

INVESTMENT SOLUTIONS

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Welcome

In this spring edition of Investment Solutions magazine, we reflect on the current low interest environment and future global growth prospects.

We have also included an article on the importance of superannuation death benefit nominations. While the article focuses on the Self Managed Super Fund context, all of the points raised are relevant to retail superannuation funds and many are now moving to a Non Lapsing Binding Death Nominations.

Tim Rocks, Head of Market Research and Strategy, looks at what could happen to markets should Donald Trump win the race to the White House!

Finally, Elizabeth Granger shares some thoughts on how to achieve balance, clarity and serenity through mindfulness.

Until next time –happy reading.



The Financial Advice Shop
Bill Waller CFP JP GAICD

02 6172 1444
theteam@financialadvice.com.au
www.financialadvice.com.au

www.facebook.com/thefinancialadvice.com.au

Economic outlook

Hopes rate cuts will bolster growth

The Reserve Bank of Australia (RBA) cut the official cash rate by 0.25% to 1.5% at its August board meeting, having last cut rates by the same amount in May. As with the previous easing, it follows lower than expected inflation figures which show inflation at 1%, well below the Bank's target of 2-3%. The RBA made specific reference to low wages growth and subdued inflation in Australia and the rest of the world, and the likelihood this would persist for some time.

With interest rates so low, an area of concern for the RBA has been housing construction and house prices. This concern appears to have receded with the statement accompanying the rate cut noting that "dwelling prices have been rising only moderately over the course of this year" and that bank lending has been more cautious in certain segments, namely multi-unit developments. As a result, the RBA does not believe the rate cut will increase risks in the housing market.

The Australian growth outlook remains constrained by still sluggish consumer spending and investment. Consumer sentiment has been lacklustre for some time with a lack of wages growth and a desire by households to control debt limiting spending, despite the extremely low interest rates. Nevertheless, GDP growth is likely to be maintained above 2.5%, with exports providing support.

Internationally, the most significant news of the past quarter was the UK vote to leave the European Union. While the logistics of the exit are likely to take up to 2 years, the economic impacts are expected to be felt sooner. The International Monetary Fund (IMF) believes UK growth is likely to be only 1.3% in 2017, compared to their previous forecast of 2.9%. In contrast, European growth was downgraded only slightly to 1.4%, while global growth was left largely unchanged at 3.4%.

Reflecting the heightened risks to UK economic growth and the need to support confidence, the Bank of

England cut interest rates to 0.25% in early August – the lowest level in the Bank's 300 year history. This is also the first rate decrease in seven years and follows expectations earlier in the year the Bank was actually on the verge of increasing interest rates. Clearly, Brexit has changed things significantly for the UK.

In the US, GDP growth for the June quarter was lower than expected showing the economy growing at little more than 1% compared to a year ago. This likely provides an overly pessimistic view of the underlying growth rate of the US and reflects the volatility seen over the past few years which has seen growth slump to around 1% a number of times before rebounding to 3%. Other economic data such as the ISM manufacturing survey, consumer confidence and employment suggest US growth of 2-2.5% in the immediate future. Expected interest rate increases in response to improving growth have been delayed, but it is still possible the US Federal Reserve will increase rates before the end of the year.



When death doesn't have to do us part

One of the features of a self-managed super fund (SMSF) that is often touted is its flexibility. This exists both in accumulation and retirement phase, and arises in a number of contexts, such as investment choice and pooling of balances. It's also important to remember that this flexibility also exists when it comes to estate planning, or more importantly, death benefit planning. Death benefit planning in a superannuation context relates to the discussion of who you want your remaining super benefits paid to in the event of your death. In a standard superannuation environment, death benefits are normally dealt with in one of three ways depending on the type of nomination that exists. These same three options exist in the SMSF environment.

3 standard beneficiary options of super still apply

First, a binding death benefit nomination is in place. If a binding nomination is in place, it will set out who the death benefit is to be paid to, and how much of the balance they are to receive. If the binding nomination is valid (for example, the beneficiaries named are eligible under super law to be paid a benefit), it must be followed.


Second, a discretionary death benefit nomination is in place. Like a binding nomination, it will indicate who the death benefit is to be paid to, and how much. The difference is that the trustee of the fund, which in the case of an SMSF are any remaining trustees plus your legal personal representative (often the executor of your estate), are not bound to follow the nomination. Whilst in most situations the wishes left in a discretionary nomination are followed, trustees often need to take more care as inappropriate allocations can be challenged.

Third, there is no nomination in place. In these circumstances the remaining trustees have full discretion as to who is paid and how much, provided the distributions are made in accordance with super law. As the deceased's will is often seen as a guide to where payments should be made, a number of trustees may be inclined to take the "easy" way out and pay the death benefit to the estate, and therefore allow the executor to handle the allocation. Of course, this means your super suddenly becomes an estate asset and may be subject to potential challenge from beneficiaries.

Of these three options, a binding nomination appears to be the safest, and is in most cases. But there are issues to be aware of.

Beware of the 3 year expiry...

In most superannuation funds, a binding nomination is only valid for a maximum of three years. Unless it is renewed at least every three years, it ceases to be binding for the trustees. Whilst it may then give an indication of where you wanted the benefits to go, the trustees aren't bound to follow it and even if they did, they could be challenged by other possible superannuation beneficiaries.



*With a properly drafted Trust Deed,
it is possible to establish a non-lapsing
binding nomination within your SMSF*

SMSF has an alternative solution

This is where a SMSF can offer some advantages. With a properly drafted Trust Deed, it is possible to establish a non-lapsing binding nomination within your SMSF. This means that you can forgo the three year renewal for it to be binding upon your death. While there is no requirement for its renewal, this should be regularly revisited, just as you would, your Will.

As an example, if your original intent was for your benefits to be paid to your spouse and you outlived your spouse, your otherwise binding (and non-lapsing nomination) will be invalid as your benefit can no longer be paid as intended.

Beyond this, it is also possible to deal with your death benefits in another way. This particularly arises when you move to retirement and commence drawing a pension from your SMSF. Whilst your death benefit nominations can still deal to your wishes, you could gain additional certainty by commencing pensions with binding reversionary nominations.

In its strictest sense, a true binding reversionary nomination will mean that if you were to pass away before your pension account was exhausted, the pension will continue to be paid to your nominated beneficiary after your death. This means the beneficiary doesn't have a choice about how to receive the benefit – it will continue to be paid in the form of a pension. A discretionary reversionary nomination on the other hand may indicate and confirm who the benefit will be paid to, but not be binding on the "how" – that is, the beneficiary could choose between a lump sum or a pension.

This ability to put in place a valid binding reversionary nomination may increase in importance in the future as a result of the Government's 2016 Budget announcements placing a cap on the amount that can be placed into a pension. Depending on the implementation of the budget measures, having a valid binding reversionary nomination is in place may allow your beneficiary to continue to receive your pension without it impacting on how much of their own super benefits can be transferred to a pension in the future.

Do the ground work now for a well planned retirement

Whilst the main aim of super is to save for your own retirement and then, hopefully, be able to spend those savings in retirement, it's vitally important to plan and be aware of what could happen if you were to pass away earlier than expected. A well-crafted SMSF Trust Deed can give you added flexibility and greater certainty. To ensure your SMSF Trust Deed is drafted properly, please contact us today.

Trump – pump and slump?

The prospect of Donald Trump as US President seemed like a fantasy only a year ago, and yet, here we are today watching a Clinton v Trump election race. The uncertainty around Trump means Australia, and the world, are taking a closer interest than in the past. Betting markets place Trump at a 25% chance of winning, but he held a narrow lead in the polls only a month ago. We consider what a Trump presidency could mean for the global economy and markets.

How did we get here – the Trump card

Globalisation and deregulation has boosted economic activity across the globe, but the rewards have not been evenly distributed and inequality has increased. In the US, real income has stagnated for most since the 1980s, while the wealthiest 10% of households have doubled their real income[^]. Since the Global Financial Crisis, it has been harder for people to borrow money – and therefore made it more difficult to maintain basic household needs.

Trump speaks to a frustrated section of the US – playing on their fears and hopes – and it's been a successful strategy for him. He's not the only one. This is a global trend which has seen the rise of Nigel Farage (UKIP in the UK) and Beppe Grillo (the Five Star Movement in Italy).

Three potential consequences of a Trump presidency

US Presidents often find themselves unable to pursue their complete agendas when they reach office due to judicial and congressional limits – this was certainly the case for many of current President Obama's policies. Aside from that, though, Trump may impact on three specific areas.

1. Faster growth in government spending and larger budget deficits.
2. Less globalisation and tougher immigration rules.
3. Less monetary policy support from the US Federal Reserve (Fed).

Proposed Policy changes		
	Trump	Clinton
Review existing and prospective trade agreements	✓	✓
Individual income tax rates	↓	↑
Boost infrastructure spending	✓	✓
Greater oversight of the Fed	✓	
Limit immigration	✓	
Increase defense spending	✓	

Strangely enough, this might all benefit the US in the short term, as foreign goods are replaced by domestic. The long-term picture may not be as rosy.

An invested outcome

The lead up to the US elections – and a potential Trump win – is likely to result in uncertainty and volatility in investment markets.

- Bonds tend to benefit initially from investors seeking safer assets.
- The US dollar may increase in value off the back of any policies Trump implements and the prospect of the Fed increasing interest rates.
- Most commodities may suffer from a higher US dollar – though gold may increase in value from the uncertain environment.
- Uncertainty may create short-term volatility in share markets but longer-term activity will depend on the policies implemented post the US election.

Conclusion

The rise of Trump is part of the global trend towards greater political instability. Even Australia is not exempt if you consider the close and delayed results of the recent Federal Election. Elections are likely to have greater influence on investment markets and investors will need to manage the uncertainty of these in their portfolios. A Trump presidency may not turn out to be a complete negative but there are a large range of potential outcomes, especially when compared to the status quo represented by Clinton.

[^]Datastream

Mindfulness 101:

Reduce your financial stress

Balance, clarity, serenity... Mindfulness expert Elizabeth Granger enlightens us about the advantages of this intriguing practise that's more than just a buzzword.

In today's hectic world we often spend so much time worrying about the future or lingering in the past we forget to enjoy the present. But tuning into the wonderful things happening around us as they happen can be life changing. It's also a great way to combat stress, especially when it comes to our finances.

The Australian Psychological Society's 2015 stress and wellbeing in Australia survey found financial concerns are the top cause of stress among Australians¹. Whilst we stress about our finances sometimes things fall outside of our control. Being more mindful is one way to address this.

Mindfulness expert Elizabeth Granger explains mindfulness is moment-to-moment awareness. "This can be cultivated by doing formal mindfulness practice where you set aside meditation time to deliberately pay attention to the present moment in a non-judgmental way. It involves bringing curiosity and a sense of allowing what is here to be here, as opposed to judging what's happening in our lives."

Mindfulness practices originated from Buddhist traditions more than 2500 years ago. So they are not new phenomena. More recently these techniques have been embraced by western culture.

Nevertheless, mindfulness takes a certain amount of effort, says Granger. "We spend so much time wanting experiences or ourselves to be different it can feel difficult to allow things to be the way they are, as opposed to how we wish them to

be. While there is nothing technically difficult about mindfulness practice, it does require discipline to pay attention this way."

Path to the practice

Granger came to mindfulness while working as a litigation lawyer and studying psychotherapy on the side, all while raising two young children.

"As soon as I started practising I noticed how it helped me manage stress and how I could think more clearly under pressure. It helped me open up to many more possibilities," she enthuses.

According to Granger she is now more able to manage her emotions thanks to her mindfulness practice. "My focus has improved, including my ability to resist distractions. But the biggest change is the way I am open to the world around me. I have more capacity than before and I'm happier as I savour more moments of my life."

Mindfulness can be practised anywhere, says Granger. "I remember once meditating while walking around the airport when my plane was cancelled, so it is a very portable practice which can be done anywhere."

If you're feeling the stresses of life, mindfulness can be a great way to control or reduce those feelings. Another way to ease worries such as finances is to ensure you have a financial plan in place and that you're tracking to it. If your financial future is keeping you up at night and mindfulness just isn't doing the trick, please don't hesitate to contact us.



¹ Stress & wellbeing: How Australians are coping with life, Australian Psychological Society Stress and wellbeing in Australia survey 2015



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