HEADING FORWARD
FINANCIAL PLANNING

December 2019

In this edition to keep you informed and inspired…

- Your top five New Year's financial resolutions
- Health and wealthy New Year
- Market Wrap November 2019.

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

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INFORMING YOU

YOUR TOP FIVE NEW YEAR'S FINANCIAL RESOLUTIONS

Overspent in 2019? Here's how to put your finances back on track – and even get ahead.

Despite the best intentions, many of us will finish this year on a low note financially. Whether it's the cost of Christmas presents or summer holidays, or unexpected expenses that cropped up during the last 12 months, wouldn't it be great to be able to start the New Year for once without having to play catch-up?

So with 2020 just around the corner, now is the perfect time to start planning your financial strategy for the year ahead. Here are our top five New Year's financial resolutions that you can make right now, so you'll be in a better position by next December.

Resolution 1: I will review my household spending

A detailed budget can be the most valuable tool you have for managing your finances. So if you find yourself regularly overspending, the beginning of the year is a great time to look at where your money keeps going.

A good place to start is by using the MoneySmart Budget Planner. First, list your total income from any earnings, allowances and investments. Then, add in all your weekly, monthly and annual expenses, including the costs to repay any debts like credit cards or your home loan. That way, you'll know exactly how much you have left over each week or month for extra luxuries – or where you might need to tighten your belt.

And don't forget that the cost of living goes up every year. For instance, during the 12 months to the June quarter 2019, the Consumer Price Index rose by 1.6%.[1] So when you're reviewing your annual budget, be sure to allow for inflation. That way you'll be able to absorb any shocks if the costs of your utilities, groceries or other expenses go up next year.

Resolution 2: I will manage my debts

Clearing your debts might be easier said than done – but whatever you do, don't stop chipping away at them. Remember, the longer your debts stay with you, the more you'll have to spend on interest.

If your debts are getting you down, talk to your financial adviser. Your adviser can help you work out a realistic repayment plan and could even be able to develop a strategy that could make debt management a bit easier.

For example, if you're surrounded by credit card bills, you might be able to consolidate your debts on a single card with a lower interest rate than what you're currently paying. Or if you feel like you're not making any progress paying off your home loan, you might be able to switch to another loan provider who's offering a more competitive rate.

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Resolution 3: I will improve my cashflow

Even if you budgeted carefully in 2019, did you find it challenging to keep up with your regular expenses? If you found yourself living from one paycheque to the next, it might be time to take a look at your incomings and outgoings to see if there's a way to smooth out your cashflow.

Of course, this will mean something different for everyone. There might be opportunities to boost your income, either by working more hours in your current job, doing some extra work on the side, or finding a new role that pays more. Or if none of those options are possible for you, it might be a case of revisiting your budget to see if there are any lifestyle changes you could make.

When you're looking for ways to achieve a healthier bank balance, it's always a good idea to think outside the box. For instance, if your kids have flown the nest, is your home larger than what you really need these days? Next year could be the year you downsize – freeing up some cash that you can use to pay off debts and invest for the future.

Resolution 4: I will start saving

Once you've got your cashflow and debts sorted, it's much easier to create a realistic savings plan and stick to it. To stay motivated, remind yourself that every bit you put away adds up – and could make an enormous difference in the long run.

Saving can become even easier if you open a high-interest savings account. And by setting up a direct debit, you can automatically deposit a fixed amount from your everyday account as soon as you get paid (in other words, before you even notice it's gone). This will give your savings a better chance of growing without you having to put in the hard yards.

If you're saving for something specific, like a holiday or a new car, you should also check out the MoneySmart Savings Goals Calculator. By keying in the amount you need to save, your preferred timeframe and the rate of interest your savings account earns, you can then work out how much you'll need to put aside each week or fortnight so you can reach your goal.

This can also be a helpful way to budget for larger expenses that come around once a year, like your home insurance or car registration, so they don't sneak up on you.

Resolution 5: I will focus on the future

By getting your finances under control for 2020, you'll be in a better position to start thinking about your long-term investment strategy. Depending on your situation, you might prefer to focus on either your super or your non-super investments, or a mixture of both. If you're not sure, your financial adviser can give you the guidance you need.

Provided it is right for your circumstances, one way to grow your super faster is through salary sacrificing. This means setting up an arrangement with your employer where you 'sacrifice' some of your salary, and in return they contribute a bit extra to your super. Even a small amount each week or fortnight can have a big impact by the time you retire – and since the extra contributions come out of your pre-tax earnings (and are generally taxed at only 15%[2] when received by your super fund), this type of strategy could even reduce your annual tax bill.

Alternatively, you might want to look at investing outside super. On one hand, the tax treatment of your investments may not be as favourable as it is in the super environment, but on the other hand, you can access your capital and earnings more readily, without having to wait until you reach retirement age.

When it comes to working out the right investment strategy for your needs, look no further than your financial adviser. They can create an investment plan tailored for your personal circumstances and lifestyle goals, to put you on course towards a happier financial future.

1 Australian Bureau of Statistics, *6401.0 - Consumer Price Index*, Australia, June 2019.
2 An additional 15% tax may apply to salary sacrifice contributions if you are a high income earner (that is, if your taxable income, concessional super contributions and other certain income amounts exceed $250,000 pa). From 1 January 2020, salary sacrificed super contributions cannot be used to reduce Super Guarantee obligations, regardless of the amount an employee elects to salary sacrifice.

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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.

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INFORMING YOU

HEALTHY AND WEALTHY NEW YEAR

As the holiday season approaches, it's easy to be distracted from your financial goals. But this is actually the perfect time to put a few simple plans in place for a positive start to the New Year.

New Year's resolutions have a bad reputation, and for good reason. So let's agree up front that we won't think of financial preparations for the New Year as "resolutions". Instead this is a great opportunity to set things in order, re-group and look back to ensure things are on track, and of course to re-balance and plan for the year ahead.

Best practice around reviewing your finances for the New Year begins with a calculation of your net worth. Save this somewhere so it's easily accessible next year, and you'll have a simple and effective way to measure your progress against a set goal. Include all of your assets (property, cash etc.) and liabilities to calculate a final figure.

Next, pick a couple of items from your financial portfolio, whether they be credit card or mortgage, superannuation accounts or insurance policies etc, and do some research to find out whether you're getting the best possible deal. Interest rates, fees and risk profiles should be checked at least every few years for each of your accounts. Just as compound interest can be enormously effective over time, so too higher fees and costs can result in far less wealth at the end of your investment period.

Spend some time getting to know your investments. How much is in your super? How is it invested? Are you on target to achieve your final goal? What difference could you make by re-balancing certain investments? Ask questions and seek clear and relevant answers as if you're looking after the world's most important retirement nest egg …because you are!

Then, depending on your stage of life:

Up to 40 years old

- Consider maximising the effects of compound interest and perhaps even saving a little tax by salary sacrificing a small amount – perhaps $20 to $50 a week – into your super. A little now adds up to a lot later. Be wary not to exceed contributions caps though.
- Check that your investments are allocated correctly to match your risk profile and the fact that you have several decades to ride out any market turbulence.
- Analyse your insurance needs and check you have the correct levels of cover. You possibly have people that rely on you to provide for them. Make sure you, and they, are suitably protected.

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From 40 to 60 years old

- It's time to start knocking down that bad debt, so make that a priority for the next few years and track your success using your net worth document.
- Insurance is vital at this stage of life as you'll likely have dependants and major responsibilities, such as a mortgage. Check you are insured to the right level.
- Consider what you can do at work, or outside of work, in order to improve your earning potential.
- Analyse your superannuation and figure out whether you need to begin maximising contributions, but don't exceed contributions caps as additional tax will then apply.
- Depending on your comfort with risk and your time left in the market, your portfolio's risk/growth exposure should be periodically fine-tuned.

Pre-retirees and retirees

- How long will your retirement wealth last? How are your investments performing? This is perhaps the most important period of life to ensure your portfolio and retirement income stream are suited to your lifestyle.
- Is your estate protected? Organise a will and enduring power of attorney if you haven't already done so.
- Put some money aside to enjoy yourself whether it be for travel, a hobby, a course or simply a night out to dinner every so often. You have earned it.

Planning for the best

To revisit your financial plan and ensure you're on track to achieving your goals, or to put new plans in place for the year ahead, speak to your financial adviser.

SPEAK TO US FOR MORE INFORMATION

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MARKET WRAP

NOVEMBER 2019

Highlights in November

- The Reserve Bank of Australia (RBA) left the cash rate on hold in November at 0.75%.
- Australian government bond yields broadly lower after a rise at the start of the month.
- Australian Dollar (AUD) and United States Dollar (USD) were weak on a broad scale.
- Many global equity markets hit new highs.
- Lower coal and gold prices offset slight gains in iron ore and oil.
- Dwelling prices rose by 2.0% across the eight capital cities.

Cash

The RBA left rates unchanged at 0.75% in November in line with market expectations, but it was clear from statements by the RBA that they remained ready to cut the cash rate again if needed.

Towards the end of the month, financial markets began to expect the RBA to deliver more rate cuts, as RBA Governor Lowe discussed the lessons on unconventional monetary policy (i.e. quantitative easing) for an Australian context.

Australian and Global Fixed Interest

Markets had to digest a number of reports over the possibility of a US-China trade deal in November. The prospect of signing a deal moved from November to December, but some issues with negotiations around tariff removals and agricultural goods purchases saw delays more likely. US economic data released over the month suggested the US economy remained strong. As a result there is a risk that the US Federal Reserve will not have to cut interest rates as much as originally expected.

Weaker than expected Australian and Chinese economic data weighed on the market. Australian employment contracted by 19,000 in October (consensus expectations: +15,000). As a result, the unemployment rate lifted to 5.3%. The contraction in monthly employment was the first fall since May 2018.

November also saw a drop in government bond yields in Australia, with the 10-year government bond yield dropping from 1.15% to 1.035%. There were expectations that the RBA had more work to do based on a speech by RBA Governor Lowe.

Global Credit

The major theme in Australian corporate bond markets in November was the large increase in companies looking to issue new corporate bonds. A total of ten corporates came to market in November, including some names like David Jones and Virgin. The majority of these new bonds were well absorbed by the market.

The major banks bonds were impacted after Australia's financial crimes regulator AUSTRAC filed civil proceedings against Westpac for breaching the Anti-Money Laundering and Counter-Terrorism Funding Act 2006 on over 23 million occasions. The bank is also under investigation by ASIC over whether they adequately informed investors of money laundering violations before its A$2 billion capital raising on 4 November.

The Australian credit market delivered positive total returns in November, mostly driven by the lift in government bond yields.

Global Equities

The key influences for global equity markets over the month were the US-Chinese trade talks, US and European corporate earnings results; central bank interest rate decisions, and economic data. Protests in Hong Kong were also monitored by investors.

Global sharemarkets rose over November with a number of markets hitting all-time highs in the month. The US Dow Jones rose by 3.7%, the S&P 500 lifted by 3.4% and the Nasdaq rose by 4.5%. In Europe, the German Dax rose by 2.9%, and the UK FTSE gained 1.4%. In Asia Japan's Nikkei rose by 1.6% and the ASX 200 was up by 2.7%.

Over November, 18 of Australia's 22 sub-industry sectors posted gains. Consumer durables rose the most (up 11.9%). Banks fell the most, down by 5.5%. Also of note, Materials was amongst the sectors to post gains, up by 4.5%. Of the size categories, the ASX MidCap 50 led the gains during the month, up by 3.9%, followed by the large-cap ASX 100 and ASX 50 indexes (up by 2.8% and 2.6% respectively) while the Small Ordinaries was up by 1.4%.

Australian Dollar

The Australian trade-weighted index decreased by 1.7% in November. The AUD decreased against all the currencies under our coverage.

AUD/USD trended lower through November, falling sharply in the middle of November. Weaker than expected Australian and Chinese economic data weighed on A$. Australian employment was negative for the month while Chinese economic data showed weaker industrial production, retail sales and investment figures. Some of this was due to the National Day holiday and pollution control measures.

Also weighing on AUD was expectations of further rate cuts by the RBA.

Commodities

Commodity prices were mixed in November. Hopes that the US and China will sign the first phase of a trade deal drove oil and most base metals higher. The same news drove gold futures lower on weaker safe haven demand. Commodity specific factors help explain the fall in nickel and premium coking coal prices last month.

Premium coking coal prices fell steeply at the start of November on steel demand concerns outside China. Iron ore prices started the first half of November heading lower. The initial pessimism was driven on mostly an improving supply outlook. The second half of November was a different story with iron ore prices rising strongly.

Nickel prices fell in November as supply shortfall concerns ease.

Australian Residential Property Market

Dwelling prices rose by 2.0% across the eight capital cities for November. This was the largest gain since September 2003. Prices now sit 5.7% above the trough in June 2019. All capital cities except Darwin recorded gains in November.

A combination of the Federal election outcome, three RBA rate cuts and a loosening in loan serviceability policy from APRA have added to firm population growth and led to the resurgence in prices. Advertised stock levels remain low, exacerbating buyer behaviour amid concerns of missing out. In the Q&A following his speech last week, RBA Governor Lowe also attributed some of the price gains to signs the balance between supply and demand is tight. Vacancy rates are quite low in all cities apart from Sydney.

The RBA is not particularly worried about the strength of the recovery. The RBA would be worried if credit growth (or debt) is rising materially in response to high housing prices. This is not the case. If there are signs of rising credit growth, there could be regulatory measures imposed on housing lending.

The gains in dwelling prices are being driven by Sydney and Melbourne, up by 2.7% and 2.2%, respectively. Prices are being pulled higher by the top quartile of homes by value. This segment fell sharply during the downturn but dwellings at all price points are rising. Australia-wide, the top quartile rose by 2.5%, the middle half of properties rose by 1% and the lowest quartile rose by 0.4%.

Prices in Perth rose by 0.4%, the first monthly gain since April 2018. It is too early to tell if the long downturn in Perth has run its course. Vacancy rates have fallen a long way and mining investment is rising, providing some stability to the WA economy.

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20 December 2019

Dear Client

To give personal financial advice in Australia, you must hold an Australian Financial Services Licence (AFSL). Our practice, Heading Forward Financial Planning Pty Ltd, is currently authorised to provide financial advice under a licence held by Financial Wisdom Limited (FWL), a wholly owned subsidiary of the Commonwealth Bank. The Commonwealth Bank has recently announced it intends to cease providing licensee services through FWL by June 2020 and will proceed with an assisted closure.

As a result of this closure, Heading Forward Financial Planning Pty Ltd has applied to Australian Securities and Investments Commission (ASIC) for its own AFSL through our company Investplan Pty Ltd, AFSL 518743 and ABN 39 635 196 735. Once this application is complete and Heading Forward Financial Planning Pty Ltd is authorised to provide financial advice under Investplan Pty Ltd's AFSL, we will no longer provide advice under FWL and FWL will no longer be taking responsibility for providing ongoing investment and insurance advice and other financial services to you.

Importantly, Heading Forward Financial Planning Pty Ltd and Peter Heading will continue to provide you with your financial planning needs and will continue to provide advice to you under Investplan Pty Ltd's AFSL. No action is needed by you.

However, the following should be noted:

1. Your client file and personal information will be retained by Heading Forward Financial Planning Pty Ltd so that it can continue to provide you with financial advice. Your records may also include sensitive information, if this has been previously provided.

2. If you **do not** wish to move with Heading Forward Financial Planning Pty Ltd to Investplan Pty Ltd, or for us to retain your records, please contact FWL by 10 January 2020 on 1800 024 864 or advicecompliance@cba.com.au. Please note that if you do this, FWL will **not** be able to provide financial services to you after June 2020.

3. Following our transfer to Investplan Pty Ltd, both Heading Forward Financial Planning Pty Ltd and Investplan Pty Ltd will have responsibilities under Investplan Pty Ltd's privacy policy in relation to the handling of your personal information. Please refer to the privacy policy available from Heading Forward Financial Planning Pty Ltd.

Should you wish to discuss this information in more detail, please feel free to contact me.

Yours sincerely

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