

US Fed interest rate lift off

US Federal Reserve mandate

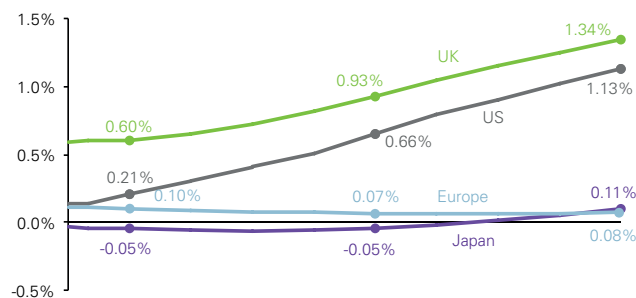
The US Federal Reserve has dual objectives in relation to its monetary policy charter: the promotion of maximum employment and price stability. Recent labour market data indicates that the unemployment rate has fallen to 5.1 per cent. The US Federal Reserve officials estimate that the natural rate of unemployment ranges from 4.7 per cent to 5.8 per cent. Based on the current jobless rate, the US Federal Reserve is close to achieving its maximum employment mandate.

The second objective – price stability – is expressed as an inflation rate of 2.0 per cent per annum.

The preferred inflation indicator utilised by the Fed came in at 1.2 per cent year-on-year in July 2015, but is forecast to gradually increase over the medium term approaching the 2.0 per cent target. The transitory effects dampening the inflation gauge of lower energy prices and a strong US dollar should cycle through the economy over the short term.

Outlook for the US Fed

The markets expectation is for US official interest rates to be at 0.3 per cent by the end of 2015 implying one rate hike. The interest rate outlook demonstrates a moderate series of rate rises towards more normalised monetary policy conditions. The Fed expects GDP growth for 2016 to be relatively subdued at 2.3 per cent with the long range forecast in the vicinity of 2.0 per cent. Economic forecasts have been revised downwards, following heightened concerns surrounding China's economic growth outlook, emerging market weakness and a stronger US dollar against its major trading partners.



Source: Bloomberg, JP Morgan, FactSet, US Federal Reserve

When will the Fed raise interest rates?

The Fed Chairwoman, Janet Yellen, has clearly stated that she expects US interest rates to be raised from zero by the end of the 2015 calendar year, but suggests that the current global economic weakness will not dramatically alter the rising path of the Fed's interest rate. Dr Yellen has embarked on a deliberate communication strategy to provide market participants with high levels of transparency to mitigate excessive irrational market reaction upon eventual rate lift off.

Conclusion

The commencement of tightening monetary policy in the US would remove a crucial element of market uncertainty and improve confidence in the strength of the US economic recovery. Investors need to be mindful that interest rate settings will remain accommodative for an extended period of time which provides an important supportive influence for share markets.

Source: IOOF



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Changes to the age pension rules – will you be affected?

From 1 January 2017, Government changes to the age pension are likely to reduce pensioner entitlements. It's important that you understand how the changes could affect you.

Increase in the assets test threshold

The assets test threshold is the amount of assets pensioners can hold before their pension starts to reduce under the Centrelink assets test. The table below shows the new thresholds from 1 January 2017.

Assets test thresholds from 1 January 2017

Family situation	Assets test threshold	Estimate assets test cut-off
Single, homeowner	\$250,000	\$547,000
Single, non-homeowner	\$450,000	\$747,000
Couple, homeowner	\$375,000	\$823,000
Couple, non-homeowner	\$575,000	\$1,023,000

Increase in the 'taper rate'

The taper rate is the rate at which the age pension reduces as assets increase. From 2017, the taper rate will increase from \$1.50 a fortnight to \$3 a fortnight. This means the maximum age pension a pensioner can receive will be reduced by \$3 per fortnight for every \$1,000 of assets they hold above the assets test threshold.

How the changes could affect your age pension

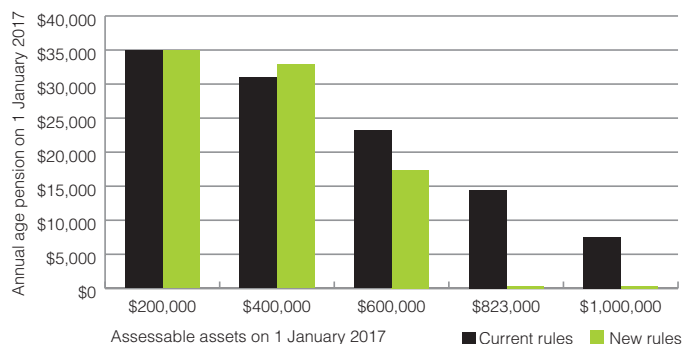
If you are an age pension recipient, the increased taper rate and higher assets test thresholds will likely mean:

- an increase in your age pension entitlement if your asset value is 'around' the threshold, or
- a reduction in your age pension – in some cases to zero – if your asset value is above the threshold.

Example

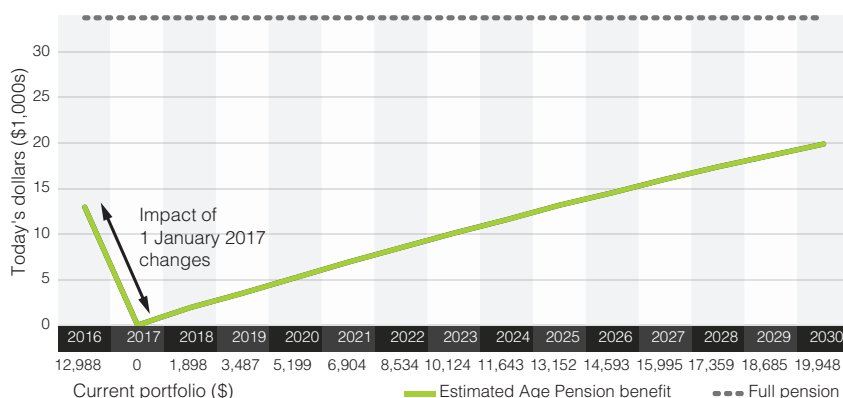
Retired couple Betty and John are both 68 years old and own their home. They have \$823,000 in total assets and currently receive a part age pension of \$500 per fortnight. If their assets remain unchanged on 1 January 2017, their age pension is estimated to reduce to zero (see Chart 1 and Chart 2).

Chart 1– The effect of a couple homeowner's age pension as at 1 January 2017¹



1. Based on information released by the Government available from <http://www.liberal.org.au/latest-news/2015/05/07/fairer-access-more-sustainable-pension>. The chart also assumes all assets are financial assets subject to deeming.

Chart 2 – Projection of future entitlements



Source: Challenger Age Pension Calculator.

Assumptions: 68 year old couple, homeowners, personal assets at \$15,000, financial assets that are deemed at \$808,000 and CPI at 3 per cent (any earnings are spent each year).

Source: Challenger

Speak to your financial adviser to find out more about the likely impact of these changes on your entitlements and to explore strategies to help reduce the impact.

Approaching retirement?

Protect your plans

You have taken a long and varied pathway to get where you are, but you have finally reached that point in your life where you are confident about who you are and what you want. Whether it's the satisfaction of a successful career or the joy of parenthood, it's likely you have much to be proud of, so while you're not over the hill yet, the time to start planning for a comfortable retirement is now.

HSBC's recent Future of Retirement study² reveals that while Australians expect to spend 23 years in retirement (that's more than half the time many spend in the workforce), money will run out for many after only 10 years, leaving them reliant on the age pension.

Maximising your retirement savings and protecting your income during your last few years in the workforce should be a fundamental financial priority. You may not be as healthy as you once were and have limited sick leave and annual leave to fall back on. You may have transition to retirement arrangements that rely on regular super contributions. For example, you may still have a mortgage on your own home or perhaps on an investment property or holiday home.

You've got a lot at stake and you've come too far to not protect it, which is why life insurances still play an important role. So what are types of protection that might be important for you?

This is a question without a simple answer, although it's likely that your income is central to your plans – so protecting it should be a priority.

Once you hit 50, the chances of suffering serious illnesses like cancer or heart attack increase. Trauma like this can leave a big dent in your savings, and trauma cover is designed to help you meet all those out of pocket costs that come with such conditions, so you can concentrate on recovering. The downside is that in your fifties, this type of cover can become expensive, so you really need expert help to determine the best way to protect yourself in these circumstances.

Income protection and life cover can both be funded through superannuation, which can obviously help with cash flow but will draw down on your superannuation balance.

When it comes to funding cover, longer term certainty versus shorter term affordability is also often a major decision criteria and unsurprisingly, many life insurance customers (usually buying cover at a time that coincides with their peak indebtedness) find the short term cost savings of a stepped cover level too tempting. This is especially true when the point at which level premiums put you ahead can be 10 years or more in the future.

Whilst it is a given that some sort of protection is still important at this stage of life, the best mechanisms to achieve this protection will vary depending on your personal circumstances, which is why it's important to speak with your financial adviser about protecting your retirement plan.

Source: Zurich

2. HSBC, The Future of Retirement Life After Work?, 2013, www.hsbc.ae/1/PA_ES_Content_Mgmt/content/uae_pws/pdf/en/future-of-retirement.pdf.



Speak to your financial adviser for more information about protecting your retirement.

Tips for investing

1

Do your homework. Think about investing in the share market in the same way as you would about investing in a property. It's amazing what level of research people undertake when they buy a home. They visit the house, talk to the real-estate agent, do searches on the property and study the suburb and its facilities. They look at what prices houses have sold for in that area. But when they buy shares they seem to just do so on a whim. You need to take the same approach to buying a share as you do to buying a house. Read a company's annual report. There is an incredible amount of information in these reports. If it is a retail company, go and visit a store. If it's a manufacturer, have a look at a factory. Try the product.

2

Keep an investment journal. Make a note of when you buy or sell a share. Write down why you have brought that share or why you sold that share. Basically outline your investment thesis. Then, over time, re-examine that investment thesis. What was the original reason you bought that company? Does that reason still hold? You always need to understand why you own that company. Keeping an investment journal can help you stay on top of why you own those shares.

3

Take a long-term approach. The share market is not about the short term. Fundamentals don't always play out on a three, six, or even a 12 month basis. But they do on a three-year time frame. Take that view. Decide what company you think will be a great company in three years, five years or even longer. Be patient.

4

Attend the annual general meeting. This is when investors have an opportunity to talk to management and the board. You get an opportunity to ask questions. A lot of information comes out of these meetings.

5

Don't get yourself in a position where you need to sell your shares because often that is the worst time to sell. Make sure you have enough cash to take advantage of opportunities. Don't get backed into a corner.

Source: Fidelity

Speak to your financial adviser for more investment tips

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