

# connect

Winter 2016

## Macro and geopolitical risks dominate markets

Heightened concerns over the global economy continue to weigh on share markets despite a recovery in commodity prices. Global economies are growing at a slower pace than initially expected as they struggle with the spill-over effects from geopolitical issues. Geopolitical risks are difficult to predict and are currently on the rise, making 2016 a year where politics is very meaningful for markets. Factors such as the possibility of a BREXIT (the United Kingdom (UK) exiting the European Union (EU)) and China's political and economic development affects risk across all markets. This means that it is preferable for investors to tactically focus on a longer term investment window in order to absorb current

market volatility and the geopolitical spill-over effects that are currently skewing risk to the downside.

### BREXIT – What you need to know

A lot of the focus in Europe is centred on the June 23 referendum regarding the UK's potential withdrawal from the EU. Opinion polls show that the position between the 'remain' and 'leave' vote is relatively close. The uncertainty regarding the outcome is driving volatility in Europe adding pressure to global economies already struggling with growth.

The risks of an EU exit would depend on the post-exit relationship between the UK and the EU. Global markets would be negatively impacted if the relationship is one that restricts trade and the free movement of labour between non EU and EU members. It is difficult to justify a UK exit from the EU, but if it were to eventuate, the UK would likely experience a weaker currency, higher prices and lower growth in the near term.

### China's economic rebalancing

China continues to unnerve investors as it muddles through soft growth against a backdrop of extraordinary monetary easing and expansionary fiscal policy. Economic fundamentals are not helping deflate market concerns because of China's rising debt levels. Standard and Poor's cut its credit rating outlook for China to negative in response to the country's reliance on credit growth to meet economic targets.

The latest trade figures have also raised concern over whether China can maintain economic growth whilst implementing reforms and trying to shift towards a consumption driven economy. It is anticipated that economic rebalancing is likely to proceed slower than anticipated as risks to China's debt burden increase. This may limit the government's policy options and their effectiveness. Nevertheless, China still has room to increase credit funded spending and investment to boost growth and the economy.

Source: IOOF



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Speak to your financial adviser to discuss your investment options.

# Getting financially prepared to start a family

Having a baby is a wonderful experience, but are you financially ready for it?

Before you have children, it's important to get your finances in order. Decide how long you'll need off work and what government support you're entitled to. Be sure to make a savings plan, get the right insurance and find ways to boost your super.

Before you start choosing names and browsing for strollers, here are seven steps to prepare you for the financial commitment of having a baby.

<b>1. Calculate your time off work</b>	To start, decide how long you and your partner want to take off work to care for your little one. Consider whether you're planning to drop down to part-time hours during your baby's first years.
<b>2. Know your entitlements</b>	Look at what kinds of financial support you're eligible for. If you are the child's primary carer and you fit other criteria, you could be entitled to up to 18 weeks' paid parental leave from the federal government – even if you're a seasonal employee, a contractor or self-employed <sup>1</sup> . Other income support schemes for families include the Parenting Payment and Family Tax Benefits. Find out what you're entitled to, based on your financial circumstances.
<b>3. Make a budget</b>	Once you've decided how much leave you and your partner will take and the extra income support you can expect, make a household budget. Work out your current expenses and add in the additional costs of raising a child. Then, compare it with how much money you'll have coming in. If there's a difference, you'll need to start putting away some extra money now.
<b>4. Start saving</b>	It's never too early to start saving for your child's future. You're bound to have some extra expenses in the short term, so it could be worth opening a higher interest savings account or term deposit to help save for those. You might also want to speak to a financial adviser about longer-term saving and investment strategies – especially for big-ticket costs down the track like your child's education. Options may include investing in shares or managed funds, or paying more off your mortgage now to free up your money later.
<b>5. Sort out your health insurance</b>	Next to education, healthcare could be one of your biggest expenses, so make sure you and your partner have the right level of health insurance. Some couples realise too late that their policy doesn't cover pregnancy-related expenses, and then have to face a 12-month waiting period before they can make any claims.
<b>6. Don't forget personal insurance</b>	To protect your family financially, consider taking out income protection insurance. That way, if you get sick or injured and need to take time off work, you could still receive an income while you get back on your feet. Life insurance is also important as it could pay your family a lump sum if you pass away or become terminally ill. If you're worried about the added expense of insurance premiums, don't despair. You can take out both life and income protection insurance through your super, so you don't need to cover the costs from your household income.
<b>7. Boost your super</b>	That brings us to a very important consideration – how to keep building your super if you're taking time off work. One option is to salary sacrifice part of your income into super now. And if you or your partner is planning to take time off while the other keeps working, splitting your super contributions between you can offer potential tax advantages.

Source: Colonial First State

<sup>1</sup> Department of Human Services (2015), Employee eligibility for Parental Leave Pay

Getting professional advice can help take the worry out of starting a family — so speak with your financial adviser today.

# Estate planning triggers

You may have a well-constructed estate plan delivering the outcomes that you want regarding your wealth after death. When established, your estate plan may pass the fundamental test which is: "Will this plan ensure that the right amount will be paid to the right person at the right time?"

Can you now relax in the comfort that everything is under control? Certainly not. Remember, life is dynamic, and you will encounter major milestones in your journey through life. These milestones can be positive and life affirming. For example, you meet and marry the partner of your dreams or you bring children into the world and face the exciting prospect of watching them flourish and develop. The milestones can also be profoundly sad and traumatic, such as the death of a beloved family member. Sadly these events are part of our existence as human beings.

However, in the joy and sadness accompanying these trigger events, we need to take time out to assess the impact of these events on our future wealth and risk profile.

In the case of a forthcoming marriage, you need to spend some time thinking about the distribution of your property in the event of untimely death or disability after marriage. Marriage, for example generally revokes prior Wills. Everyone contemplating marriage should consider how their property should be distributed after marriage, and also discuss with their financial advisers whether or not a new Will is necessary.

If the marriage is a second marriage, the position is even more complex. In this situation, you need to think of a distribution of property which is fair to the children of the first marriage, and possibly your former spouse.

Many individuals fail to appreciate the limitations of a Will. A Will only operates on death of the testator. It does not operate where a testator survives a traumatic event, such as an accident or stroke, but loses mental capacity. It is preferable for individuals to execute an enduring power of attorney to cater for this contingency. In this document, you can appoint a trustworthy person of your choice to handle your affairs during your period of incapacity. This provides certainty, and reduces the risk of state government interference and delays should you lose the capacity to manage your affairs.

Other trigger events in your life which should prompt you to think of the future include:

- buying a home
- birth of a child
- divorce
- an accident or traumatic event
- receiving an inheritance or
- retirement or changing jobs.

When trigger events occur, it is time to review your arrangements with your financial adviser in conjunction with your insurance and legal advisers. This will ensure that your estate plan continues to be robust and effective.

Source: TAL



Speak with your financial adviser to discuss your estate plans.

# How to avoid investment behavioural traps

Many people don't realise the greatest impact on their investment returns could in fact be their own behaviour. Here are four common behavioural traps you should be aware of.

1	<b>Making decisions during market volatility</b>	When you see markets up one day and down the next, it's easy to be nervous about investing, and this is when there is a risk of making irrational decisions. It's important to remember that market volatility is inevitable, but that markets tend to bounce back over the long term. While there may be good reasons to sell, you should also remember that by selling out if you're nervous, when markets are low, may only crystallise losses. One suggestion is to stay focussed on your long-term goals and try to ignore market "noise".
2	<b>Becoming overconfident in strong markets</b>	Many decisions people make during strong markets will likely come right, because the entire market is rising. This will make many feel smart and more confident about their ability to invest. It's important to remember that returns from rising markets aren't an indicator of investment skills. It's how people behave and how their investments perform during times of market distress that are the sign of a good investor.
3	<b>Avoiding herd mentality</b>	It's a natural human tendency to position yourself relative to others and to feel the need to "keep up". However this can lead to financially poor decisions. New investment trends can easily get traction and create conversations amongst friends and family. The dotcom bubble is a perfect example: share prices for many internet companies soared, encouraging investors to get in. By early 2000 markets began to crash and investors suffered. While it's tempting to take part in the latest trend, it's important to take the time to assess any investment on its own merit, and against your personal goals.
4	<b>Being swayed by recent events</b>	<p>People are wired to give undue weight to the most recent events. This is especially true when investing. With the GFC fresh in the minds of many, in 2010 the common view was that Australian shares could do no wrong and global shares were shunned. But then, in the five years that followed, global shares provided far better returns than Australian shares<sup>2</sup>. This meant that investors who had sold out of global shares missed the rally. Instead of chasing yesterday's winners, it's usually best to remain patient and stick to your personal plan.</p> <p>While people often go to considerable efforts to maintain the belief that they're in control of situations where they really aren't. It's the same for investments: no one truly knows what lies ahead for markets.</p>

Source: MLC

2. Unhedged global shares returned 8% pa more than Australian shares, over a five year period from 1/10/10 – 30/09/15. Based on MSCI All Country World Index and ASX/S&P 200 Accumulation Index. Source: NAB Asset Management. Past performance is not a reliable indicator of future performance.

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