NEWSLETTER

October 2017

GATEWAY
Financial

Introduction

Welcome to our October newsletter.

In this newsletter, we look at some intriguing data from Australia's capital city property markets. Put simply, when we join the dots on a few important pieces of economic data, we can see that there has never been a better time to be an Australian. We also look at the Australian sharemarket's performance in the month of September. It's not a long look though, because the market was wonderfully boring during that month.

This newsletter also reproduces three articles from our website that were published in September. September was our month for estate planning, and that is the common element for each of these articles.

Please enjoy our second last newsletter for the year. As ever, please do not hesitate to get in touch if you'd like to discuss anything covered in these pages - or anything else that you would like assistance with.

Did You Know… the month of October

October has always been an important month in Australian history. 1850 saw the founding of the University of Sydney, Australia's first University. In 1889, Sir Henry Parkes delivered what has become known as the 'Tenterfield Oration' - a rousing speech that drove the formation of the Commonwealth of Australia in 1901. Fast forward to 1973, and Queen Elizabeth the second formally opens Australia's iconic Sydney Opera House. Continuing the Sydney theme, the 2000 Olympics had their closing ceremony on 1 October of that year. Finally, October has been a good month for federal elections. 2004 saw the re-election of the Howard government; 1980 saw the re-election of the Fraser government; 1969 saw the re-election of the Gorton government; and way back in 1915, not long after Australia entered the First World War, Billy Hughes became Australia's seventh Prime Minister. He remained in office until 1923.

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Property Report

You may have seen an unusual headline recently. Sydney house prices fell for the month of September. Not much of a fall though: 0.1%. So, basically Sydney house prices didn't change in the month of September. Nor did Adelaide prices and nor did prices outside of Australia's capital cities. Prices in Hobart rose 1.7% for the month, and prices in Melbourne rose 0.9% for the month. The only capital city in which prices fell (other than that slight fall in Sydney) was Darwin.

Some commentators are looking at the rise in house prices in Hobart (which is now 14.4% over the last 12 months) and concluding that demand for housing in Hobart is rising as people increasingly find the nearest mainland capital cities unaffordable. This may well be the case, although the 12-month growth figure for Melbourne was over 12%, so demand is hardly waning in that city.

It is generally accepted that population growth has been a major cause of house price increases over the last decade. For example, in the 10 years to June 30, 2016, the population of Melbourne grew by almost 1 million people - a 30% increase on the 3.7 million people who were living in that city in 2006. In the same period, the population of Sydney grew by 800,000 people, which was a 19% increase on the 4.2 million people living in Sydney in 2006. Some forecasters are now predicting that Melbourne's population will exceed that of Sydney in the next 30 years, and that both cities will have populations approaching 10 million people within the next 50 years.

Obviously, 30 and 50 year predictions need to be viewed with caution: it's not like the person who made the prediction will suffer a substantial loss of reputation if, in 50 years' time, we discover that they got it wrong! But we do not need to be too specific about exact populations to understand the general point: Australia's population is rising fast and is likely to continue to rise.

Combine this with the observation that 90% of Australians live in urban communities, and the news looks good for people who own property in any of our capital cities. This is because we can anticipate something of a spillover from the population hotspots of Melbourne and Sydney to other capital cities - much like the one that seems to explain why Hobart prices rose faster than anywhere else in the country over the last 12 months.

Unless infrastructure keeps up, larger cities can become less pleasant to live in. Some media reports even say that, since 2011, Melbourne has an extra 500,000 cars driving on its roads. Economically, this should mean that Australia will continue to develop and implement large infrastructure projects. To give but one example, Perth is currently contemplating extending four of its train lines.

Without becoming too technical, the role of government spending within the economy can often be regarded as smoothing private demand. That is, when the private economy is booming governments look simply to facilitate that growth (and bank substantial tax receipts from the economic growth). When the private economy slows, governments can step in with major infrastructure projects which boost demand for labour and allow economic growth to continue.

The very good news for the Australian economy is that we remain a country that many other people want to live in. Immigration is high and it is hard to see that changing anytime soon. The private economy will wax and wane, but our stable system of government should see that waxing and waning counterbalanced by government spending on large projects. In short, the Australian economy looks to be in a good place, and should stay in that could place for several more decades.

This is good news for property owners.

We are, of course, talking about the long term here. In the short-term, prices will not necessarily grow. In truth, a period during which prices do not grow in cities like Sydney will not hurt: prices have become less affordable and a period of no or even slightly negative house price changes will give wages time to catch up such that housing becomes more affordable.

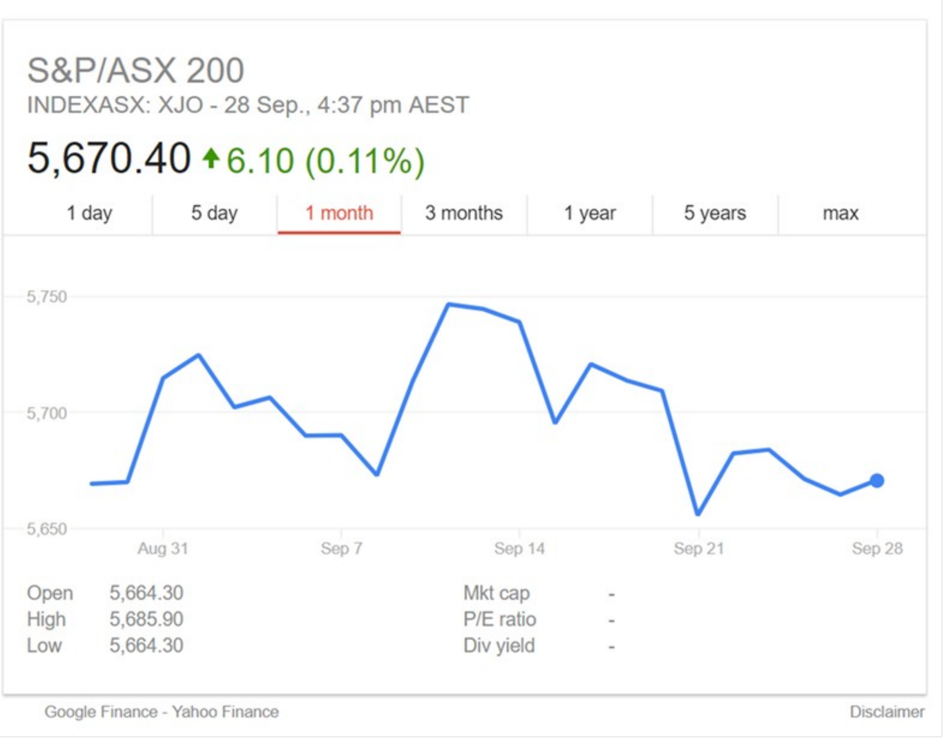
So, does this mean that now is a good time to buy, at least in places where prices are not rising, such as Sydney, Adelaide or Darwin? Unfortunately, we are not aware of any particular property investor who has done well by 'picking' short-term booms and busts in the property market. Property is a long-term investment - and the long-term fundamentals of the Australian economy look very good. For that reason, it is unlikely that someone who buys quality property today will regret that purchase in 20 years' time - even if it turns out that they could have purchased the same property at a lower price 12 months from now. This means that now is probably a good time to buy in any capital city.

The reality is that all of Australia's capital cities are likely to attract population growth over the next 20 years. By world standards, they are all brilliant places to live, with stable government, good quality health and education services, decent infrastructure and - by and large! - friendly neighbours.

This means that now is probably a good time to buy in any capital city. Just make sure that you can hold the investment long enough for the strong underlying fundamentals of our economy to do their business.

Share Market Report

Quite literally, the Australian sharemarket did nothing in the month of September. You can see this in the following graph (thanks, Google and Yahoo!):



S&P/ASX 200

INDEXASX: XJO - 28 Sep., 4:37 pm AEST

5,670.40 ↑6.10 (0.11%)

Open	5,664.30	Mkt cap	-
High	5,685.90	P/E ratio	-
Low	5,664.30	Div yield	-

Google Finance - Yahoo Finance

Disclaimer

The market finished the month of September almost exactly where it began. Interestingly, the market also experienced very little volatility during the month - prices rose by just 1.4% early in the month, before slowly falling back again.

This does have some commentators standing on their metaphorical front veranda, looking to the horizon and muttering something like "it's quiet out there. Maybe a little too quiet." But, as we've said before, quiet spells are wonderful in the sharemarket.

After all, sharemarket investing is supposed to be boring. This has been a little forgotten lately, as stockbrokers and sharemarket analysts have become pseudo-celebrities. But if you look at the personal habits of the world's most successful company investor (Warren Buffett), you see a calm man leading a quiet life. His main recreational interest is playing bridge and he disdains alcohol, preferring to drink Coca-Cola or milkshakes. (This lifestyle habit seems common amongst super successful business people. In 2011, Forbes magazine wrote an article describing the non-drinking habits of 10 successful business people. The list included Donald Trump, Steve Jobs and Larry Ellison, CEO of Oracle).

So the fact that September was a 'sober' month in the sharemarket is a good thing. The sharemarket is a place to get rich slow, and a lack of volatility can become self-fulfilling as it discourages people trying to make a fast buck by picking the next big thing. Even better, a lack of volatility reduces the chances of 'buying high,' only to see an investment immediately fall.

Superannuation and estate planning

Published on our website on 1 September 2017

Superannuation is an area that is often forgotten or misunderstood in the estate planning process.

A super fund member cannot just sign a will and assume that their super benefits will automatically be paid in the way set out in their will. The super fund trustees are not bound by the deceased member's will and may pay the benefits to either the deceased member's estate or to appropriate dependants as they see fit.

In most cases problems will not arise. But problems can arise, for example, in same sex relationships, with "hidden" or multiple relationships, with "warring" children, and so on.

Moral and legal factors which may influence a super trustee's discretion to pay a benefit to a person include:

- the relationship between that person and the deceased member;
- the person's age and ability to look after themselves financially;
- the extent of the person's dependency;
- the person's financial circumstances;
- the history of the person's relationship with the deceased member; and
- the strength of any other claims made by other people.

There is a further general restriction, and this is the trustees can only pay the benefits to certain persons, being a person who is a "super dependant" of the deceased member. This means a person who is:

- a spouse,
- a child (of any age); or
- a person who was financially dependent on the member at the time of death; or
- the estate of the deceased member.

Binding death benefit nominations

Clients can override the trustees' discretion by signing a 'binding death benefit nomination' (BDBN).

A BDBN directs the trustee to pay the death benefits to a particular person. It allows the client to control the trustees' discretion as to who gets the benefits on the client's death. The trustee must pay the death benefit in accordance with the BDBN.

A BDBN may be used in conjunction with a so called "super will" to coordinate the payment of the deceased member's super benefits with their other estate planning strategies.

A BDBN usually cannot be contested by an aggrieved person unless for some reason it is not valid. Possible reasons for a BDBN not being valid include:

- the fund's trust deed does not allow BDBNs;
- the BDBN was not signed properly;
- the client was not of sound mind when the BDBN was executed;
- the BDBN is the result of a fraud or emotional or physical duress; and
- the BDBN is more than three years old.

What other issues impact the decision to pay benefits from a super fund?

Some common problems for self-managed super in particular

The ongoing control of a SMSF will be held by the remaining individual trustees or the shareholders of a corporate trustee.

One common problem arises where only one of several children is a member and trustee of a SMSF. That that child will control the SMSF on the death of both parents and may exercise his or her power as a trustee to the detriment of the other children.

Another common problem arises where the client wishes to leave their super benefits to a person such as a parent, sibling or a friend who is not a super dependant, as that term is defined. Such a person cannot receive a death benefit directly from the fund. One option is a binding death benefit nomination in favour of the estate, coupled with a will which specifically gives an amount equal to the super benefits to that person. Another option may be to leave non-super assets to that person and to only pay super benefits to dependants.

Either way, the situation calls for intelligent and informed estate planning. Please do not hesitate to contact us if you or someone you know needs assistance in managing the connection between their super and their estate planning.

Marriage and your will

Published on our website on 1 September 2017

Wedding Invitation

Marriage automatically revokes a will, unless the will specifically contemplates the marriage and names the intended spouse. So, if you are contemplating a marriage, or you have had a marriage and have a will that pre-dates that marriage, you need to get yourself a new will.

Wills for a second (or subsequent) marriage are typically more complex than wills for clients who are in or are contemplating or still in their first marriage. This is due to things such as the presence of children from previous relationships. These children often need to be catered for separately to any children of the current marriage (or relationship).

In a first marriage, where mum and dad have children together, the wills are typically the same for each parent: if they die, everything goes to their spouse. If they both die, everything goes to 'their kids.' In the case of each parent, 'their kids' means the same people – because the parents have kids together. In cases like this, it does not really matter which parent dies first.

But, in a second or subsequent relationship, couples often need to take care that they do not simply leave everything to their spouse. This is because that spouse may have children from another relationship, which raises the prospect that one partner's wealth ends up going to the other partner's children.

We can assist all clients to create a will that suits their circumstances. We do this by introducing our clients to a team of expert will-preparing lawyers who will ensure that they provide a will that meets all of your needs – but without breaking your bank.

So, please feel free to contact us if you would like to discuss a first or subsequent will. And do it especially if you are about to get married!

The best estate planning is simply the best planning

Published on our website on Friday September 29 2017

Sometimes people really do win the lottery. But here is a story of someone who won the lottery twice.

Wheel of Fortune

We recently came across a genuine good news story. A woman just approaching aged pension age won a substantial amount in a national lottery. She needed the money! Before the win, she was living on the disability support pension and had no personal assets other than her car. She was renting her home, and spending the rest of her life on the pension was what she was expecting.

And then her lucky numbers came up. Happily, following a friend's recommendation, this lady went to see her adviser. As it turns out, this was like winning the lottery for a second time!

The lucky winner had hatched a plan: she was going to use $300,000 to buy what is, in fact, her first home. This would then leave her with about $450,000 in cash. As she had never owned a home, she thought $300,000 was a lot to spend – and it would buy her quite a lot of house in the town in which she lives.

This was not a bad plan. But it could be made a whole lot better. Winning the lottery had actually meant that this lady lost her entire disability pension. The amount she won was almost exactly the upper threshold for the assets test. Of course, she didn't mind! But the plan of retaining around $450,000 of cash would mean that, while her pension was reinstated and would rollover into the aged pension when she has her next birthday, the pension amount would be limited to about $8000 per year. This is about $13,750 less than the maximum pension that is payable as an aged pension.

The better advice was quite simple: spend $500,000 to buy the absolute best house in town. This would 'only' leave $250,000 of cash, which is just below the lower threshold for the assets test for a home-owning aged pensioner. This would mean that she receives the full aged pension. Some of the cash could perhaps then be used to purchase some other investments, while she draws a small amount down on her capital each year.

Even better, because this lady had never owned a home, she gained some exemptions from stamp duty and other first home buyer assistance. The news really did keep getting better.

But the main point was that, by investing an extra $200,000 in a home, this client increased her annual Centrelink income by $13,750. This represents a guaranteed rate of return of almost 7% on that $200,000. And this was the return on her investment in her own home!

This is something worth remembering when it comes to Centrelink benefits: some people estimate that eligibility for the aged pension is the equivalent to having about $600,000 invested. That is why the pension is sometimes referred to as the 'world's greatest annuity.'

What's more, the extra $200,000 was effectively invested into the property market. This means it can be expected to at least retain its value – although it will probably *grow* over time. This is where this lady's estate planning really kicks in.

The lady has two adult children. Given her circumstances, she never expected to be able to leave them any sort of inheritance. By investing more of her winnings in the home, she receives more Centrelink benefits. This means that she does not have to spend as much of her winnings to finance her own needs. Obviously, this means she can leave more to her kids when she no longer needs the money herself. Even better, by investing the money and buying the best house in town, the kids will eventually each inherit an amount equal to (at least) an amount they would need to buy a decent house in town.

As it happens, moving from a $300,000 home to a $500,000 home also means purchasing a property with four bedrooms rather than two. This provides real security – perhaps especially in the case of her adult daughter. If a relationship breaks down in the future and a single mum and grandchildren need somewhere to live, this big house will easily accommodate everybody.

But the best bit: this lady gets to really enjoy her lottery winnings. Effectively, when she won the lottery she did not just win her first home. She won the town's best home!

Personally, we love this kind of advice. It makes such a difference – not just to our client but to her children and grandchildren as well. As it happens, our AFSL is one of the very few that actively encourages advisers to recommend property purchases. In particular, Dover encourages advisers to recommend 'proper' property purchases. Not grossly-inflated off-the-plan apartments that pay commissions to advisers (these are actually banned by Dover – not that we would ever touch them anyway). But real houses bought in a real property market with many buyers and sellers. You know: houses that people actually enjoy living in! Dover loves them and so do we.

Turns out investments like this are the best way to maximize your kids' inheritances, as well. It is a win-win. And we love win-wins.

The Legal Stuff

General Advice and Tax Warning

The above suggestions may not be suitable to you. They contain general advice which does not take into consideration any of your personal circumstances. All strategies and information provided on this website are general advice only.

Please arrange an appointment to seek personal financial and/or taxation advice prior to acting on anything you see on this website.

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