ACACIA FINANCIAL SERVICES PTY LTD

27 Grey Street Vermont Vic 3133
Phone: (03) 9877 7117
Email: admin@acaciafs.com.au

QUARTERLY INSIGHT

InterPrac Financial Planning Newsletter Edition 2 2023

Winter update

Did winter start early this year? For some of us, it certainly feels that way. Wherever you are and whatever your weather, it's time for the winter edition of our Quarterly Insight Newsletter. In this edition we cover a range of relevant topics, with a sneak-peek of each below.

Need some quick cash for an unexpected emergency? Do you borrow, max the credit cards or buy a lottery ticket? Having an emergency fund to dip into makes things so much easier. Importantly, it also eases the mental stress that often accompanies emergencies. Read about making an emergency fund an integral part of your financial strategy, how to set this up and manage it in the article "Why An Emergency Fund Delivers Peace Of Mind"

In a world of rising interest rates, do you see doom and gloom for your investments or are you a winner? Your answer will depend on where you are invested and your investment strategy and objectives. In the piece "How Do Interest Rates Affect Your Investments?" the key dynamics around interest rate movements are reviewed, along with some important points to consider when investing.

As we approach the end of the financial year it's also time to ensure you're making the most of the opportunities to top up your super account. Whether this is through voluntary personal contributions, unused concessional contributions, salary sacrifice arrangements or other legitimate mechanisms, the time to act is now ! "How To Get Super Ready For EOFY" discusses this and more, and is a must-read.

Finally, some very wise words on the importance of keeping physically active. In her article "How To Avoid A Sedentary Lifestyle", Dr Preeya Alexander highlights the sobering and very real health risks associated with inactivity. She goes on to suggest ways of incorporating more movement into your everyday life, which can also benefit the whole family. Don't skip this article!

Global Economic Update – June 2023

Markets have whipsawed since the start of last year, primarily driven by changes in inflation and interest rate expectations. Despite the Federal Reserve (The Fed) employing the fastest rate hike cycle in 40 years, and the Reserve Bank of Australia (RBA) following a similar trajectory, inflation has remained sticky.

In Australia, inflation was at 6.8% in the 12 months to April and the increasing costs of services, which includes rental prices, is responsible for the bulk of this figure. Services inflation continues to accelerate in the US and in Australia, making it difficult for The Fed to get back to its 2% inflation target and the RBA to achieve its 2-3% target, without some pain to come.

While there are some signs that inflation has peaked, there is still a way to go to bring it back to targeted levels. Labour markets remain strong with unemployment rates at, or near, record lows here and abroad. Earlier this year, the US recorded its lowest unemployment rate in 50 years. The more people working, the higher the spending power and this increases demand, bolstering inflation.

We think a 'hard landing' scenario (which is a sudden and sharp check on growth, akin to a recession) in the US is likely, though the depth and the length of the recession is difficult to determine. The Fed, as noted in minutes from the March meeting, has now acknowledged a recession in its forecast. It will be working hard to ensure it is relatively painless.

Currently, bond markets are pricing in a US recession; equity markets are not. The bond market predicts the US to enter in a recession in the next 6 to 18 months. Yield inversion, whereby 2-year bond yields are higher than 10-year yields, has historically been a leading indicator for a recession. The yield inversion is the highest since the 1980s. Looking back, 75% of hiking cycles resulted in a recession and every time US inflation exceeded 5% a recession ensued.

While the canary is singing recession in the coal mine for some, in recent months the global economy has shown signs of resilience, putting aside cracks which emerged in the US regional banking sector. Europe has emerged better than expected from the winter period and is now expected to avoid a recession. Global equity markets, as represented by the MSCI World ex Australia Index are up 13.37% over the 12 months to 31 May 2023.

The US equity market, as represented by the S&P 500 Index, was up 13.39% over the 12 months to 31 May 2023, propelled by tech companies. US$8.5 billion flowed into tech stocks in the last week of May. However, a level of caution should apply as this rally was largely attributed to just five tech mega companies, which make up almost 25% of the index. Separately, there has been much exuberance around artificial intelligence (AI) lately and the future of companies involved in AI technology. This environment could propagate an AI tech bubble in the future. We caution investors with regard to non-profitable tech companies. Non-profitable tech companies are what led to the dot-com bust and were among those that were sold off heaviest when rates started to rise in 2022.

Similarly, Australian equities, as represented by the S&P/ASX 200 Index, were up 2.9% over the 12 months to 31 May 2023. We believe Australia will continue to be the lucky country and avoid recession. While property prices are on the rise again, other indicators are starting to show interest rates are having an impact. There remains further upside risk to the RBA hiking rates again in coming months. We think markets are overestimating the likelihood of an RBA pivot and there may be another rate hike up the RBA's sleeve in July or August.

We continue to see support for gold. Asset allocation has come back to the fore, as prudent investors focus on what can go wrong, rather than to attempt to forecast what might go right. Risk management is everything. Liquidity will be key to take advantage of opportunities that present themselves.

From our friends at VanEck Investments Limited (ACN 146 596 116 AFSL 416755) (VanEck)

vaneck.com.au

49.100
6.306
36.547
7.514
42.268
8.262
49.100
97.938
2.509
7.531
18.823

How To Get Super Ready For EOFY

Superannuation has been in the news recently, with a change announced in the Federal Budget impacting those whose total balance exceeds $3 million. While this change applying from 1 July 2025 still needs to be legislated, it's worthwhile turning our focus to superannuation balances as we approach the end of this financial year.

There are lots of different ways to top up your super, but if you want to take advantage of the opportunity to maximise your contributions, it is important not to wait until the last minute.

One of the simplest ways to boost your retirement savings is to contribute a bit extra into your super account from your before-tax income. When you make a voluntary personal contribution, you may even be able to claim it as a tax deduction.

If you have any unused concessional contribution amounts from previous financial years and your super balance is less than $500,000, you can also make a carry-forward contribution. This can be a great way to offset your income if you have higher-than-usual earnings this year.

Another easy way to boost your super is by making tax-effective super contributions through a salary sacrifice arrangement. Now is a good time to discuss this with your boss, because the Australian Taxation Office requires these arrangements to be documented prior to commencement.

Non-concessional super strategies

If you have some spare cash and have reached your concessional contributions limit, received an inheritance, or have additional personal savings you would like to put into super, voluntary non-concessional contributions can be a good solution.

Non-concessional super contributions are payments you put into your super from your savings or from income you have already paid tax on. They are not taxed when they are received by your super fund.

Although you can't claim a tax deduction for non-concessional contributions because they aren't taxed when entering your super account, they can be a great way to get money into the lower taxed super system.

Downsizer contributions are another option if you're aged 55 and over and plan to sell your home. The rules allow you to contribute up to $300,000 ($600,000 for a couple) from your sale proceeds.

And don't forget you can make a contribution into your low-income spouse's super account - it could score you a tax offset of up to $540.

Eligible low-income earners also benefit from the government's super co-contribution rules. The government will pay 50 cents for every dollar you pay into your super up to a maximum of $500.

Your tax bill can benefit

Making extra contributions before the end of the financial year can give your retirement savings a healthy boost, but it can also potentially reduce your tax bill.

Concessional contributions are taxed at only 15 per cent, which for most people is lower than their marginal tax rate. You benefit by paying less tax compared to receiving the money as normal income.

If you earn over $250,000, however, you may be required to pay additional tax under the Division 293 tax rules.

Some voluntary personal contributions may also provide a handy tax deduction, while the investment returns you earn on your super are only taxed at 15 per cent.

Watch your annual contribution limit

Before rushing off to make a contribution, it's important to check where you stand with your annual caps. These are the limits on how much you can add to your super account each year. If you exceed them, you will pay extra tax.

For concessional contributions, the current annual cap is $27,500 and this applies to everyone.

When it comes to non-concessional contributions, for most people under age 75 the annual limit is $110,000. Your personal cap may be different, particularly if you already have a large amount in super, so it's a good idea to talk to us before contributing.

There may even be an opportunity to bring-forward up to three years of your non-concessional caps so you can contribute up to $330,000 before 30 June.

If you would like to discuss EOFY super strategies or your eligibility to make contributions, don't hesitate to give us a call.

How Do Interest Rates Affect Your Investments?

Interest rates are an important financial lever for world economies. They affect the cost of borrowing and the return on savings, and it makes them an integral part of the return on many investments. It can also affect the value of the currency, which has a further trickle-down effect on other investments.

So, when rates are low they can influence more business investment because it is cheaper to borrow. When rates are high or rising, economic activity slows. As a result, interest rate movements are also a useful tool to control inflation.

Rising steadily

For the past few years, interest rates have been close to zero or even in negative territory in some countries, but that all started to change in the last year or so.

Australia lagged other world economies when it came to increasing rates but since the rises began here last year, the Reserve Bank of Australia (RBA) has introduced hikes on a fairly regular basis. Indeed, the base rate has risen 3.5 per cent since June last year.

The key reason for the rises is the need to dampen inflation. The RBA has long aimed to keep inflation between the 2 and 3 per cent mark. Clearly, that benchmark has been sharply breached and now the consumer price index is well over 7 per cent a year.

Winners and losers

There are two sides to rising interest rates. It hurts if you are a borrower, and it is generally welcomed if you are a saver.

But not all consequences of an interest rate rise are equal for investors and sometimes the extent of its impact may be more of a reflection of your approach to investment risk. If you are a conservative investor with cash making up a significant proportion of your portfolio, then rate rises may be welcome.

On the other hand, if your portfolio is focussed on growth with most investments in say, shares and property, higher rates may start to erode the total value of your holdings.

Clearly this underlines the argument for diversity across your investments and an understanding of your goals in the short, medium, and long-term.

Shares take a hit

Higher interest rates tend to have a negative impact on sharemarkets. While it may take time for the effect of higher rates to filter through to the economy, the sharemarket often reacts instantly as investors downgrade their outlook for future company growth.

In addition, shares are viewed as a higher risk investment than more conservative fixed interest options. So, if low risk fixed interest investments are delivering better returns, investors may switch to bonds.

But that does not mean stock prices fall across the board. Traditionally, value stocks such as banks, insurance companies and resources have performed better than growth stocks in this environment.[i] Also investors prefer stocks earning money today rather than those with a promise of future earnings.

But there are a lot of jitters in the sharemarket particularly in the wake of the failure of a number of mid-tier US banks. As a result, the traditional better performers are also struggling.

Fixed interest options

Fixed interest investments include government and semi-government bonds and corporate bonds. If you are invested in long-term bonds, then the outlook is not so rosy because the recent interest rates increases mean your current investments have lost value.

At the moment, fixed interest is experiencing an inverted yield curve, which means long term rates are lower than short term. Such a situation reflects investor uncertainty about potential economic growth and can be a key predictor of recession and deflation. Of course, this is not the only measure to determine the possibility of a recession and many commentators in Australia believe we may avoid this scenario.[ii]

What about housing?

House prices have fallen from their peak in 2022, which is not surprising given the slackening demand as a result of higher mortgage rates.

Australian Bureau of Statistics data showed an annual 35 per cent drop in new investment loans earlier this year.[iii]

The changing times in Australia's economic fortunes can lead to concern about whether you have the right investment mix. If you are unsure about your portfolio, then give us a call to discuss.

i https://www.ig.com/au/trading-strategies/what-are-the-effects-of-interest-rates-on-the-stock-market-220705

ii https://www.macrobusiness.com.au/2023/02/inverted-yield-curve-predicts-australian-recession/#:~:text=Since%20the%20great%20bond%20yield,the%20shape%20of%20the%20curve.

iii https://www.abs.gov.au/statistics/economy/finance/lending-indicators/latest-release

Why An Emergency Fund Delivers Peace Of Mind

When life tosses up an unexpected event – such as retrenchment, a medical emergency or even just a big bill to fix the car – it can be nerve-wracking worrying about how to deal with the crisis. And, if funds are short, that just adds to the stress.

But imagine that you have a secret cash stash – an emergency fund – that will cover the costs, giving you the mental space to deal with the problem.

In fact, an emergency fund is the basis for a strong financial strategy and provides a crucial safety net. It makes sense regardless of your age or income because the unexpected can happen to anyone.

Without a cash reserve, you may have to rely on credit cards or loans, which can put a further strain on your financial situation and your mental health.

An emergency fund gives you the peace of mind to be able to weather the storms that come your way without racking up unwanted debt and interest payments.

How much is enough?

Of course, it can be tough to save when inflation is eating away at your income. Rising interest rates, rents and the cost of groceries is putting a big strain on households. The Australian Bureau of Statistics reports that household savings have been declining for more than a year as people contend with increased mortgage payments among the other rising costs.[i]

Nonetheless, by putting aside even a small but regular payment into a separate fund you will slowly accumulate enough to cover emergencies.

The size of your emergency fund depends on your own circumstances but an often quoted target is enough to cover between three and six months of living expenses.

It may differ if say, you are planning on starting a family and need funds in reserve to cover the difference between parental leave payments and a salary; you have children in school and want to be able to cover school fees for a year or more, no matter what happens; you need to take time off work to care for a family member; or you need to make an unplanned trip.

On the other hand, if you have retired, it can be helpful to have a buffer against market volatility. If there is a downturn in the markets and your superannuation is not providing your desired level of income, a year's worth of living expenses in an emergency fund can make all the difference to your lifestyle.

The main thing to remember is that if you need to raid your emergency fund, start work on rebuilding it as quickly as possible.

Building your fund

Putting together a budget can help you to analyse how much you can afford to put away every week, fortnight or month. Then, consistently saving until you reach your goal is the key, no matter how small the amount.

It is best to keep your emergency fund separate from your everyday transaction account to reduce the chance of you using your saved funds for regular expenses. One option is to pay yourself first by setting up a direct debit, so your emergency fund grows automatically with no extra action needed from you, and to avoid the temptation to withdraw your savings.

The type of account you choose for your emergency fund is important. It should be readily available so, while shares and term deposits may offer higher returns, they are not quickly accessible when required. Shop around for a bank account that offers the highest interest to get the most out of your hard-earned income.

Building an emergency fund is an essential component of a strong financial plan, providing a safety net should something unexpected arise. If you are unsure of the best way to set up an emergency fund, we encourage you to reach out to us. We can provide guidance on the best options for your unique financial situation and help you take steps towards building a strong financial foundation.

i https://www.abs.gov.au/media-centre/media-releases/economic-activity-increased-05-cent-december-quarter

How To Avoid A Sedentary Lifestyle

by Dr Preeya Alexander

As the weather gets cooler and the daylight hours wane, it can be hard to find the motivation for regular movement. Couple this with desk work, a reliance on cars and the convenience of screens, and it's easy to see why 55% of Australian adults and 70% of children aged 2–17 are not meeting the recommended national physical activity guidelines.

Unfortunately, there can be serious consequences to being inactive.

Physical inactivity can be a silent killer

When you're sitting or reclining, your body is expending very little energy. This lack of physical activity can be a factor in obesity and related diseases, and it can increase the risk of chronic conditions like type 2 diabetes, hypertension (high blood pressure), fatty liver and some cancers, including bowel and breast. In fact, physical inactivity is responsible for more than 6% of cancer cases in Australia, second only to smoking.[i]

On the flip side, regular physical activity can reduce your risk of developing many diseases (although not eliminate it, given genetics and other factors also play a role). Exercise also plays an important part in managing health conditions like polycystic ovarian syndrome (PCOS), hypertension and type 1 and 2 diabetes. I often advise a multi-pronged approach to these conditions, prescribing movement alongside any other necessary medical interventions (like other lifestyle interventions or medication for instance).

Along with the physical impacts, I find many of my patients are less aware of how regular movement can benefit their mental health. Research has shown that even one hour of exercise per week can help protect the brain against depression, and regular physical activity can help manage stress and improve night-time sleep quality.

Incorporating more movement into your life

With physical activity, every little bit counts. While the guidelines specify 30 minutes of moderate movement on most days, keep in mind that 3 x 10-minute increments of exercise will get you to your target.

So, start low and go slow. Find opportunities to move your body. Have a dance party with your kids before school or jump with them on the trampoline.Do 10-minutes of squats when you wake up in the morning, then go for a 10-minute walk at lunch time. Think about when you can leave the car at home or skip the public transport and walk to the shops instead. It all adds up!

It's also vital to find a form of movement that you enjoy – whether that's a YouTube Pilates class on the bedroom floor or joining a sports team – so you're motivated to keep doing it.

Even if you are getting in the recommended physical activity, be mindful of what you're doing for the other 23 and a half hours of the day. We know there are potentially negative effects of sitting for long periods of time, so follow the guidelines from the Department of Health and Aged Care and try to minimise or break up long periods of sitting.

The less sedentary time the better, so if you can do a work call while walking or use a standing desk to get some squats in now and then, it's worth it.

Role modelling an active lifestyle for kids

With the statistics showing two out of three children aren't moving as much as they should, it's critical to encourage your kids to stay active.

Get involved and make movement fun. Walk to school as a family; walk, scoot or cycle to a fun playground (a bonus double dose of activity, counting the journey and the play session); and schedule active weekend or holiday activities, like trampolining, sports camps, hikes, and beach sessions.

The habits kids pick up in childhood can stay with them for life. By role modelling healthy movement, you and your family can reap the rewards of an active lifestyle and avoid the risks of a sedentary one.

Disclaimer: This is general information only and is not intended as financial, medical, health, nutritional or other advice. You should obtain professional advice from a financial adviser, or medical or health practitioner in relation to your own personal circumstances.

i https://www.aia.com.au/en/health-and-wellbeing/health-and-wellbeing-hub/move-well

Your Financial Planner is an Authorised Representative / Corporate Authorised Representative of

InterPrac Financial Planning Pty Ltd

ABN 14 076 093 680

Australian Financial Services Licence Number 246638, Level 8, 525 Flinders Street Melbourne VIC 3000

Disclaimer: The articles in this newsletter are of a general nature only and are not to be taken as recommendations as they might be unsuited to your specific circumstances. The contents herein do not take into account the investment objectives, financial situation or particular needs of any person and should not be used as the basis for making any financial or other decisions.

InterPrac Financial Planning Pty Ltd directors and advisers may have investments in any of the products discussed in this newsletter or may earn commissions if InterPrac clients invest or utilise and any services featured. Your InterPrac Financial Planning adviser or other professional advisers should be consulted prior to acting on this information. This disclaimer is intended to exclude any liability for loss as a result of acting on the information or opinions expressed.