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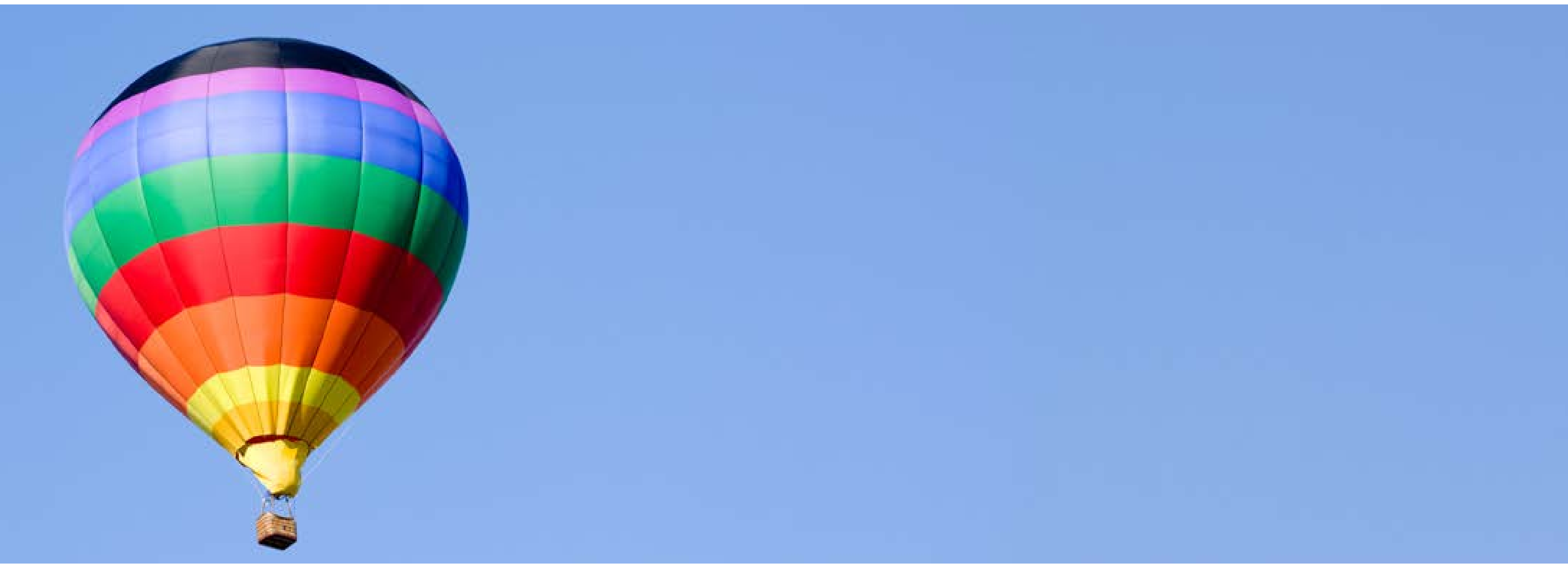

Enhancers Life Stage Oct 2016

Welcome to your edition of the FM Financial Life Stage newsletter - we hope you enjoy the articles chosen for you.

October is upon us. On the global economic front, it's the closing stages of the battle for the US Presidency that is keeping markets on the edge of their seats.

Global markets have had a volatile few months in the run up to the November 8 US Presidential election. Risk assets have been on the rise, with gold up around 26 per cent this year and the Aussie dollar up from a low of US68.58c in January to levels above US76c in September. The rising popularity of the more protectionist Donald Trump, and the trend towards protectionism in Britain and elsewhere, has coincided with a marked slowdown in global trade. The World Trade Organisation has cut its forecast for global trade growth this year from 2.8 per cent in April to 1.7 per cent, lagging growth in the world economy for the first time in 15 years. Commentators suggest a Hillary Clinton victory would result in a smoother ride for global markets. Hence, her relatively strong performance in the first Presidential debate in the last week of September produced a bounce in US shares and the US dollar and pullback in gold.

As always, please contact your FM team to discuss any queries or concerns you may have.

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Focus on Australia's credit rating

Global ratings agencies Standard & Poor's and Moody's have effectively put the new Turnbull government on notice to reduce the nation's budget deficit or risk a downgrade in Australia's credit rating. Sounds serious, but what does it actually mean and is it necessarily a bad thing?

With the government still lacking a majority in the Senate, both ratings agencies cited parliamentary gridlock as their main concern, along with rising levels of national and household debt. Without a clear majority in the Senate, they argue, the government will find it difficult to get its spending cuts and other budgetary measures passed by the upper house.

Standard and Poor's has changed Australia's credit outlook to 'negative' and says it will keep a close eye on Parliament and its efforts to narrow the budget deficit over the next six to 12 months before downgrading Australia's AAA credit rating.[i] Moody's has adopted a less formal wait and see approach.

What is a AAA rating?

Australia is one of only three members of the Group of 20 (G20) leading industrial nations with a AAA rating, the others are Canada and Germany.

A AAA (or Triple-A) rating indicates to lenders that the government or institution so rated is highly likely to repay their loans. The three main global ratings agencies – S&P, Moody's and Fitch – have similar grades, with AAA the highest and C the lowest. Anything below BB is considered 'junk'.

Ratings are determined after looking at things such as assets, liabilities, income and expenditure. Like households, governments can improve their budget position by cutting spending and paying down debt. But unlike households, governments can also raise taxes and print money to boost their coffers.

Do ratings matter?

The main benefit of a high credit rating is the ability to borrow at lower rates of interest because we are seen as low risk; the main way governments borrow money is by issuing bonds. But to maintain the highest rating governments must keep a lid on debt.

Australia's debt is currently around 15 per cent of GDP. If we were to lose our AAA rating, the government would have to pay slightly higher rates of interest on bonds it issues in future. The higher our national debt, the more the government pays out in interest.

What does it mean for investors?

A ratings downgrade could have flow-on effects for the Big Four banks which also had their outlook cut to 'negative'. This is because the banks' AA- credit rating is linked to the government's high rating and the implicit understanding that it would support the banks in a crisis.

Like the government, the banks could also end up paying higher rates of interest to global bond investors who are a major source of bank funds. While this might be good for bond investors, an increase in the banks' funding costs may not be so good for local borrowers who could end up paying more for their loans.

All eyes on interest rates

The composition of the newly-elected Senate could make it difficult for the government to achieve budget cuts or balance the budget by 2021, while weak commodity prices will reduce projected revenues.

In this environment, most economists expect the Reserve Bank to cut interest rates to stimulate economic growth. In practice, it is the Reserve Bank that has the biggest influence on domestic interest rates, not ratings agencies.

The interest rate on Australian

government bonds is currently around 2 per cent and falling, along with rates around the world. While low interest rates are bad news for savers and anyone who relies on income from their investments, there is a silver lining.

Low rates make it easier for the Australian government to pay down debt and lock in finance for investments that benefit the nation. While the warning of a credit downgrade focuses attention on the job ahead, it is unlikely to have a material impact.

i 'Standard and Poor's fingers election gridlock for ratings action', ABC, 8 July 2016

Wealth transfer is a *family matter*

It's often said that it is better to give with a warm heart, but divesting assets while you are alive may not be the best way to pass on your accumulated wealth to your nearest and dearest.

Certainly giving when you are alive means you have more control over who gets what and you get to see them enjoy their inheritance. It also means your wishes are less likely to be contested after you are gone. But for many reasons this is not always practical or possible.

None of us knows how long we will live so there is little point giving everything away only to have insufficient funds to pay for, say, aged care in your later years.

The best way to ensure that you and your family are properly cared for is to have a comprehensive estate plan. Talking about death and money is never easy, but having a conversation with your family about your wishes can help prevent disputes and disappointment after you have gone.

Where there's a Will

The most important thing is to make sure you have an up-to-date Will that truly reflects your current situation and your wishes. And make sure your family knows where your Will is kept. It's good to get financial advice as there may be many hurdles and unforeseen consequences.

Most estate planning issues centre on bequeathing assets evenly among family members and understanding the different tax implications for each asset. For instance, if one child gets the family home and the other the holiday home then the holiday home beneficiary may be liable for capital gains tax. CGT can also be an issue when it comes to passing on shares.[i]

Asset protection is another area that requires careful planning. You may be worried about an adult child's inheritance being lost in a divorce settlement or through financial mismanagement, or you may have a disabled child who will need ongoing financial support. One way to protect your assets in such situations is to set up a family trust.

Conversely, you may decide that your adult children are already well established and don't need a large inheritance. With so many young people finding it hard to break into the housing market and repay student debt, you might consider bypassing your children and bequeathing your estate to your grandchildren.

A super strategy

Your Will is only part of the equation though. Many people don't realise that super is a non-estate asset unless you specifically direct it to your estate by nominating your legal personal representative as the beneficiary.[ii]

Super is one asset where giving with a warm heart can be a smart strategy in some circumstances, such as the diagnosis of a terminal illness, particularly if your beneficiaries are your adult children. This is because children aged 18 or more are treated as non-dependent under tax law unless they are financially dependent on you.[iii] So it is likely your adult children will be hit with a hefty tax bill on receipt of your super.

But if you're aged 60 or more, you can withdraw money from your super, even a day before you die, and you will not pay any tax as all withdrawals from that age are tax free. Then you can pass the money on tax-free to your non-tax dependent children.

Succession planning

If you have your own business or a farm, then you also need to consider succession planning. Do all or any of your children want to stay in the business? How will you compensate those who don't? Successful succession planning needs to start early so the next generation can plan their future with some certainty.

To make sure your wishes are carried out as intended, talk with your family and give us a call to discuss your estate planning needs.

i http://www.makdap.com.au/publications/cgt-consequences-will

ii http://www.schweizer.com.au/articles/Who_Gets_Your_Superannuation_When_You_Die_(SK00125438).pdf

iii ATO, https://www.ato.gov.au/individuals/super/super-and-tax/tax-on-benefits/#Taxondeathbenefits https://www.moneysmart.gov.au/superannuation-and-retirement/how-super-works/tax-and-super

»MANAGING« BIG LIFE CHANGES

You've probably heard the saying 'change is as good as a holiday'. And sure, in some situations, altering your circumstances can be refreshing. However not all major life changes make you feel immediately clear, secure, and ready to take on the world. When everything you know is turned upside down, moving forward successfully is not a quick snap – it's a transitional process.

Navigating through the darkness before the dawn is tough. Conversely, many people struggle with sudden good fortune. The good news is, countless people like you have been there before. They've struggled with decisions and made mistakes so that you don't have to.

The most stressful life (and financial) events

According to the Holmes Rahe Stress Scale,[1] the biggest life events you may have to overcome include:

1. Buying a home
2. Involuntary unemployment
3. Divorce or separation
4. Retirement
5. Estate planning
6. Pregnancy or gaining a new family member
7. Major changes to business

How to deal with sudden changes

So what do all these life events have in common? Basically, they induce psychological states where you're more likely to be emotional and reactive than logical and rational. This can lead to poor outcomes which only fulfil your short term needs, or worse, cause further detriment to all involved.

There's only one way to remove yourself from that reactive state – mindfulness. Mindfulness means being self-aware, having the ability to see your situation from an outsider's perspective, and thinking before you act. Here's how you get there:

- Get a mentor. A friend, family member or amenable acquaintance who has been through what you're going through. They'll be able to give you a fresh perspective and (evidence-based) hope for the future.
- Take it one day at a time. And if you don't think you can get through a day, try a shorter time period. As a wise TV comedienne recently said, "You can stand anything for 10 seconds. Then you just start on a new 10 seconds."
- In a similar vein, concentrating on small tasks, one at a time, can help make a seemingly impossible task seem much more manageable. For example, take income insecurity. You may be feeling anxious because you don't know how to pay for all of the expenses you currently have. But listing your expenses in priority order can help clarify just how little you have to spend to get by.
- It's a good idea to have scheduled 'down time' while you're going through a major change. Whether it's meditation, exercise, a massage, shopping, or a good old snooze, mark it in your diary – and don't let anyone cross it out. This can help prevent you from feeling overwhelmed at other times – such as when you're making an important financial decision.
- Take action. Putting off work involved with a major life change just means the stress snowballs. Even taking a small step can help take the pressure off. For example, if you're feeling a bit restless about being retired, enquire about a volunteering position. You don't have to make a commitment, but you've opened yourself up to the possibility of contributing your skills to a cause.
- Ask yourself how much of your situation you can really control. Try to be objective – pretending you're giving advice to a loved one can help. Letting go of what you can't control allows you to spend mental energy on what really matters.

Hindsight is 20/20 – when to reassess after change

After you've made it through to the other side of a major life event, it's important to reassess your financial situation. You may think that you've dealt with all the financial implications. But doing a review of your finances can still yield benefits..

If you've recently been through a big change, get in touch with us to help reassess and plan for a prosperous future.

i https://en.wikipedia.org/wiki/Holmes_and_Rahe_stress_scale