows it has to do with relationships.

Many of us spend our lives pursuing that elusive feeling of happiness. Is there a formula we can follow to lead happier, more fulfilling lives? Unfortunately, there's not, but research shows that warm relationships and generosity can help people live a 'good life'.

The Harvard Study of Adult Development, one of the world's longest-running studies of adult life, offers some interesting findings about what makes people happy. It has found that good relationships keep people happier – and healthier.

Robert Waldinger, the director of the study, said society puts a lot of emphasis on status and work. "But over and over, over these 75 years, our study has shown that the people who fared the best were the people who leaned into relationships, with family, with friends, with community," he said in a TED talk.[1]

Waldinger identified three lessons about happiness from the study.

1. Social connections are good for people

Close relationships protect people from life's discontents and are better predictors of long and happy lives than social class, IQ or genetics, according to the study. And there's more: relationships also help delay mental and physical decline.

2. The quality of relationships matters

It's not the number of close relationships that matters, but their quality. "High-conflict marriages, for example, without much affection, turn out to be very bad for our health, perhaps worse than getting divorces," according to Waldinger.

Meanwhile, warm relationships are protective, he said.

3. Strong relationships are good for the mind

Good relationships also protect the brain. The study has shown that people who are in relationships where they can count on the other person in times of difficulty have sharper memory, according to Waldinger.

This doesn't mean relationships have to be perfect – it's enough that people feel they could count on the other person in times of adversity.

Finding happiness by helping others

Doing good things for others can also make people feel good. In fact, just thinking about doing a generous act can make people happier. A study found that pledging to help others can help reinforce altruistic behaviours and make people feel happier.[2]

Helping others regularly may also influence long-term wellbeing. A study of older people found that those who have a habit of giving tend to have better health and live longer than those who are less giving and even those who receive.[3]

Happiness may seem elusive, but doing little things – such as being generous to others and nurturing good relationships – can help you live a life of contentment.

[1] Waldinger R, 2015, TEDx, 'What makes a good life? Lessons from the longest study on happiness'. Available at: https://www.ted.com/talks/robert_waldinger_what_makes_a_good_life_lessons_from_the_longest_study_on_happiness

[2] Park SQ, Kahnt T, Dogan A, Strang A, Fehr E & Tobler PN, 2017, 'A neural link between generosity and happiness', Nature Communications. Available at: https://www.nature.com/articles/ncomms15964.pdf

[3] Brown WM, Consedine NS & Magai C, 2005, 'Altruism relates to health in an ethnically diverse sample of older adults', The Journals of Gerontology, Series B: Psychological Sciences and Social Sciences. Available at: https://www.ncbi.nlm.nih.gov/pubmed/15860784

Retirees get more flexibility to boost their super

Recent retirees may get a one-year exemption from the proposed superannuation work test to help them boost their super.

Many Australians are retiring without enough savings in their super. Research shows that in 2015–16, Australians had average super balances of only $270,710 for men and $157,050 for women at the time of retirement[1]. These sums are significantly lower than the $545,000 the Association of Superannuation Funds (ASFA) estimates an individual needs for a comfortable retirement[2].

To encourage recent retirees to save more for old age, the Australian Government is proposing to allow them to contribute to their super for a year without having to show that they've been 'gainfully employed'.

The current rules

The current rules allow anyone below 65 to contribute to their super regardless of whether they work or not. But those between 65 and 74 need to meet the work test before they can make super contributions. To pass this test, they have to show that they've been gainfully employed for at least 40 hours over 30 consecutive days in the financial year they plan to contribute.

The government has already given members with a total super balance of less than $500,000 some flexibility to further grow their super. These individuals can 'carry forward' any unused amount below the concessional contribution cap of $25,000 on a rolling basis for five years starting from 1 July 2018. They can use their unused cap amounts from 1 July 2019. But people between 65 and 74 must still meet the work test before they can make these 'catch up' contributions.

The proposed measure

To encourage this age group to save more for retirement, the government is proposing to give individuals who don't meet the work test an extra year to beef up their super savings. From 1 July 2019, those aged between 65 and 74 with a super balance below $300,000 will be able to make voluntary contributions in the first financial year that they don't satisfy the work test requirement.

The annual concessional and non-concessional contributions caps – currently $25,000 and $100,000 respectively – will continue to apply. But members can access any unused concessional contributions cap amounts they have carried forward.

Carry forward arrangements for non-concessional contributions are generally not available to those aged 65 and above (unless they turn 65 in the financial year), so members won't have access to this provision under the work test exemption.

The government will assess total super balances at 30 June of the financial year in which members last met the work test. Individuals who retire in the 2018–19 financial year may be eligible to make additional contributions, but those who retired before 1 July 2018 won't qualify.

Seek professional advice

Rules on super contributions continue to change, requiring careful consideration of the implications for caps and taxes. If you're thinking of contributing to your super under the proposed work test exemption, it may be wise to speak to your adviser to see how making additional super contributions may work to your advantage.

[1] ASFA, 2017, Superannuation account balances by age and gender. Accessible at: https://www.superannuation.asn.au/ArticleDocuments/359/1710_Superannuation_account_balances_by_age_and_gender.pdf.aspx?Embed=Y.
[2] ASFA, 2017, 'How much do you need to get comfortable?'. Accessible at: https://www.superannuation.asn.au/media/media-releases/2017/media-release-4-december-2017.

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