Spring 2023 Newsletter

September is upon us, and spring is in the air. It's time to shake off the winter cobwebs, get out into the garden or the great outdoors. Meanwhile, AFL and NRL fans will be hoping the sun shines on their team this finals season.

After endless gloomy forecasts, there was a glimmer of hope last month that the cost of living might be easing. Inflation fell in July to 4.9% from 5.4% in June, despite predictions by economists of a rise.

While housing prices are still rising, up by 7.3 per cent for the 12 months, and total dwelling approvals recorded a sharp decline in July, the next Reserve Bank Governor Michele Bullock believes prices in some areas will fall by five per cent or more by 2050 because of climate change.

Consumer confidence is continuing to slowly improve. The ANZ-Roy Morgan Consumer Confidence has now increased for a record 26 weeks in a row. Unemployment was up slightly by 0.2% to 3.7%, meaning an extra 36,000 people are now looking for jobs.

China looms large as a threat to Australia's economy. As our largest two-way trading partner, China's worsening economic conditions are concerning for Australian investors although stronger demand from steel producers led to a small increase in iron ore prices. The ASX200 ended the month down, gains in financial stocks were offset by losses in mining and energy shares because of their dependency on China. The Australian dollar rebounded slightly based on improved confidence in the US.

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How to **boost** your super with a *lump sum*

If you're lucky enough to have received a windfall, perhaps an inheritance or a retrenchment payout, your first decision will be what to do with it.

Assuming you have decided against a shopping splurge, finding the best place to invest a lump sum is all about the effect on your tax bill and how soon you will need access to the funds.

For those interested in investing their lump sum for a longer term, superannuation is one approach because of its tax benefits.

But be aware that, while super can be a tax-effective investment, there are limits on how much you can pay into your super without having to pay extra tax. These are known as contribution caps.

Different types of contributions

There are two types of super contributions you can make – concessional and non-concessional – and contribution caps apply to both.

Concessional contributions are paid into super with pre-tax money, such as the compulsory contributions made by your employer. They are taxed at a rate of 15 per cent.

Non-concessional or after-tax contributions are paid into super with income that has already been taxed. These contributions are not taxed.

So, the tax you pay depends on whether:

- the contribution was made before or after you paid tax on it
- you exceed the contribution caps
- you are a high income earner

(If your income and concessional contributions total more than $250,000 in a financial year, you may have to pay an extra 15 per cent tax on some or all of your super contributions.)

Investing after-tax income

There are many different types of after-tax contributions that can be made to your super including contributions your spouse may make to your fund, contributions from your after-tax income, an inheritance, a redundancy payout or the proceeds of a property sale.

Based on current rules, the annual limit for non-concessional or after-tax contributions is $110,000. You can also bring-forward two financial years' worth of non-concessional contributions and contribute $330,000 at once but then you can't make any further non-concessional contributions for two financial years. Note that are certain limitation on these types of contributions.

It is also useful to note that, under certain conditions, there are some types of contributions that do not count towards your cap. These include: personal injury payments, downsizer contributions from the proceeds of selling your home and the re-contribution of COVID-19 early release super amounts.

The Downsizer scheme allows the contribution of up to $300,000 from the proceeds of the sale (or part sale) from your home. You will need to be above age 55 but there is no upper age limit, the home must be in Australia, have been owned by you or your spouse for at least 10 years, the disposal must be exempt or partially exempt from capital gains tax and you have not previously used a downsizer contribution.

Giving your super a boost

A review of your super balance and some quick calculations about your projected retirement income might inspire you to give your super a boost but not everyone has access to a lump sum to invest.

A strategy that uses smaller amounts could include any amount from your take-home pay. These contributions will count towards your non-concessional or after-tax cap.

Alternatively, you add to your super from your pre-tax income using, for example, salary sacrifice. These types of concessional or pre-tax contributions attract a different contribution cap: $27,500 per year, which includes all contributions made by your employer.

If your super fund balance is less than $500,000, your limit may be higher if you did not use the full amount of your cap in earlier years. You can check your cap at ATO online services in your myGov account.

The rules for super contributions can be complex so give us a call to discuss how best to maximise your benefits while avoiding any mistakes.

How the Aussie dollar *moves your investments*

It has been a wild ride for the Australian dollar since the Covid-19 pandemic struck and that could mean good news, or bad news for your investment portfolio.

In March 2020 the Aussie dipped below US58 cents for the first time in a decade. Since then, a high of just over US77 cents in 2021 has been followed by a rollercoaster ride, mostly downhill.

In October 2022 the dollar plummeted to US61.9 cents, bounced its way back up to US71.3 cents in February this year but by mid-August it had slipped to a nine-month low at under US64 cents.[i]

Many analysts agree that further falls are on the cards with some even predicting the dollar could fall to as low as US40 cents within five years.[ii]

What's driving the dollar?

Given any currency's susceptibility to changing economic conditions both at home and overseas, the Aussie has had quite a bit to deal with lately.

Rising interest rates can boost the Australian dollar by making us more attractive for foreign investors, providing our rates are rising ahead of the US and others.

If foreign investors buy more Australian assets because they can get a bigger return on their investment, more money flows into Australia which increases demand for Australian dollars. And if investors hold more Australian assets than overseas ones, less money leaves the country, decreasing supply. So, increased demand and decreased supply see the Australian dollar rise.

While the Reserve Bank of Australia (RBA) has increased rates by 4 per cent in Australia since May last year as it battles to get inflation under control, rates have also been rising in the US.

The US Federal Reserve has undertaken its most aggressive rate-rising cycle in 40 years with rates now at a 22-year high and signs of further increases likely. This has put pressure on the Australian dollar, narrowing the difference between the US and Australian rates, meaning foreign investors will look for better returns elsewhere.

Changing economic conditions

The value of the Australian dollar is also affected by changes in economic conditions as well as rises and falls in other financial markets. For example, in August news that the unemployment rate had increased slightly and an easing in wage price growth led to speculation that the RBA would put a hold on rates, putting a dampener on the Aussie.

Also affecting the dollar was a decline in US share markets in August, confirming the typical pattern of the Australian dollar falling when equity markets' prices drop.

Meanwhile, the performance of China's economy plays a significant part in Australian dollar movements. China is currently battling soaring unemployment, particularly among young people, falling land prices and a housing crisis, among other ills.

As Australia's largest trading partner, both in terms of imports and exports, any slowdown in China means lower sales of our commodities and other goods and services and less investment in property and business.[iii]

How the dollar affects us

There are advantages and disadvantages of a falling Australian dollar. On the plus side, our exports will be more competitive because our customers will pay less for our goods and services compared with those produced overseas. Conversely, imported goods will be relatively more expensive.

There could also be an increase in tourism – the cost of travel in Australia will be cheaper for those coming from overseas. Unfortunately, those planning an overseas trip will need to find a significantly greater pile of Australian dollars to pay for airfares, accommodation and shopping.

For investors, it is a useful exercise to review the currency's effect on your portfolio.

For example, if you're invested in Australian companies that rely on overseas earnings, look at how they handle their exposure to the currency risk. A lower dollar is good news for those with overseas operations and those that export goods. On the other hand, those that need to buy in components or products from overseas may suffer.

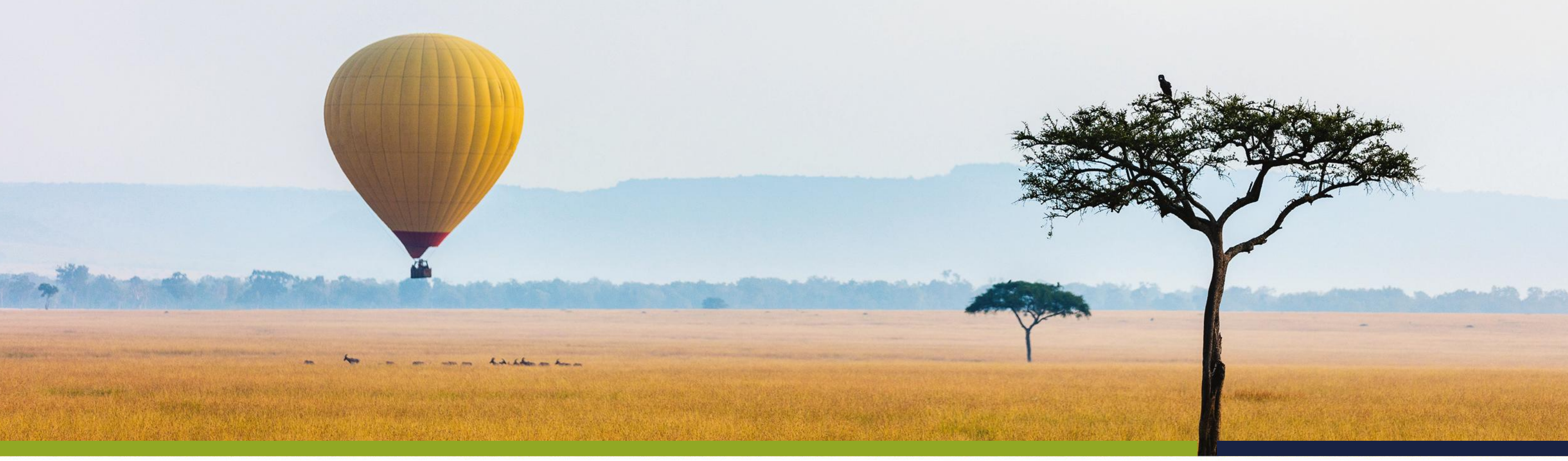
In any case, have a chat to us to look at the best way forward in these uncertain times.

i https://tradingeconomics.com/australia/currency

ii https://www.news.com.au/finance/markets/australian-dollar/aussie-dollar-in-free-fall-amid-bloodbath/news-story/929165d65db4dc7d8a97bc7b27b5ab0d

iii https://www.aph.gov.au/about_parliament/parliamentary_departments/parliamentary_library/pubs/briefingbook44p/china

Destinations to fire up your passions



The world is an amazing place, with so much to see and do. In fact, sometimes it can feel as though there is so much to experience it can be quite a challenge selecting a destination, but if you follow your heart and explore your passions when planning a trip you can't go wrong.

Considering the plethora of amazing places and experiences our world has to offer, it's a shame that many people, overwhelmed by choice, stick to going back to places they have visited before. In fact, a poll conducted in the US confirmed that three out of four people always go back to the same places.[i]

If you are keen to avoid the 'same old, same old' but short on ideas, it can help to think not of where you want to go, but what you want to do. One travel trend that's not going away any time soon is the desire for genuine experiences. Just look at Airbnb – in addition to being an accommodation platform it now offers a massive range of around 41,000 'experiences' across 93 countries and more than 2000 cities.[ii]

So, what do you look for when there is a big wide world out there with so much to see and do? Think about what you and your travelling companions love.

If you have a 'need for speed'

The Tour de France is known as the greatest race on Earth. The endurance needed to ride over 100kms a day for three weeks across some of the world's most physically challenging terrain, is incredible. Every year spectators line the routes to be part of the atmosphere and it's even possible to hop on a bike and experience some of the stages for yourself.

If you prefer the roar of engines and the smell of burning rubber and high-octane fuel, maybe the Monaco Grand Prix is for you. With a course that is the most difficult on the F1 circuit winding through the streets of the city, it's certainly a race like no other.

Closer to home, another race like no other is the Alice Springs Camel Cup. The antics of the notoriously unpredictable dromedaries and their riders makes for a hilarious day out.

If you want to marvel at our natural world

The famous Bandhavgarh National Park in central India is a stunning wildlife destination where you have the best chance out of anywhere in the world to spot a wild Bengal Tiger.

And if you want to stay in Australia, head to Ningaloo Reef in WA where you can snorkel with the gentle giants of the shark world – whale sharks, which can measure up to a massive 10 metres.

If you're an adrenaline junkie

Get your pulse racing with white river rafting on the Colorado River, passing through the iconic Grand Canyon or fly down the fastest zip line in the world in Wales at an eye-watering 200 km/h.

Or for an amazing local experience, walk along the harbour bridge in Sydney on one of the world's longest bridge climbs and gaze out on an unparalleled view of the iconic harbour.

If you like to sample fine wine

For the wine buffs – not for nothing is Bordeaux France, considered by many to be the world's foremost region for wine. If you need to narrow the field a little further, the vineyards of Saint Emilion were the first to be listed as a UNESCO World Heritage Site.

And Australia is no slouch in the wine stakes either, with the Baross Valley in SA widely considered Australia's preeminent wine region, famous for its Shiraz.

If you were born to shop

In terms of sheer variety and abundance of styles and shops, New York City is the shopping Mecca that dreams are made of. Or fossick for exotic treasure in Istanbul's Grand Bazaar, the world's oldest and largest undercover market.

On a smaller scale, but closer to home, Salamanca Market in Tasmania is a vibrant streetscape of the state's finest artisan products.

With so many amazing experiences to be had, think about how you like to spend your time to come up with an itinerary that will tick all your boxes whether you want to race, explore, sip, or shop.

i https://nypost.com/2022/09/20/americans-say-they-vacation-in-the-same-places-poll/

ii https://tourpreneur.com/few-airbnb-experiences-generate-significant-revenue-according-to-the-latest-arival-research/