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FINANCIAL PLANNING

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In this edition to keep you informed and inspired…

- How to be financially prepared this Christmas
- Running a home business: are you covered?
- Market Wrap October 2019

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

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INFORMING YOU

HOW TO BE FINANCIALLY PREPARED THIS CHRISTMAS

With Christmas just around the corner, here are 5 tips to help plan ahead and avoid a financial hangover on New Year's Day.

Think back to last Christmas and consider where the extra expenses came from. Was it petrol for the drive to the holiday destination? Gifts for new children in the extended family? Wine for the constant gatherings? And don't forget the taxi fares for the journeys home from nights out.

However you look at it, Christmas is a pricey time of year. If the expense causes stress then the holiday period is ruined. Here are some tips to prepare for, and enjoy Christmas.

1. Figure out a budget

What exactly are you going to spend on gifts, food, drink, accommodation, airfares, fuel, cabs etc.? Be realistic and even pessimistic. If you over-prepare then you'll end up with a surplus, which is a great result.

2. Christmas saver

Consider opening a new account which you can put a weekly amount into over the next few months in order to cover most, if not all, of your Christmas expenses. Even better, if you have a mortgage account, consider putting the extra money into the redraw section - that way you could save some mortgage interest during the final quarter of the year.

3. Gifts

Figure out what you are happy to spend on each person and ensure you stick to it. Give yourself time to think about gifts, working out exactly what each person will receive, to keep your shopping trips short and avoid extra purchases. And negotiate with family members to stick below a certain amount, or to do Secret Santa, in order to keep costs down.

4. Credit card spending

From now until Christmas, make additional weekly payments onto your credit card so you're not caught out, as many people are, with an unmanageable credit card debt once you roll into January.

5. New Year goal

Figure out what you wish for in the New Year and start taking steps towards that goal right now. Whether it is a fitness goal, a new skill, a bucket list item or something as simple as a reunion with an old friend, make sure at least a small part of the Christmas period is about you by planning for and achieving something special.

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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

RUNNING A HOME BUSINESS: ARE YOU COVERED?

Setting up a business at home can be extremely rewarding, especially if it gives you more time to spend with family. But without the financial safety net an employer can provide, it's vital that you have the right types of insurance in place to cover all eventualities.

Running a business out of your home certainly has its perks. As well as the flexible working hours, think of the time and money you can save on commuting. And don't forget the comfort and convenience of being able to work in your pyjamas.

But what happens if someone gets injured in your home office? Or if a burglar steals your work laptop? Are you financially covered in the same way you'd be if these things happened at an external workplace?

If you or someone else in your household is running a home business, it's a good idea to make sure you're protected against the unexpected. Here are some worthwhile insurance options to consider.

Protecting your business

While your contents insurance might protect the valuable items in your home, it may not cover specialised work items like tools or IT equipment. These can be expensive to repair or replace, and your work can really be held up if you don't have the cash to fix them. So you might want to consider specific insurance that can cover the costs of getting your equipment back up and running.

And when your home is also your workplace, you're responsible for anyone who comes on site for business reasons. Public liability insurance protects you if a customer or supplier gets injured or has their property damaged while at your home.

If your business sells physical goods to customers, then you'll want to consider product insurance as well. This is to cover the costs of compensation if someone gets injured from using one of your products. Litigation can be expensive, so make sure you're adequately protected against the risk of being sued.

Protecting your staff

If you're running your business with someone else, including a spouse or family member, then you need to think about what would happen if one of you became seriously ill or injured – or even passed away. Unfortunately, when a small business loses a staff member, it can often signal the end of the whole organisation.

Key person insurance enables you to take out life cover for a partner or employee, with the business named as the beneficiary. This means the business receives a payout if that person dies or becomes incapacitated. The money can then be used to compensate for the loss and keep things running until a replacement person can be found.

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And don't forget, if you have any employees – whether they're employed on a full-time, part-time or casual basis – then it's compulsory to take out a workers compensation policy that covers them. This insurance goes towards the costs of benefit payments and medical expenses if a staff member suffers a work-related injury or illness.

Protecting your loved ones

If you're self-employed, you need to think carefully about how you and your loved ones would be impacted financially if you were unable to work for a while.

That's where income protection insurance comes in. If you get sick or injured and can't work for an extended period, this insurance will provide regular payments to cover your loss of earnings until you get back on your feet.

And if you're starting up a business, what better time to review your life insurance arrangements? By making sure you have the right level of cover, you'll have comfort in knowing your loved ones will be financially secure if you're no longer around to take care of them.

Remember, your financial adviser is the best person to guide you through your options and make sure you have the right types of cover for your business and your family.

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MARKET WRAP

OCTOBER 2019

Highlights in October

- The Reserve Bank of Australia (RBA) cut the cash rate on 1 October 2019 by 25 basis points (bps) to 0.75%.
- October saw a second successive rise in bond yields.
- Equity markets enjoyed strong gains over the month.
- The Australian dollar (AUD) and the United States dollar (USD) lifted to a three month high because of optimism on a US-China trade deal.
- Iron ore prices fell while most other commodity prices rose.
- Dwelling prices rose by 1.4% across the eight capital cities in October.

Cash

A stabilisation in the US-China trade war and Brexit news provided the economic backdrop for better performance in risk assets and led to rising yields in Government bond markets. Despite this better economic news, cuts to official cash rates continued in several economies including Australia and the US, with both delivering 25bps cuts. The RBA was widely expected to cut rates at their October meeting. The RBA's policy rate now sits at a new record low of 0.75%. The RBA reiterated global risks "are tilted to the downside". Domestic concerns also remain, noting that the economy has reached "a gentle turning point". Governor Lowe noted in a recent speech that the economy has hit a "soft patch" and "we did not expect this slowdown, so it has come as a bit of a surprise". The risks still lie with further interest rate cuts.

Australian and Global Fixed Interest

Government bond yields climbed in October, the second successive month this has happened. In Australia the rise of around 30 basis points at its peak came after the third RBA rate cut this year. Markets and forecasters are growing more confident the bulk of cuts have been delivered and further moves could be some time away. The Australian 10-year government bond yield started the month at just under 0.9%, moving to a high of 1.18%, but fell late in the month to finish at 1.09%. As expected, the US Federal Open Markets Committee (FOMC) cut the Federal Funds rate by another 25bps to a range of 1.50–1.75%. There is growing debate about the timing and extent of further rate cuts for the rest of the year. Further rate cuts seems to be less certain and most likely to be dependent on the incoming economic data. US 10-year government bond yields started the month at 1.67% and finished the month at 1.69% with some volatility in between.

Global Credit

The economic backdrop provided a relatively benign environment for global credit markets. Brexit developments effectively ruled out a volatile exit of the UK from the European Union with a new general election to be held on 12 December 2019. There was some small progress on the US-China trade war and the US Federal Reserve cut the Federal Funds rate as expected. As a result, Australian credit markets traded in a tight 5 basis point trading range in absence of major macroeconomic or geopolitical breakthrough. September and October tend to be heavy issuance months following the reporting season with many companies issuing new corporate bonds. This did occur with issuance in the non-financial company space. Overall Australian credit markets underperformed global credit markets in October.

Global Equities

Global sharemarkets recorded mostly positive returns in October. US shares (S&P500 index) hit all-time record highs as investors became increasingly optimistic about the potential for a partial US-China trade deal and a resolution to the Brexit impasse. US President Trump announced a "phase one" trade agreement with China on 11 October, focusing on potential Chinese purchases of US agricultural products. Reports that China was prepared to buy at least US$20 billion of US agricultural products next year and the potential withdrawal of US tariffs on Chinese goods scheduled for December, boosted risk sentiment. Encouraging US corporate earnings results and solid US jobs and economic growth (GDP) reports all boosted risk appetite. Global central banks continued to cut interest rates, but some signalled a potential pause in the rate cut cycle after delivering rate cuts over 2019.

US sharemarkets rose for a second consecutive month in October. To-date, of the S&P 500 companies that have reported, 75 per cent have posted better-than-expected earnings, according to FactSet data. The US Dow Jones rose by 0.5 per cent, the S&P 500 lifted by 2.0 per cent and the Nasdaq rose by 3.7 per cent. In Europe, the German DAX rose by 3.5 per cent, but the UK FTSE lost

2.2 per cent. Japan's Nikkei rose by 5.4 per cent and the ASX 200 was down by 0.4 per cent.

Over October, 11 of Australia's 22 sub-industry sectors posted gains. Pharmaceutical & Biotechnology products rose the most (up 9.6 per cent). Food, Beverage & Tobacco products fell the most, down by 5.0 per cent. Banks fell by 4.1 per cent and Materials were down 1.9 per cent. Of the size categories, Small Ordinaries led declines during the month, down by 0.7 per cent, followed by the large-cap ASX 50 and ASX 100 indexes (both down 0.4 per cent) and the ASX MidCap 50 (down 0.3 per cent).

Australian Dollar

The AUD trade weighted index increased by 1.4% in October. The AUD was strongest against the USD and weakest against GBP. AUD/USD trended higher in October, though there were periods of weakness. The RBA cut the cash rate to a record low of 0.75% on 1 October. The weak USD supported AUD/USD throughout the month. In particular, the optimism of a US China trade deal, as well as possible Brexit breakthrough weighed on the USD and lifted AUD. The Australian economic data supported AUD/USD too. AUD/USD jumped around 0.5% after the Australian unemployment rate declined to 5.2% in September from 5.3% in August.

Commodities

Commodity prices finished mostly higher in October, led by coking coal. Iron ore and to a lesser nickel, gold, were the exceptions. The main positive drivers across the commodity space were easing demand concerns, particularly with positive developments in the US-China trade war. Iron ore prices dropped in October on mostly an improving supply outlook. Seaborne supply has improved from earlier this year as the disruptions that dogged the iron ore market have subsided. Vale, the large Brazilian iron ore miner, production appears to be recovering well. Weak demand conditions in China continue to weigh on iron ore prices too. Nickel prices also fell in October as shortage concerns in nickel markets eased following Indonesia's announcement to ban nickel ore exports. A surge in China's nickel ore imports from Indonesia in September was key in quelling shortage concerns. But there was considerable uncertainty to that timing, with Indonesian policymakers announcing in late October that the ban would be effective immediately. Different policymakers later said the ban from 2020 was still in place. The latest announcements from policymakers suggest that the ban will take effect from 2020.

Australian Residential Property Market

Dwelling prices rose by a strong 1.4% across the eight capital cities in October. Prices rose in all capital cities with the exception of Perth. There were particularly large increases in Melbourne (2.3%) and Sydney (1.7%) dwelling prices in the month. This was the third consecutive strong monthly dwelling price increase in these capital cities. In Melbourne, dwelling prices are up 6.0% from their low in May, while in Sydney prices have risen 5.3%. Prices are rising the most for the most expensive properties. However these were the ones that experienced the largest declines during the downturn. Dwelling prices in Sydney and Melbourne are now back at late 2018 levels, but are still a fair way below the peaks of mid to late 2017. A range of factors are contributing to prices increases, including lower mortgage interest rates and changes to serviceability metrics allowing people to borrow more money. Solid conditions in the labour market and Australia's strong rate of population growth are also supporting dwelling prices. Building approvals data has shown approvals are now running at or below underlying demand. An undersupply of dwellings would also add to upward pressure on dwelling prices. Further rate cuts by the RBA could also push up prices. Sales volumes look to be stabilising in Sydney and Melbourne after several years of falls. Nonetheless turnover remains well below "normal" levels. Turnover also remains low in Brisbane and Perth. Lower housing turnover is a factor weighing on consumer spending growth. When turnover picks up, consumers tend to spend more on furniture, fittings and appliances.

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