September 2019

In this edition to keep you informed and inspired…

- Spring clean: celebrate wins and manage loses
- Making your dream purchase a reality
- Market Wrap August 2019

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

Heading Forward Financial Planning

Shop 5, 45 Sandison Terrace
Glenelg North SA 5045

P 08 8294 3515
M 0478 541 254
E admin@headingforward.com.au
W www.headingforward.com.au
Facebook heading forward financial planning
Linkedin https://www.linkedin.com/company/heading-forward-financialplanning-pty-ltd

INFORMING

YOU

SPRING CLEAN: CELEBRATE WINS AND MANAGE LOSSES

We have arrived at the perfect time of year to do a spot check and a spring clean of your finances. Here's how!

Some like to run a health check on their finances once a month. Others once a year. Many don't have a regular pattern to ensure the progress of their financial plan against set goals. No matter which group you fit into, now is a good time of year to check in and make sure your money is doing its job.

A financial spring clean and health check can be as easy as adding up the values of your savings and investments. Then do the same with investment debt. Finally, add up any other debt including credit cards, store loans and car loans etc. Such a process can often be completed in less than ten minutes, and the resulting document can be saved to compare against next year. It contains four simple figures:

- savings/investment value
- investment debt
- other debt
- superannuation.

If you do this annually then you will already have figures with which to compare your progress. Is 'other debt' (aka 'bad debt') being reduced? Are savings and investment values, as well as super, increasing? If not, why not? What needs to be done to ensure the next 12 months does not see a similar decline in performance? How do you get back on track?

Re-visit your financial goals

Before your end of financial year spring clean, have a think about the purpose of your savings. As you move through life stages and experience major events – marriage, children, impending retirement etc. – your savings goals will change. Keep this in mind as you spring clean. Investment horizon and risk appetite should play a major role in your decision making.

Consolidate to avoid fees

It's too easy, in a 12-month period, to open new accounts for various reasons. Let this go for too long and you'll end up with an impressive collection of bank and superannuation accounts, all of which will be charging their own fees. What can you consolidate, or bundle, to help boost your budget?

Plug the leaks

Review your last 12 months of bank statements and have a look at where the regular leaks occur. As many businesses turn to a monthly subscription fee model rather than charging a one-off amount, it is easy to underestimate exactly how much comes out of your account each year. Plugging small leaks can make a big difference in the long run.

HEADING FORWARD
FINANCIAL PLANNING

Fine tune your portfolio

Changing your investment mix too often, and constantly reacting to specific moments and events in the market, isn't always a good habit for a long-term investor. But reviewing your portfolio at least once a year to see whether you need to make any changes is generally agreed to be good practice. Does your investment mix match your life stage and risk profile? Do the industries covered by your share portfolio still show as much long-term promise as they did 12 months ago? And does your superannuation investment mix represent the right choice for the time you have left in the market? What losses should you cut in order to be better prepared for the next 12 months?

Re-balance your budget

A well-managed business seeking annual profit would never allow itself to be run without a budget. Your household should be no different. In order to achieve specific outcomes, a budget for the upcoming year simply ensures that you spend less than you earn after tax. Knowing your spending limits – for everything from groceries, renovations and fashion to fitness, entertainment and travel – then allows for creativity within those fields to allow the best outcome.

SPEAK TO US FOR MORE INFORMATION

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

HEADING FORWARD
FINANCIAL PLANNING

INFORMING

YOU

MAKING YOUR DREAM PURCHASE A REALITY

You know the feeling – there's a major purchase you want to make, but you're worried it will break the bank. Whether it's a luxury car or a hard-earned holiday, that extra expense seems out of reach.

The good news is, there are plenty of alternatives to making an outright purchase upfront. Here are some creative ways to pay for a big-ticket item that won't leave you strapped for cash.

Piece by piece

When you see something you love, it's tempting to think you need it then and there. But if you've got a little patience, then a layby option is a great way to make payments more manageable.

Here's how it works: the retailer puts the item aside, making sure that it won't be sold to someone else, while you pay off the balance bit by bit. Normally you have to hand over a deposit and then keep making regular payments that you can afford, until it's yours.

If you really don't want to wait until you've paid off the full item, some suppliers offer 'own now, pay later' options. This allows you to take home the item immediately and then pay it off in regular instalments. In this case, you may be charged interest over time, so it's always a good idea to shop around first to get the best deal.

Borrowing to buy

For a major purchase that's essential to your daily life – such as a family car or home repairs – it might be worth considering a loan or some other form of financing.

If you're a homeowner, another financing option might be to unlock the equity in your home. This effectively allows you to borrow money against your home's value, using your property as security. The best part is, you don't necessarily have to use the money for home-related expenses, so you can choose what to spend it on.

Your financial adviser can refer you to a lending specialist or broker, as well as helping you set up a manageable repayment plan.

Sharing is caring

Think you can't afford a holiday? Think again. A timeshare is a way of owning the rights to a property for a specific amount of time each year without having to buy the whole property itself. In effect, you co-own the property with all the other shareholders and you pay a fixed amount each year – which is usually cheaper than paying for a holiday rental. That way, when you're not using the property, someone else is.

In the same way, boat shares are available for those who prefer to spend their leisure time on the water. You could even apply this concept to other items that you only use occasionally, and team together with a group of friends to own it jointly.

HEADING FORWARD
FINANCIAL PLANNING

Living in a renter's paradise

Ever wondered why you keep buying items that err on the expensive side – like household appliances or whitegoods – when you end up having to replace them every few years?

In some cases it may be worth renting rather than owning, especially for things like your TV, which you might upgrade when a newer model comes out. Plus in many cases, the rental supplier will take care of any repairs if the item breaks down, saving you money on maintenance.

But before you make any major financial decision, it's always worth consulting your financial adviser. They can help you work out if your purchase fits within your budget and savings plan, as well as showing you how to manage the repayments – whether you're renting, borrowing, timesharing or paying in instalments.

SPEAK TO US FOR MORE INFORMATION

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

HEADING FORWARD
FINANCIAL PLANNING

MARKET WRAP

AUGUST 2019

Highlights in August

- The Reserve Bank of Australia (RBA) left rates at 1.00% after back-to-back rate cuts.
- More than 20 developed markets saw a fall in their bond yields over the course of August.
- The Australian dollar (AUD) decreased against most currencies amid slowing global growth and Reserve Bank of New Zealand (RBNZ) rate cut.
- AUD credit spreads widened in August with cash underperforming synthetics.
- Aussie sharemarket breaks its longest monthly winning streak since September 2009.
- The iron ore price fell in August.
- Dwelling prices rose by 1.0% across the eight Australian capital cities in August.

Cash

The RBA took a break from cutting rates in August, having delivered two successive cuts for the first time in over six years. The RBA tweaked its rhetoric to adding further cuts ‘if needed’, a view the markets continue to believe will be warranted over time. Domestic data started to show some tentative signs of life, with house prices in Sydney and Melbourne turning up. Nonetheless, the financial markets are pricing for the RBA to cut the cash rate to below 0.50%.

Australian and Global Fixed Interest

Markets went on a wild ride in August as the US and China scaled up the tit-for-tat war on tariffs. It all started with the US putting an additional tariff of 10% on the remaining US$300bn of goods from China starting from 1 Sept (in addition to the US$250bn already tariffed at 25%). In retaliation, China announced that they had ceased buying agriculture products from the US. Rising geo-political risks in Argentina, Italy and Hong Kong also impacted both the bond and stock market

Markets sold off in panic but consolidated after the US announced it would delay tariffs on around US$150bn of Chinese goods to mid-December to minimise impact on Christmas sales.

However the trade war saga went to another level later in the month, as the US announced plans for an additional 5% tariff on US$550bn of Chinese imports after China said it would impose an additional 5% duty on US$75bn of US goods from 1 September. With the new increases, what used to look like a tariff ceiling – 25% tariffs on everything from China – now looks more like a floor.

The fear and loathing in markets continued in August, with bond yields across the globe being crushed by both softer data and the escalation in rhetoric. The latter was not just a result of the trade wars, but also due to strong calls from President Trump for the Federal Reserve Open Markets Committee (FOMC) to cut rates by as much as 100 basis points (bp).

The Australian bond market followed the world lower in August in yet another significant move. Having seen 10 years break decisively through 1%, the 30 year bond yield fell below 2% and then below 1.5% in August. The 10 year Australian government bond yield ended August at 0.88%.

Global Credit

The Australian reporting season has largely come to an end. Overall, spreads were little impacted as balance sheets generally remained in good shape. However, in slow economic growth environment, growth capex will remain subdued, if not negative, and a few corporates could start to face financial constraints in the next 12 to 18 months if growth continues to deteriorate and asset recycling becomes increasingly difficult.

The Australian dollar credit spreads widened in August as trade-war concerns continued to weigh on investor sentiments. The reporting season was more of a sideshow and had little impact on spreads. However, stock selection remains relevant in a low growth environment as corporate balance sheets could deteriorate quickly as asset recycling becomes increasingly difficult.

Global Equities

Global sharemarkets were volatile in August. US-China trade hostilities, rising geo-political tensions and concerns about a potential global recession weighed on risk sentiment. US shares posted their biggest monthly decline since May. And Australia’s S&P/ASX 200 index broke its longest monthly winning streak since September 2009, as shares retreated by the most since November 2018.

The Australian corporate reporting season continued to produce mixed results. Retailer JB Hi-Fi and materials company James Hardie, both surprised on the upside, but packager Orora and Blackmores disappointed.

In August, the US Dow Jones fell by 1.7%, the S&P 500 declined by 1.8% and the Nasdaq fell 2.6%. In Europe, the German Dax fell by 2.0% and the UK FTSE declined by 5.0%. In Asia, Japan's Nikkei fell by 3.8% and the ASX 200 was down 3.1%.

Over August, 16 of Australia's 22 sub-industry sectors posted losses. Household and personal products (down by 19.6%) fell by the most, followed by Consumer durable and apparel (down by 15.4 %) and Materials (down by 7.9%) as the iron ore price fell sharply. Pharmaceutical and Biotech shares lifted by the most, up by 4.5 per cent. Of the size categories, Small Ordinaries led declines, down by 4.2%, below the ASX mid-cap 50 index (down 2.9%), large cap ASX50 and ASX100 indexes (both down 2.8%).

Australian Dollar

The AUD trade weighted index decreased by 1.0% in August.

AUD/USD traded in a narrow range of about two US cents in August. AUD/USD fell in the first week of August for two reasons. First, AUD/USD declined 0.9% to around 0.6835 following Fed Chair Jay Powell's confirmation that the cut to the Funds rate "it's not the beginning of a long series of rate cuts". Second, AUD/USD decreased by almost one US cent following the RBNZ's surprise decision to cut its cash rate by 50bp. A 25bp cut by the RBNZ was widely expected by market participants.

AUD struggled to regain its early August losses over the rest of the month. However, AUD was briefly supported by a surprise 41,000 increase in Australian employment in July (consensus: 14,000).

Commodities

Commodity prices were mostly lower in August, led by iron ore. Nickel and to a lesser extent, gold, were the exceptions. The main negative drivers across the commodity space were growing demand fears, particularly as the US-China trade war escalated. Nickel prices surged in August on speculation, and later confirmation, that Indonesia would bring forward their ban on nickel ore exports.

Iron ore prices dropped sharply in August as an improving supply outlook met growing demand concerns. Demand worries were driven by the escalating US-China trade war last month. Iron ore was particularly sensitive to the yuan devaluation, which effectively made iron ore more expensive for Chinese buyers. That is important because China accounts for ~70% of the world's iron ore imports. Negative steel mill margins in China also weighed heavily on iron ore prices. While the supply outlook didn't change materially from July, markets remained hopeful that Vale will follow through on plans to add supply. Of the ~4% of global seaborne supply currently sidelined by Vale, the company expects to restore half of that by the end of this year. The remaining ~2% of seaborne supply currently sidelined by large Brazilian iron ore miner Vale, is expected to take two to three years to fully restore.

Gold futures rose in August as US 10 year real yields (bond yields less inflation) moved sharply lower to negative territory. US-China trade tensions, increasing global growth concerns and the prospect of US interest rate cuts were the main drivers of falling US real yields. Lower real yields increase the appeal of gold relative to US interest bearing securities. It is worth noting that the slight strengthening of the US dollar has had a muted impact on gold prices.

Premium coking coal spot prices continued to decline in August. Demand concerns appear to be the main driver, particularly with the weakness in China's manufacturing activity. Coal import restrictions in northern China has also negatively impacted seaborne coking coal prices.

Australian Residential Property Market

The property market is showing signs of more than just a stabilisation. In fact, just looking at the price increases, it could be said that boom type conditions are returning.

Across the eight capital cities dwelling prices posted a strong 1.0% rise in August led by large rises in both Sydney (1.6%) and Melbourne (1.4%). Prices also rose in Canberra, Hobart and Brisbane but fell in Adelaide, Perth and Darwin.

Nationally dwelling prices reached their trough in June. There are a number of factors behind the turnaround in housing. Looking at the daily data shows that prices began to lift in Sydney and Melbourne just after the Coalition was returned to government in late May. Labor's proposed taxation policies around housing had been weighing on the property market. Since then the RBA have cut the cash rate twice in June and July. The lower cash rate was largely passed through to mortgage interest rates by the major lenders. There have also been changes to serviceability metrics which means that many borrowers can borrow more than before.

In the three months since May, Sydney and Melbourne dwelling prices have lifted by 1.9% and 1.8% respectively. Other indicators of the housing market, such as auction clearance rates have turned higher.

CoreLogic have noted that monthly sales activity has begun to increase over recent months, although sales are still well below 'normal' levels. Total new inventory is 23% lower than a year ago in Sydney and 20% lower in Melbourne.

Lower housing turnover has been one factor behind the slowdown in consumer spending, with households spending less on furniture, furnishings and equipment. A lift in turnover should result in a lift in spending growth in these categories. But a lift in the supply of housing on the market could also take some of the heat out of recent price gains. This could be a test for the market coming into Spring.

Rising house prices may also provide a boost to household spending through the wealth channel. Falling dwelling prices over recent years saw a sharp slowing in spending growth in categories that are typically more sensitive to changes in household wealth.

HEADING FORWARD
FINANCIAL PLANNING