Insights and investment solutions magazine

Spring 2021

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Welcome

In our 2021 Spring edition of Insights and Investment Solutions magazine, read the latest market update based on the highlights across the Australian market over the past month.

We also look at ways to handle market highs and lows.

Finally, we consider how to manage risk.

Until next time – happy reading.

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Market update

The Delta strain continues to run rampant across Sydney, with case numbers continuing to soar and some form of restrictions expected to last for months. Abroad, the Tokyo Olympics commenced despite a total crowd ban due to strict public health orders. Back at home, Brisbane celebrated being named the 2032 Olympic host. Throughout the rest of the world however, a dire situation is unfolding as Delta's unprecedented virulence is forcing countries to reimplement restrictions and reassess their reopening strategies.

Regulatory update

With the start of the new financial year behind us, it's important to be aware of a few important changes that took affect from 1 July 2021 that may impact you. From that date, many superannuation thresholds increased, including the rate of superannuation guarantee which now sits at 10.0%. This means your employer is required to place additional money into your superannuation fund.

If you were close to your concessional contribution cap last financial year, then you need to be aware of this change. Your concessional contributions include employer contributions (including super guarantee), salary sacrificed contributions and any personal deductible contributions to super). There is an annual cap that applies to these contributions, which is $27,500 in total (it was $25,000 last financial year), so the increase in super guarantee should be covered by this increase in the concessional cap provided nothing else has changed.

However, you should also be aware that some employers may take superannuation guarantee amounts out of a total employment package they provide you, which means your take home pay could have reduced as a result. Whilst the reduction may only be small, if you have noticed a change in your after-tax pay, this could explain the difference.

A number of other superannuation thresholds changed on 1 July 2021, and this may provide you with more opportunities to maximise your use of the superannuation environment and fund a better retirement in the future. To see what your option are, talk to your financial adviser.

If you have an ongoing service agreement with your adviser, which is one that goes for a period of more than 12 months, than it is likely that over the course of the next year you will receive a new document from your adviser. Previously, you could have received a Fee Disclosure Statement that set out the services you received for the prior twelve months and the fees you paid for those services.

Under new changes introduced, your Fee Disclosure Statement will also include an overview of the services you are entitled to for the next 12 months and the expected fees for that period. If you pay for your service via a deduction from your investments or super (rather than paying an invoice directly), every year you will be asked to provide your consent for those fees to be deducted from your investments or super. It is important that you are aware of these changes and that you provide your consent if you want to continue receiving those services from your adviser into the future.

Economic Update

In Australia, inflation overshot the Reserve Bank's inflation target band for the first time in a decade in the June quarter, but this was largely due to the unwinding of pandemic-related price reductions. Minutes from the RBA's July meeting were released during the month, with the RBA announcing it will begin tapering bond purchases under its quantitative easing program from September.

It also revealed that the RBA will keep the yield control curve pegged to the April 2024 bond. The cash rate was left unchanged. These July announcements should be read in the context of a near-term deterioration in the economic outlook as when the RBA's meeting was held, the NSW lockdown was expected to last just two weeks.

The economy is expected to contract in the September quarter; current estimates range around the 0.7% mark. Prior to the current outbreak GDP was expected to grow by almost 1.0%. As the lockdown mandate extends beyond 8 weeks, revised expectations for growth to return in the December quarter will likely be revised. Despite this, market consensus still expect the first cash rate hike to come in 2023, although acknowledge there is some risk this time frame could be pushed out if current lockdowns in NSW continue to be extended. This is consistent with expectations that activity will rebound rapidly once restrictions lift, and that the economy was in good shape heading into this period. Notwithstanding this prediction, the current outbreaks are a moving beast. Resultingly, the RBA response will ultimately hinge upon how the ongoing NSW lockdown impacts jobs and inflation.

Handling market highs and lows

What goes up, must come down. Market highs and lows are a normal part of the investment world but they can be hard to handle when it's your money at stake.

Market volatility

Investment markets tend to move in cycles, from boom periods when assets rise in value and deliver strong gains, to events like the global financial crisis when assets fall in value and generate losses for investors.

This "volatility" can be unsettling for investors, and whilst there is no foolproof way to manage market highs and lows, following some basic strategies can help.

Don't put your eggs all in one basket

Diversifying your investments across different asset classes can help shield your portfolio from market volatility.

Asset classes typically behave differently at different times. Some investments will rise in value while others fall. For example, when interest rates are low, share and property values may climb. Spreading your money across a variety of investments means you are less likely to wear the full brunt of a fall in one particular asset class.

Focus on the bigger picture

During periods of intense volatility, it can be easy to become too focused on day-to-day market movements. This can lead to knee jerk reactions bought on by concerns over falling asset values.

These sorts of responses are understandable but it is also important to keep your eyes on your longer term goals. If your longer term goals and your circumstances haven't changed, there may be less reason to change your investment strategy in the short term.

Don't be caught up by short term movements

When markets drop for a prolonged period, you may feel as though investment losses are piling up, and be tempted to bail out altogether.

At these times, bear in mind investment markets tend to be cyclical and quality assets, like some shares, that drop in value today, may well recover its value – and go on to achieve even greater gains in the future. Selling out during a low will mean those paper losses will become real losses. And you will be forced to pay more to get back into the market at a later stage if these values recover.

See a downturn as a potential opportunity

At most times in life, we try to buy when prices are down and sell when they are high. It makes sense to take the same approach to your investments. When markets hit a downturn and values are lower, investors can look to take advantage of the opportunity to buy into quality assets at reduced prices.

Managing risk

We all want to earn high returns, but every investment has some degree of risk, and higher returns generally mean higher risk. Think about the level of risk you're comfortable with. Get on the front foot of your retirement goals, by considering these tips:

How do you feel about risk?

Do you like to take chances, or are you conservative by nature? You may think you have a high tolerance for risk but it can boil down to one simple consideration - how would you feel if you lost some of the money you had invested?

It's important to do some soul searching here because your attitude to risk can – and should – influence your choice of investments.

That's because risk generally goes hand-in-hand with potential investment returns. Every investment involves some degree of risk, and it can be near-zero for cash deposits or it can be very high in the case of more exotic investments like art. Shares and property generally fall somewhere in between.

Likely returns are a measure of risk

One of the foundations of investing is that risk equals return. So a simple way to gauge the sort of risk involved with an investment is by looking at the likely returns. And if you come across an investment promising a high return, chances are it involves a high degree of risk that you could lose some or all of your money.

Should I avoid risk altogether?

As an investor, risk is not something you can avoid altogether. All investments have some risk and you need to be aware of the nature of that risk. The key is to consider how much risk you are comfortable with, and to invest accordingly.

An investor with longer term goals may be prepared to invest in higher risk growth assets like international shares. Achieving goals over the longer term means there is more time to recover from potential losses along the way.

Investors with shorter term goals, who are likely to include older investors relying on their investment returns as a source of income, may be less willing to invest in higher risk assets. Nonetheless, with life expectancies rising, it may still pay for these older investors to hold at least part of their portfolio in growth assets like shares. This can help to avoid a situation where they are forced to draw down on their capital quicker than expected because their income is insufficient to meet their immediate needs - that is, their money runs out before they do.

PROFIT
RISK
LOSS

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BT 00394 5/21