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FINANCIAL PLANNING

October 2019

In this edition to keep you informed and inspired…

- Reducing the impact of redundancy
- Women and cancer
- Market Wrap September 2019

We look forward to hearing from you if you have any questions.

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INFORMING YOU

REDUCING THE IMPACT OF REDUNDANCY

We all like to think our job is secure, but it's hard to be certain when the employment market is constantly changing. Here's how to future proof financial matters so you, or a friend or family member can stay on track if made redundant.

In the past, workers could expect to have a job for life, but this is rarely the case in the 21st century. In fact, 2.3% of Australian workers are made redundant every year due to business closures and downsizing.[1]

With the increased casualisation of the workforce, and as technological advances continue to make many professions obsolete, it makes sense to be prepared for whatever might be around the corner.

Here are some ways to help your finances absorb the shock if your employment situation changes.

1. Protect your income

Income protection insurance pays you a regular benefit if you're unable to work due to illness or injury, but does your policy cover you for redundancy? Some insurers are now starting to offer involuntary unemployment cover, which can provide up to 85% of your usual income for a specified period if you're made redundant.

These types of policies usually only cover you if you're actually laid off, not if you quit or get fired. You'll also need to have worked for your employer for a certain length of time before you can make a claim, and during the payment period you can't work at all.

To review your insurance options or make sure your income protection plan is up to date for your circumstances, it's best to talk to your financial adviser.

2. Upgrade your skills

If you've been in the same role or with one organisation for a long time, it might be a while since you last did any formal training. So to maximise your chances of re-employment, it may be worth investing in some professional development and upskilling. Naturally, you'll need to weigh the costs of any training against the potential benefits, so explore your options thoroughly before forking out for an expensive course.

Redundancy can also provide a great opportunity to reflect on your career path and goals. For example, you may decide it's time for a career change, or you might strike out on your own and start a business. Just make sure you fully understand the costs involved and the skills or qualifications you'll need before making any life-changing decisions.

3. Use your payout wisely

If you land a redundancy package, you'll want to make your payout stretch as far as possible while you consider your next steps. It's tempting to splurge when you receive a lump sum, but be careful if you need to rely on that money until you're earning a regular income again.

Your financial adviser can discuss options to stabilise your finances while you're not working, taking into account your bills, debts and regular expenses. If there's cash to spare, they might encourage you to invest it for the future so you don't burn through it all at once.

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4. Consider your retirement plan

Redundancy isn't easy for anyone, but it can be particularly challenging if you're in the final stages of your working life. So if you're approaching retirement, you might consider retiring early rather than dealing with the stress of job hunting.

Another option could be to take on some part-time work while drawing a pension from your super to supplement your reduced income. If you're over 60, your pension payments are usually tax-free.

There are plenty of other rules around this kind of transition-to-retirement strategy, so it might not suit everyone. Your financial adviser can help you decide if it's the right option for you.

Helping you stay on track

No matter what stage of life you're at, becoming redundant is bound to shake up your finances to some extent. So even if you're currently secure in your job, you might want to ask your financial adviser to tailor your financial plan so that you'll have a safety net in case your situation changes.

And if you're facing redundancy right now, talk to your financial adviser as soon as possible. They'll help you make the most of your payout so you can stay on course towards achieving your financial goals.

1 OECD, Back to Work: Australia: Improving the Re-employment Prospects of Displaced Workers, 2016

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Speak to us if you would like to understand more about how this information might impact your financial situation.

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INFORMING YOU

Being faced with cancer can have a devastating impact on women and their families. That's why it's so important to reduce your health risks – and also know how to avoid the financial shock that a cancer diagnosis can bring.

October is Breast Cancer Awareness Month, with fundraising activities held across Australia to raise money and awareness to support women affected by breast and gynaecological cancers.

It's also a time for women to reflect on their own lives. For example, if you were struck by cancer, what would be the emotional and financial consequences for you and your loved ones?

How to be cancer smart

No one wants to think they'll ever suffer a serious illness, but the sad reality is that cancer affects many of our lives. In fact, one in two Australian men and women will be diagnosed with cancer by the age of 85.[1] While the threat of cancer is very real for every woman, there are ways you can reduce the risk – or at least ensure that if you ever get diagnosed with cancer, it can be treated as effectively as possible.

1. Know your family history: Most people have someone in their family who has suffered from cancer at some stage. In some cases, an inherited 'faulty' gene can be passed onto their family members as well – genetic testing can help you find out if you carry this type of gene. And while some cancers aren't hereditary, family members may have lifestyle or environmental factors in common that can lead to cancer, like smoking or overexposure to the sun.

2. Get checked regularly: Early cancer detection improves the chances of successful treatment and long-term survival, so it's vital to get checked regularly. For example, women over 40 are advised[1] to take advantage of free BreastScreen Australia mammograms every two years. Also, the National Cervical Screening Program recommend women aged 18-69 have Pap tests every two years.

3. Stay healthy: Although there is no cure, the Cancer Council of Australia recommends some simple steps you can take to lower your risk of cancer. These include quitting smoking, maintaining a healthy weight and diet, protecting your skin from the sun, limiting your alcohol consumption and getting regular exercise.

How to avoid a financial shock

Aside from the physical and emotional burden, being diagnosed with cancer can have a serious financial impact too. On one hand, you're likely to have significant medical expenses to manage, while at the same time, you could be left without an income if you're unable to work during your treatment and recovery.

[1] Cancer Council Australia, Facts and figures: Cancer in Australia, 3 September 2018.

[2] Cancer Institute NSW, Out-of-pocket expenses influencing health outcomes, media release, June 2016.

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In fact, according to the Cancer Institute NSW, the out-of-pocket costs of health care are rising well above the Consumer Price Index, which is influencing some patients' decisions about whether or not to get the treatment they need. [2] On the bright side, there are a range of insurance options that can help you cover costs and protect your finances if you're ever faced with cancer.

One example is trauma insurance, which provides a lump sum payment if you're diagnosed with a critical illness like cancer or stroke. There's also income protection insurance, which can give you regular payments to make up for the loss of income if you can't work due to sickness or injury. Life insurance provides a payout to your loved ones if you pass away, and in some cases you can access some of your insured benefit early if you become terminally ill.

It's also wise to have an up-to-date Will in place – even if you're fit and healthy. Creating a Will is an opportunity to think about who you want to leave your assets to, and it gives you peace of mind in knowing your wishes will be carried out if you pass away. Plus, it's a good idea to nominate eligible beneficiaries for the assets that don't automatically form part of your estate, such as your superannuation or life insurance. And by taking care of your estate planning needs now, it means you won't have to worry about it if you do become ill.

How to get the right plan

It's worth talking to your financial adviser to make sure you have the right types and levels of insurance cover for your situation and lifestyle. Your financial adviser can also help you put together a comprehensive estate plan and provide you all the financial guidance you need to understand your options, so you can make the right decisions for you and your family.

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MARKET WRAP

SEPTEMBER 2019

Highlights in September

- The Reserve Bank of Australia (RBA) kept rates on hold in September, but cut the cash rate on 1 October 2019 by 25 basis points (bps) to 0.75%.
- September saw interest rate markets stage a solid sell-off, with higher yields and 10 Year yields up by 30-50 bp.
- The Australian dollar (AUD) and the United States dollar (USD) briefly hit a 10-year low in early September.
- Dwelling prices rose by 1.1% across the eight capital cities in September.
- AUD credit delivered negative returns as yields rose.
- Equities markets were positive, although volatile.
- Agricultural commodities were generally stronger over the month as the drought continues.

Cash

As expected, the US Federal Open Market Committee (FOMC) cut the federal fund target rate by 25 bps to 1.75% to 2.00% and the interest rate on excess reserves by 30 bps to 1.80%, in light of 'global developments' and 'muted inflation pressures.' The European Central Bank cut its policy rate by 10 bps to -0.50% and confirmed it would be restarting bond purchases of 20bn euros a month from November. The People's Bank of China announced a broad-based 50 bps cut to the Reserve Requirement Ratio (RRR) to help bank lending as the latest round of Chinese economic data disappointed across the board. Locally, the RBA also cut the cash rate on October 1 by another 25 bps to 0.75% in response to the recent lift in the unemployment rate.

Australian and Global Fixed Interest

Interest rate markets showed a remarkably different month in September, from the scramble for yield in August (yields fell in August). 10 Year government bond yields rose by around 50 bps for most major markets. The rise in yields (sell-off) was sparked by the largest fortnight of corporate issuance recorded in the US market. Over USD100bn was raised as yields touched new lows and spreads remained tight. While central banks remained more pessimistic on global risks, there was some pushback in the FOMC on the September rate cut.

Action in global fixed income markets during September was a good reminder of how low bond yields had fallen in previous months. For Australian government bond yields, having reached a low of 0.89% at the end of August and into early September, yields rose over the first few weeks of the month to 1.2%.

Global Credit

The market remains nervous as the geopolitical climate got more tumultuous in September. In the US, the Democrats stepped up efforts to impeach President Trump with a formal impeachment enquiry launched. In the UK, Brexit remains unresolved. The actions taken by UK Prime Minister Johnson to suspend Parliament were ruled 'unlawful' by the UK Supreme Court. The US-China trade dispute is unlikely to be resolved any time soon, and there's now fear the trade war could escalate into a capital war between the two countries, after Bloomberg reported the White House has been considering measures to limit portfolio capital flows into China – later to be refuted. Oil suffered a supply shock earlier in the month after an attack on Saudi Arabia's oil production infrastructure, with 5% of global supply temporarily impacted.

Overall credit markets remained relatively calm as reactions to political headlines were confined to markets directly affected. Low government bond yields have led investors to search for higher yielding investments. This has been the main driver of credit spreads as more investors look at holding corporate bonds. Investors are being forced down the credit risk curve (taking on more credit through lower credit rated companies) as central banks continued to cut rates.

Credit delivered negative total returns in September, mainly due to the increase in government bond yields. Australian corporate bonds remained range bound as geological risks were confined to markets that were directly affected. Lower rated companies outperformed as investors were forced down the credit risk curve as central banks continued to cut interest rates.

Global Equities

In September, key influences on sharemarkets included a drone strike on Saudi Arabian oil facilities; developments in the US-China trade war; Brexit; and central bank rate decisions.

Global sharemarkets rebounded after losses in August. The US Dow Jones rose by 1.9%, the S&P 500 lifted by 1.7%; and the Nasdaq rose by 0.5%. In Europe, the German Dax rose by 4.1% and the UK FTSE gained 2.8%. In Asia, Japan's Nikkei rose by 5.1% and the ASX 200 was up by 1.3%.

Over September, 13 of Australia's 22 sub-industry sectors posted gains. Household and personal products rose the most (up 18.8%), followed by Autos and components (up by 5.1%). Telecom fell the most, down by 4.3%. Banks rose 4.9% and Materials rose 1.6%. Of the size categories, Small Ordinaries led the gains, up by 2.0%, ahead of the large-cap ASX 50 index (up 1.4%), ASX 100 (up 1.3%) and ASX MidCap 50 (up 0.2%).

Australian Dollar

The AUD trade-weighted index rose by 0.5% in September. AUD outperformed against all major currencies, except GBP and CAD.

AUD traded in a relatively narrow 2 cent range in September. After reaching a fresh 10-year low of 0.6888 in early September because of a weaker than expected Australian July retail sales report and a firm USD, the RBA's decision to leave the cash rate unchanged at 1.00% proved the catalyst for a stronger AUD early in the month. Strong Australian trade balance data and a perceived easing in US-China trade tensions also supported the commodity currency over the first half of the month.

AUD pared gains over the final two weeks of September. The dovish RBA meeting minutes which suggested a near term rate cut (which was delivered on 1 October) contributed to the fall in AUD. The minutes also highlighted that the RBA is becoming more concerned about the global backdrop. Rising US and UK political uncertainty late in the month also weighed on AUD.

Commodities

Agri-commodity prices mostly rose during September. Cattle prices were the exception, falling by a modest 3% over the month. Pastoralists in drought regions continue to reduce their herds, weighing on prices. The rest of the agri-commodities made larger gains. Dairy, sugar and wheat fundamentals all evolved to somewhat tighter prospective supply.

Australian Residential Property Market

The Australian property market appears to be back on a two-speed track. Prices have risen sharply in Sydney and Melbourne over the past couple of months, while price action in the other capital cities has been far more sedate.

The 1.1% lift in dwelling prices in the eight capital cities over September built on the 1.0% gain in August. Prices rose by 1.7% in Sydney over the month which means that prices have risen by 3.3% over the past two months. Price rises for houses have been a little stronger than for units. It's a similar story in Melbourne. Dwelling prices lifted by 1.7% in September, taking the price gains to 3.2% over two months.

These type of rises would normally fall under the category of 'house price boom' – and that may well turn out to be the case. But context of course here is key. Prices fell by 15% in Sydney from their July 2017 peak to their May 2019 trough, and prices declined by 11% in Melbourne from their November 2017 peak to May trough. So there's still a long way to go if prices in Australia's two largest capital cities are to return to their peaks. That said, there is a lot of momentum in the market at the moment. All of the forward looking indicators are pointing to further price rises. More specifically, auction clearance rates are firm, house price expectations continue to lift.

Across the other capital cities there were mixed outcomes for dwelling prices in September. Prices were up in Canberra (+1.0%), inched higher in Brisbane (+0.1%), were flat in Adelaide (0.0%), but fell in Perth (-0.8%), Hobart (-0.4%) and Darwin (-0.2%). So at this stage the home buyer responses to rate cuts, the re-election of the Coalition Government and extra borrowing capacity from the APRA induced changes to loan serviceability assessment, has not been uniform across the country.

Rising home prices at a national level will support household expenditure via the wealth effect. And in time, rising dwelling prices should also boost residential construction (there is always a lag between rate cuts, rising dwelling prices, building approvals and then construction).

If dwelling prices and new lending lift too briskly, financial stability concerns may come back into the fray. But at this stage the RBA does not appear too perturbed about recent developments. Last week RBA Governor Lowe was asked if it was a problem if house prices were rising too quickly, to which he responded, "It's true that prices have risen for a few months in a row now. But we have got to remember that for 18 months prices fell in Sydney and Melbourne. And they came down 15% and have just come up a couple of %, so I'm not particularly concerned about that." He further added, "From a monetary policy perspective, it is not an issue at the moment." So it seems that current developments in the housing market are no impediment to further monetary policy easing.

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