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July is nearly at an end and the good news is that the shortest day and longest night are behind us. It's also the start of the new financial year which is always a good time to reflect on your financial progress over the past 12 months and plan your strategy for the year ahead.

Australia's economic performance defied the odds in the 2016-17 financial year, notching up more than 25 years without a recession – a global first. Annual economic growth eased from 2.4 per cent to 1.7 per cent in the March quarter, reflecting the unwinding of the mining boom, adverse weather events and geopolitical instability. Consumer confidence also eased as annual wages growth slowed to around 2 per cent, just above the annual inflation rate of 1.7 per cent. The ANZ/Roy Morgan consumer confidence rating fell 4.3 per cent over the year to 111.8 at the end of June. However, there are positive signs for the future with home building at record levels, infrastructure spending on the rise across the country and unemployment at 4-year lows, down from 5.7 per cent to 5.5 per cent in May.

Local investors also have reason to celebrate, with Australian shares up close to 13 per cent in the year to June, their best performance in three years. The Aussie dollar has traded within a narrow band between US72c and US78c all year, to close around US76c. The cash rate remains at a record low of 1.5 per cent and while the Reserve Bank appears content to sit on the sidelines for now, most commentators expect the next move will be a modest rate rise. in at the lower end of the Reserve Bank's 2-3 per cent target band, due to a soft jobs market and low wages growth.

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GLOBAL MARKETS navigate a sea of uncertainty

It's almost a decade since the global financial crisis created havoc in financial markets. While the global economy continues to show signs of recovery, political uncertainty in Europe and the United States is creating fresh confusion on global markets as investors wait to see how current events play out.

It started just over a year ago when Britain voted to leave the European Union. 'Brexit' was followed by the surprise election of President Trump in the United States. Then the relatively unknown Emmanuel Macron won the French Presidential election. And most recently, UK Prime Minister Theresa May gambled on a general election to strengthen her hand going into the Brexit negotiations with the EU, only to end up with a hung parliament.

That's a lot of unpredictable outcomes for one year. As every investor knows, markets don't respond well to uncertainty. So what can we expect in the months ahead?

Brexit talks begin

Brexit negotiations are finally underway but Britain's lack of political unity may prolong talks and weaken its hand. The process involves two stages – first there are technical negotiations over who gets what in the divorce. This will be followed by trade talks about the nature of Britain's relationship with the EU and its 27 member states going forward.

Whichever way the talks go there are likely to be financial winners and losers. The early market response has been to sell down the value of the British currency and shares, although a weaker pound is good news for companies with foreign earnings.

The market has responded more positively to President Macron's victory and the success of his new party's candidates in France's June elections. Macron has promised market-friendly reforms to boost the sluggish French economy.

As the Trump trade deflates

The market's early positive response to the election of President Trump has lost momentum as key policy changes including tax cuts and infrastructure spending which were intended to boost economic growth now look in doubt.

With the focus on political uncertainty on both sides of the Atlantic, the US Federal Reserve's latest rate rise barely registered on financial markets. The Fed raised its key interest rate for the third time in six months to a range of 1 per cent to 1.25 per cent, with one more rise anticipated this year. This signalled the central bank's ongoing confidence in the slow but steady economic recovery.

Markets appear to be playing a waiting game, with no clear signal to push the US dollar or bond yields higher. After a record-beating run, US shares have held onto their gains but drifted sideways in recent months. The S&P 500 index rose about 18 per cent in the year to June.[i]

Australia's growth continues

Closer to home, Australia's record-breaking economic run continues. While growth slowed to 1.7 per cent in the March quarter, it was a far cry from the recession some pundits were predicting.

The residential property boom in Sydney and Melbourne is also cooling, with prices barely moving in the three months to May.[ii] While this is good news for homebuyers, it also gives the Reserve Bank more room to lower interest rates if needed.

In recent months, the Aussie dollar has traded in a narrow band around US75c. This is up from its low of US68c in January last year, but longer term the trend is likely to be down as the gap between local and US interest rates closes and foreign money looks for better returns elsewhere.

Australian shares have performed well, up more than 11 per cent in the year to June.[iii] But to put this in perspective, along with the US market rise of 18 per cent, French, German and UK shares rose around 27 per cent, 34 per cent and 22 per cent respectively while Japanese shares were up 29 per cent.[iv]

Looking ahead

For local investors, Australian shares remain attractive for their yields but global shares are likely to continue to provide superior returns going forward.

If you would like to discuss your investment strategy in the light of current world political and economic events, don't hesitate to give us a call.

i All market figures as at June 27.

ii https://www.corelogic.com.au/news/multiple-indicators-point-to-softer-housing-market-conditions

iii http://www.marketindex.com.au/asx200

iv https://tradingeconomics.com/stocks

An insurance **lifeline**

when you need it most

Trauma insurance is the middle child of the personal insurance family. It's overshadowed by its better-known siblings but it's a quiet achiever that will do the heavy lifting when the circumstances require it.

What trauma insurance is and isn't

Trauma insurance – sometimes known as critical illness insurance – provides a lump sum payment in the event of a major illness or injury, such as a cancer diagnosis, heart attack or stroke. The full list of conditions covered will be set out in your policy.

In 2013, the most recent year for which figures are available, insurers paid out $621 million to 4512 trauma policyholders. (That works out to an average pay out of $137,808.)[i]

As with other types of personal insurance, the cost of a trauma policy will vary depending on how likely you are to make a claim. This is calculated with reference to your age, gender, occupation, health status and the amount of cover you're seeking. A non-smoking 35-year-old male, for example, should be able to take out a standard trauma policy for around $300 a year. This will entitle him to $20,000 if he has a heart attack, $120,000 if he's diagnosed with cancer and $150,000 if he has a stroke.[ii]

Why you may need it

You may be wondering why you might need a trauma insurance policy if you have private health insurance. If you have other forms of personal insurance that provide a much larger payout if something goes wrong, you may wonder why you need to bother with trauma cover?

The answer to the first question is that trauma cover pays for rehabilitation, carers, other forms of treatment and loss of income that health insurance does not. The answer to the second question is that trauma is best seen as a complement to, rather than substitute for, these other forms of personal insurance:

- **Life insurance** pays your dependants a lump sum if you die.
- **Income protection insurance** replaces (most of) your salary for the period you are unable to work due to illness or injury.
- **Total and permanent disability (TPD) insurance** provides you with a lump sum payment if you suffer an injury or illness that prevents you ever working again.

If you don't have any personal insurance, you would be well-advised to investigate some of the more well-known policies before considering trauma cover.

A small outlay for a lot of peace of mind

If you have superannuation you almost certainly have some life insurance, TPD cover and possibly even income-protection cover 'baked in', although the amount of cover is often low so you may need to buy a separate policy outside super. Trauma cover can only be purchased outside super, which brings us back to the issue of why bother.

Take the 35-year-old who is paying $300 a year for trauma insurance. Let's say he's diagnosed with cancer. He has a life insurance policy but it's not going to pay out anything unless it's terminal cancer. He's got TPD insurance but it's not going to pay out anything unless the cancer is going to result in a total and permanent disability. He's got income-protection insurance but that's only going to pay out, after a waiting period, once proof has been provided that the cancer is preventing him from earning an income.

With trauma insurance, there are no ifs or buts. Once the diagnosis is made, he qualifies for a lump sum of $120,000. That's not going to set him up for life by any means, but it will allow him to cover medical expenses and pay the mortgage if he needs to, or chooses to, stop working for a while to concentrate on getting well.

If, like our hypothetical 35-year-old, you have financial responsibilities and want the reassurance of a payout if you suffer an insurable health-related setback then trauma insurance may be for you.

Avoiding being under or over insured is no simple task. If you'd like us to help you work out your insurance needs, give us a call.

i Industry Stats 2013, the risk store 2014, http://www.theriskstore.com.au/resources/16/TRS_Claims_Stats_2013.pdf

ii What's the cost of trauma insurance, finder.com.au 2017, https://www.finder.com.au/cost-of-trauma-insurance

ESCAPE the winter blues

– without breaking the bank!

Have you been feeling a bit sluggish as the winter weather sets in? Are you craving richer meals, sleeping in a bit more, and generally feeling a bit flat?

There could be a scientific explanation. Seasonal affective disorder (SAD), otherwise known as the winter blues, is a real condition. It's more common than you might think in this country as it's estimated that up to 54% have some of the symptoms.[i]

Even if you're not afflicted by SAD, it's pretty common at this time of year to feel a bit lacklustre as the days get shorter and the drizzle sets in. One thing guaranteed to put a spring in your step is the idea of escaping the cold weather and heading on holiday somewhere for days of endless blue sky and balmy warm nights.

Escape the grey skies by heading north

The good news is that Aussies have plenty of options when it comes to getting away to somewhere warmer. It doesn't cost much for those on the southern and eastern seaboards to head to the Northern Territory or Queensland, where it can seem like summer all year round to those from the cities in the southern half of the country. Darwin and the wider Northern Territory have plenty of natural and cultural wonders to explore. There's nothing quite like swapping out the grey palettes of city streets for the rich reds and vibrant aquamarines of the Kimberley gorges. Tropical Queensland is home to plenty of luxury resorts, not to mention national treasures like the Great Barrier Reef. A few days soaking up the sunshine can be had for well under $1,000 for a couple, all inclusive, if you take some time to do your research.

Overseas destinations

If you've got a bit more time and you're willing to go further afield, south east Asia has a plethora of budget-friendly destinations. According to the ABS, the most popular holiday spots during the winter months are Indonesia (including Bali), Thailand, and Malaysia.[ii]

Emerging destinations, where luxury getaways can be had for the price of a hostel stay back here in Oz, are also worth considering. For example, visitor numbers to Cambodia and Vietnam are increasing, with tourism to these countries having really opened up over the last couple of decades. Vietnam offers world famous cuisine, coupled with stunningly diverse landscapes, from the balmy south to the mountainous north. Cambodia is also a unique cultural experience, home to delightful villages where you can still get that feeling of being somewhere fresh and un-explored.

Finding the best deals

To find the best deals, look at packages being offered by bigger travel companies, which can use their buying power to your advantage. Alternatively, keep an eye out for airfare sales with lower cost airlines, and build your own holiday from there. There is a 'sweet spot' in terms of timeframes for nabbing the best fares. Booking between three months and six weeks in advance and avoiding peak times like school holidays will get you the cheapest deals.[iii]

Many carriers also offer bargain fares in the middle of winter, when fewer people are taking time off for holidays compared to the summer months. If you prefer hotel accommodation and steering clear of questionable street food 'adventures', an all-inclusive resort deal can help you keep costs under control.

Budgeting for a break

Putting some money aside for upcoming travel and building up some savings can help you to avoid racking up a high credit card debt that you then have to deal with on your return.

And of course, if you can't beat 'em, why not join 'em and embrace winter? Take a leaf out of the book of European après ski culture and make a day trip to the snow, rent a cabin in the country (complete with roaring fireplace), rug up and go for long walks. Alternatively, just bunker down at home and enjoy lounging around on the couch with a hot choccie in your hand.

i http://mccrindle.com.au/the-mccrindle-blog/winter-blues-having-real-impact-in-australia

ii http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3401.0Jul%202016?OpenDocument

iii Source: Airlines Reporting Corporation (ARC)