



Carthills

TAILORED ACCOUNTING

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Season's Greetings

Best wishes to you and your family for a safe and happy holiday, from everyone at Carthills.

Our office will close at 4pm on Thursday 22 December 2016 and will reopen on Tuesday 3 January 2017.



Summer 2016

Welcome

Summer's here and the countdown to Christmas begins in earnest. After such an eventful year on the global political and economic front, investors will no doubt be looking forward to some time out to relax with family and friends.

The biggest upset in November, and possibly the entire year, was Donald Trump's surprise US Presidential election victory, so we've included an analysis of what this means for Australians as the first article in our Summer newsletter.

As we approach the season of giving, we also look at the gifting rules that apply to retirees who give their children or grandchildren a financial helping hand.

Speaking of giving – it's very easy to get caught up in the consumer frenzy this time of year and our third article looks at ways to balance all the demands and expenses of the season.

Kind regards

Neil McLennan - Partner
Carthills Financial Services Pty Ltd

Economic update

Donald Trump's election to the US Presidency ushers in a period of uncertainty for the global economy and financial markets until he takes office on January 20 and his policies become clearer. Markets reacted with rising bond yields and a higher US dollar, paving the way for the US Federal Reserve to lift interest rates as planned in December. US shares reached their highest levels since 1999, while Australian resource stocks also surged on the back of Trump's stimulatory agenda. Not so positive for Australia is Trump's promise to withdraw from the Trans Pacific Partnership (TPP) on his first day in office. The TPP would have been the world's biggest free trade agreement and scrapping it will have implications for Australia's trade in the region.

While Trump's victory eclipsed most other news in November, there was some positive economic data at home. Unemployment held steady at 5.6 per cent in October, at three-and-a-half-year lows. Consumer confidence is also buoyant; the ANZ/Roy Morgan Consumer Confidence indicator rose to a 7-week high in mid-November before dipping 2.3 per cent to 115.5. Still, this augurs well for the Christmas spending period. It also suggests there will be no more rate cuts from the Reserve Bank this year.

HOW TO PLAY THE **TRUMP CARD.**



To say that Donald Trump's election as President of the United States took the world by surprise is an understatement. Markets hate surprises and uncertainty, so a short-term period of volatility is to be expected. But as investors begin to digest the new policy direction, buying opportunities could arise.

So, what do we know of President-elect Trump's policies and what will they mean for us?

Mining shares rally

Global sharemarkets responded positively to Trump's promise to increase spending on infrastructure and defence and to cut taxes. These policies would provide a shot of fiscal stimulus to the US economy and Australian companies that do business there.

Coal and iron ore prices were already rising but iron ore surged ahead by almost 15 per cent in the week of the election.ⁱ Australian resource stocks are up about 35 per cent this year.ⁱⁱ

Trump has also pledged to reduce industry regulation and allow the importation of foreign drugs, which is viewed as positive for Australian financial and healthcare stocks.

The fly in the ointment for the Australian economy and local exporters is Trump's protectionist trade policy. He has promised to renegotiate free trade agreements and impose high tariffs on Chinese goods. As China is Australia's top trading partner, what is bad for Chinese trade is bad for us.

The end of the bond bubble?

The economic stimulus of tax cuts and increased spending are expected to increase inflation, which is not a bad

thing after years of sluggish growth. With inflation and economic growth on the rise, the US will not need to rely so heavily on monetary stimulus so demand for US government bonds is likely to fall. This would mean lower bond prices and rising yields.

Bond yields were already on the rise, but Trump's victory has accelerated the trend. US 10-year bond yields have climbed from a low of 1.36 per cent before Brexit to 2.2 per cent. Bond yields are also rising in the UK, Europe and here in Australia.ⁱⁱⁱ

AMP Capital chief economist, Shane Oliver says the stimulatory effects of a Trump presidency add to evidence that the 35-year rally in bonds is over. However, he expects yields will rise gradually until global growth gains momentum.ⁱⁱⁱ

Interest rates at the crossroads

US Federal Reserve chairwoman Janet Yellen recently confirmed that a December rate rise is still on track on the back of slowly improving economic data. And there are signs that Australian rates may also have bottomed. In a speech^{iv} on November 15, Reserve Bank Governor Phillip Lowe all but ruled out the need for further rate cuts.

The prospect of gently rising inflation and interest rates will be good news for long-suffering investors who depend

on income from their investments. Borrowers on the other hand, may choose to lock in fixed rates at their current low levels.

A softer Aussie dollar

After falling from US77c before the election to as low as US73c, the Australian dollar has been holding firm at around US74 cents on the back of higher commodity prices. Longer term though, the market expects the Aussie dollar to fall further against the greenback.

If America does become more protectionist under President Trump the US dollar is likely to rise too as American companies shift business back home. The flow of funds into the US, together with any softening of global trade would put downward pressure on our dollar. While this is bad news for travellers, a weaker Aussie dollar will help make our exports more competitive.

While uncertainty persists about the policy outcomes of a Trump administration, investors should expect ongoing market volatility. What is certain though, is that Donald Trump's victory will present challenges and possible buying opportunities for Australian investors. And that's always been the case whoever sits in the Oval Office.

If you would like to discuss your portfolio in light of the US election result, don't hesitate to call.

ⁱ Bassanese bites: A Focus on Trump Trades, 14 November 2016

ⁱⁱ <http://www.asx.com.au>

ⁱⁱⁱ Oliver's Insights, AMP, 14 November 2016

^{iv} <http://www.rba.gov.au/speeches/2016/sp-gov-2016-11-15.html>

Taking the guesswork out of gifting



It's the season of giving and what better way to show love and support to your family than to gift your children or grandchildren some much needed cash.

After all, as the saying goes it's better to give with a warm hand rather than with a cold one. And in these days of high home prices, school fees and student debt many children and grandchildren could do with a helping hand.

But it's important to make sure your generosity does not see you fall foul of Centrelink which could impact on your Age Pension entitlement.

Gifting rules

If you give away assets while you are on a pension or within five years of qualifying for one, then Centrelink imposes gifting rulesⁱ. These rules say you can gift a maximum of \$10,000 a year or a rolling \$30,000 over a five-year period. These figures apply whether you are a single person or a couple.

The aim of the gifting rules is to stop people giving away assets such as money, property or shares to qualify for the Age Pension.

If you gift more than \$10,000 a year or \$30,000 over five years, then Centrelink will treat the amount as a deprived asset for five years starting from the date of gifting.

As a deprived asset, not only will the sum still be treated as YOUR asset but it will also become subject to the income deeming provisionsⁱⁱ. Currently this means you will be deemed to have earned 1.75 per cent on the first \$49,200 gifted above the limits if you are single, or the first \$81,600 if you

are a pensioner couple. Any additional amount will be deemed at 3.25 per cent.

What is deemed a gift?

Gifting can take all sorts of forms. It might be forgiving a loan, donating 10 per cent of your wages to the church, selling a rental property to a relative at below market price or even repaying a business loan where you were guarantor for a relative.

You might also come unstuck if you refuse to accept an increase in your income to maintain your Centrelink pension. Say your superannuation pension were to increase from \$6000 to \$7000 a year and you declined to receive that extra income, then Centrelink would treat the \$1000 as deprived income. What's more, the five-year rule doesn't apply as it's deprived income and will be considered as such indefinitely.

Increase pension entitlements

But if you stay within the letter of the law then gifting can be to your advantage as it can increase the amount of pension you get.

This is particularly important with the new assets test coming into effect on January 1, 2017. While the assets test threshold has risen, helping those at the lower end of the scale, the top level where your part pension

cuts out completely has dropped from \$1,178,500 to \$816,000 for a couple with their own home and from \$793,750 to \$542,500 for a single home owner.

If you don't own your own home, the upper threshold where your part pension cuts out will drop from \$945,250 to \$742,500 for singles and from \$1,330,000 to \$1,016,000 for couples.ⁱⁱⁱ

Of course, these gifting rules are irrelevant if you are not seeking to receive a Centrelink Age Pension. If that's the case, then you can give as much as you want to whoever you want, whenever you want.

But if you are already receiving or expecting to get a pension in the next five years, then it is worth making sure you don't cross the line and end up worse off.

It might be a good idea to call us and find out how you can stay within the gifting rules. After all the season of giving shouldn't be giving you heartache!

ⁱ <https://www.humanservices.gov.au/customer/enablers/gifting#a3>

ⁱⁱ <https://www.dss.gov.au/our-responsibilities/seniors/benefits-payments/age-pension/deeming-information>

ⁱⁱⁱ <http://www.superguide.com.au/smsfs/300000-retired-australians-to-lose-some-or-all-age-pension-entitlements>



We're at that time of the year again: the shopping centres are packed, you're signing dozens of greeting cards, and little miss/mister has just handed you a 'wish list' longer than they are tall. And at the back of your mind, you might be hoping for a treat or two for yourself.

It's easy to get caught up in the consumer frenzy at this time of year. The media encourages us to equate spending with generosity, making buying a real emotional issue. From TV shows about the 'best Christmas ever' to department store ads encouraging us to give that special someone 'what they really deserve', there's no wonder Australians spend billions on Christmas every year – around \$1,079 per person, according to ASIC.ⁱ

Australians are more blessed than we think

In truth, Australians are already far better off than others around the world – even without the designer gifts and gourmet Christmas snacks. If you've got a roof over your head, access to medical attention, and you know where your next meal is coming from, you've got it better than 99% of the planet's population. According to the Global Wealth Report by Credit Suisse, Australia is the third richest country in the world in terms of wealth per adult, just behind Switzerland and New Zealand. We've also got a relatively low gap between our richest and poorest citizens, with 80.3% of us at middle class or above.ⁱⁱ International charity CARE offers you a chance to see where you place on the 'global rich

list' – it's a must-see if you're in need of a bit of perspective.

The thing is, stats like these only make it slightly easier to counter the feeling that you've got to buy a lot of stuff. The best way to balance all the demands and expenses of the season is to remember that it's all about what money can't buy – spending time with family, friends and loved ones. And a bit of good old-fashioned planning doesn't go astray.

Have a great holiday season – without overspending

- Write a budget for your gift-giving, and stick to it. A thoughtful, well-chosen gift that reflects your relationship with the recipient often means a lot more than something flashy.
- If you're hosting, plan the meal ahead of time to take advantage of savings and make sure you can get the ingredients you need without overspending. For example, you may need to order a ham or turkey up to a month in advance.
- Make your own decorations and crackers: this can be a fun activity to do with kids, or even by yourself.

- Speaking of DIY, Instagram and Pinterest have made homemade Christmas presents cool again. From personalised photo calendars to cookie mixes, there's an idea for every person on your list.
- If you're still tempted to spoil your kids, grandkids or partner, consider giving one small meaningful present up front, and saving the rest of the spending 'til sales time when you'll get better value for money.
- Reflect on last year's Christmas spending. Think about everything you bought, what was really 'worth it' after all, and what you could do without.
- Make sure that, if you put holiday expenses on your credit card, you can still pay the balance in full ASAP. To put this another way, think about your total spend divided by 52 weeks (or 12 months – however you do your regular budget) – does the amount look reasonable and affordable now?

However you hack your holiday budget, we hope you have a wonderful time with friends and family, and a well-deserved break. For more help with getting your spending and saving in order, make an appointment with us today.

ⁱ www.moneysmart.gov.au/managing-your-money/budgeting/spending/australias-christmas-spending
ⁱⁱ www.credit-suisse.com/bh/en/about-us/research/research-institute/global-wealth-report.html