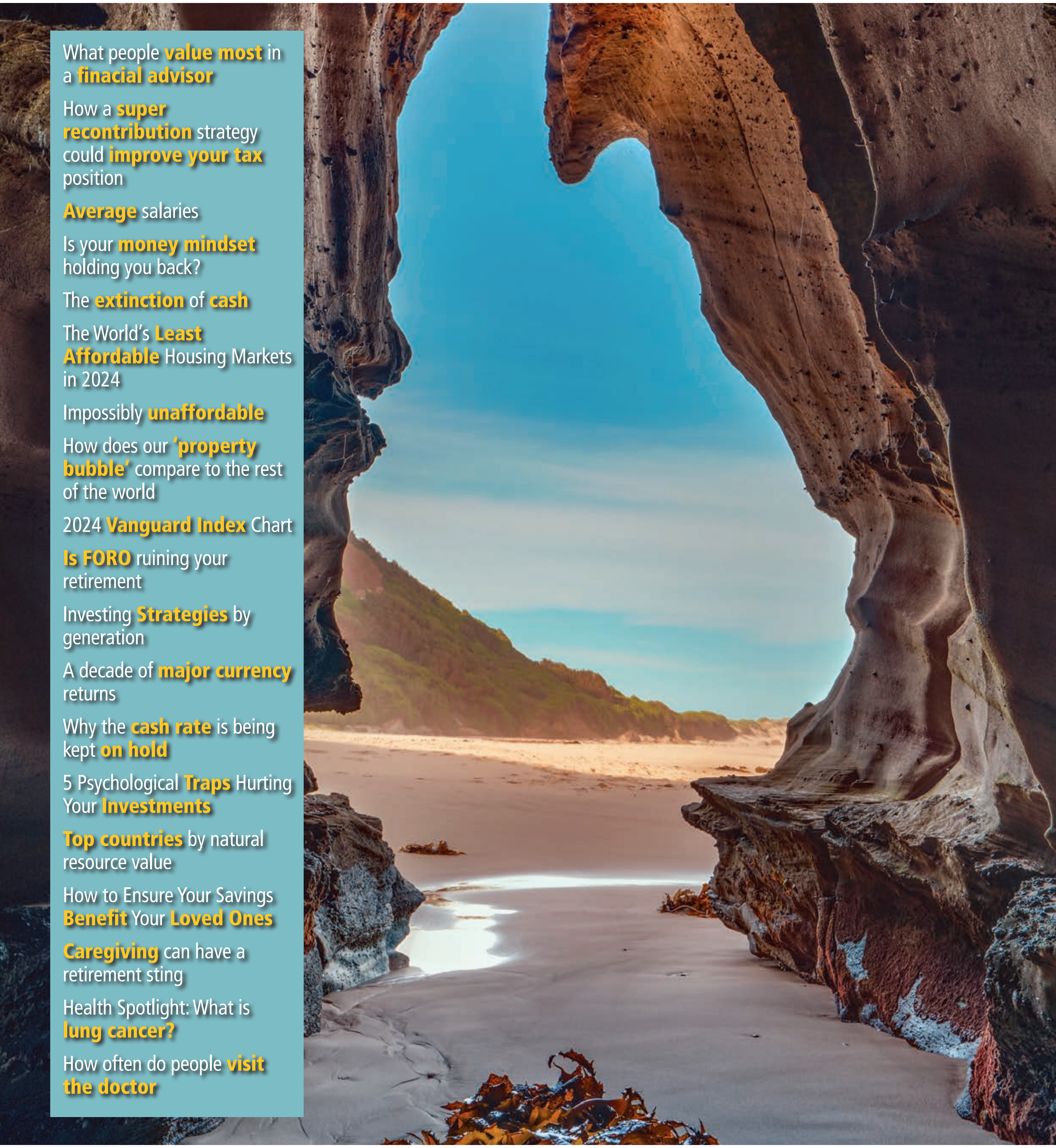
advicematters MAGAZINE

DECEMBER | 2024



Do you know someone that might benefit from our advice?

For us, a referral from an existing client is very welcome because we see it as recognition for the quality of service and advice we strive so hard to achieve.

If you think that a member of your family or friends would benefit by spending some time talking with us about their financial plans, then please pass on our details. You can be confident that they will receive the same level of commitment and service that you have experienced.

A warm welcome

Welcome to another edition of 'Advice Matters' Magazine

In less than a month's time 2024 will draw to a close and in a couple of weeks Christmas will be upon us. From political milestones and scientific breakthroughs to cultural achievements and natural disasters, the year has been shaped by a diverse array of significant occurrences. These events not only reflect the challenges and triumphs of our time but also set the stage for future advancements and changes in our global society.

Looking back on the year that was, and in no particular order is our review of 2024.

Political Landscape

One of the most anticipated events of 2024 was the U.S. presidential election held on the 5th of November. This election saw a highly competitive race with significant implications for both domestic and international policies. The election was notable for its high voter turnout and the intense debates surrounding key issues such as healthcare, climate change, and economic reform.

Scientific and Technological Advances

In the realm of medical research, Australian scientists made a groundbreaking discovery in cancer treatment. Researchers at the Peter MacCallum Cancer Centre developed a new immunotherapy drug called glofitamab. This drug has shown significant results in treating patients with mantle cell lymphoma (MCL), a rare and aggressive type of non-Hodgkin lymphoma. The trial's success suggests that glofitamab could represent a significant advancement in the treatment of MCL, offering new hope to patients with this challenging condition.

It was also a remarkable year for scientific achievements. NASA's Artemis II mission took off, marking a significant step towards returning humans to the Moon. This mission is part of NASA's broader Artemis program, which aims to establish a sustainable human presence on the Moon by the end of the decade.

In February, the Odysseus moon lander became the first private spacecraft to land on the moon and demonstrated the growing role of private companies in space exploration.

Cultural Milestones

The world of entertainment saw some notable achievements as well. At the 96th Academy Awards, Christopher Nolan won Best Director for his film "Oppenheimer," which also took home the award for Best Film.

In sports, the 2024 Summer Olympics held in Paris Australia had an outstanding performance achieving its best-ever results. The Australian team finished fourth on the medal tally, securing a total of 53 medals: 18 gold, 19 silver, and 16 bronze.

Natural Events and Environmental Issues

The year began with a natural disaster when a magnitude 7.6 earthquake struck Japan's western coast on the 1st of January, resulting in significant loss of life and property. Australia faced several environmental challenges in 2024 with severe bushfires here in Western Australia, which caused significant damage to homes and wildlife habitats. On a positive note, Australia made significant progress in renewable energy with the largest solar farm in the Southern Hemisphere in Queensland in June.

Major Trials and Legal Decisions

2024 was marked by several high-profile legal proceedings. The trial of former U.S. President Donald Trump on multiple felony charges was a focal point of media attention. The outcomes of these trials had significant political and social ramifications, influencing public opinion and the political landscape.

Technological Innovations

The Consumer Electronics Show (CES) in Las Vegas showcased groundbreaking innovations, including the unveiling of the world's first wireless TV with a transparent screen by LG. This technological marvel represented a leap forward in home entertainment and consumer electronics.

Conclusion

In summary, 2024 has been a year of significant events and developments for Australia. From political shifts and scientific breakthroughs to cultural celebrations and environmental challenges, the year has been marked by a diverse array of impactful occurrences. These events not only reflect the dynamic nature of Australian society but also set the stage for future advancements and changes. As Australia continues to navigate these developments, the resilience and innovation of its people remain a constant source of strength and inspiration.

As for the year ahead, various experts and futurists have made intriguing predictions about what the year might hold. These predictions span multiple domains, including technology, healthcare, environment, and social changes.

Technological Advancements

One of the most anticipated developments in 2025 is the continued rise of artificial intelligence (AI) and its integration into everyday life. AI is expected to become more common, with applications ranging from personalized healthcare to advanced robotics[1]. The use of AI in diagnosing diseases and recommending treatments could revolutionize the medical field, making healthcare more accessible and efficient.

Another significant technological prediction is the expansion of electric air transportation. Companies are working on electric aircraft that could transform short-haul flights, reducing carbon emissions and making air travel more sustainable[1]. This innovation is part of a broader trend towards greener technologies and renewable energy sources.

Healthcare Innovations

In the realm of healthcare, 2025 is expected to bring advancements in DNA mapping at birth could become more common, allowing for personalised medical care from an early age[1]. Another exciting development is the potential for Type I diabetes to become preventable. Research into immunotherapy and other treatments is progressing, offering hope for those affected by this chronic condition[1].

Environmental Changes

The environment remains a critical focus, with predictions highlighting significant strides in combating climate change. Solar energy is expected to become the largest source of energy on the planet by 2051. This shift towards renewable energy sources is crucial for reducing greenhouse gas emissions and mitigating the impacts of global warming. Additionally, biodegradable packaging is predicted to become the norm, reducing plastic waste and its harmful effects on the environment[1]. This change is part of a larger movement towards sustainability and environmental responsibility.

Social and Cultural Shifts

Socially, 2025 is expected to see significant changes in how we live and work. The concept of mental wealth is gaining traction, with a greater emphasis on mental health and well-being[2]. The disruptions caused by the COVID-19 pandemic have highlighted the importance of mental health, leading to more comprehensive support systems and policies. Career transitions are also expected to become more fluid, with individuals changing careers more frequently and acquiring new skills throughout their lives[2]. This shift reflects the evolving nature of work and the increasing importance of lifelong learning.

Conclusion

In summary, the predictions for 2025 paint a picture of a world undergoing rapid transformation. Technological advancements promise to revolutionize healthcare and transportation, while environmental initiatives aim to create a more sustainable future. Social and cultural shifts reflect changing attitudes towards mental health and career development. Whether these predictions come to pass remains to be seen, but they offer a fascinating glimpse into the potential future.

References

[1] Ten Predictions for 2025 - The Atlantic

[2] Here are 5 things to look forward to in the future - according to 1,000 ...

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Contents

How a super recontribution strategy could improve your tax position

Withdrawing part of your superannuation fund balance then paying it back into the account, known as a recontribution strategy, may sound a little strange but it could deliver a number of benefits including reducing tax and helping to manage super balances between you and your spouse.

Your super is made up of tax-free and taxable components. The tax-free part generally consists of contributions on which you have already paid tax, such as your non-concessional contributions.

When this component is withdrawn or paid to an eligible beneficiary, there is no tax payable.

The taxable component generally consists of your concessional contributions, such as any salary sacrifice contributions or the Super Guarantee contributions your employers have made on your behalf.

You may need to pay tax on your taxable contributions depending on your age when you withdraw it, or if you leave it to a beneficiary who the tax laws consider is a non-tax dependant.

How recontribution strategies work

The main reason for implementing a recontribution strategy is to reduce the taxable component of your super and increase the tax-free component.

To do this, you withdraw a lump sum from your super account and pay any required tax on the withdrawal.

You then recontribute the money back into your account as a Non-Concessional Contribution (NCC). If you withdraw this money from your account at a later date, you don't pay any tax on it as your contribution was made from after-tax money.

The recontribution doesn't necessarily have to be into your own super account. It can be contributed into your spouse's super account, provided they meet the contribution rules.

To use a recontribution strategy you must be eligible to both withdraw a lump sum and recontribute the money into your account. In most cases this means you must be aged 59 to 74 and retired or have met a condition of release under the super rules.

Any recontribution into your account is still subject to the current contribution rules, your Total Super Balance and the annual contribution caps.

Benefits for your non-tax dependants

Recontributing your money into your super account may have valuable benefits when your super death benefit is paid to your beneficiaries.

A recontribution strategy is particularly important if the beneficiaries you have nominated to receive your death benefit are considered non-dependants for tax purposes. (The definition of a dependant is different for super and tax purposes.)

Recontribution strategies can be very helpful for estate planning, particularly if you intend to leave part of your super death benefit to someone who the tax law considers a non-tax dependant, such as an adult child.

Otherwise, when the taxable component is paid to them, they will pay a significant amount of the death benefit in tax. (Your spouse or any dependants aged under 18 are not required to pay tax on the payment.)

Some non-tax dependants face a tax rate of 32 per cent (including the Medicare levy) on a super death benefit, so a strategy to reduce the amount liable for this tax rate can be worthwhile.

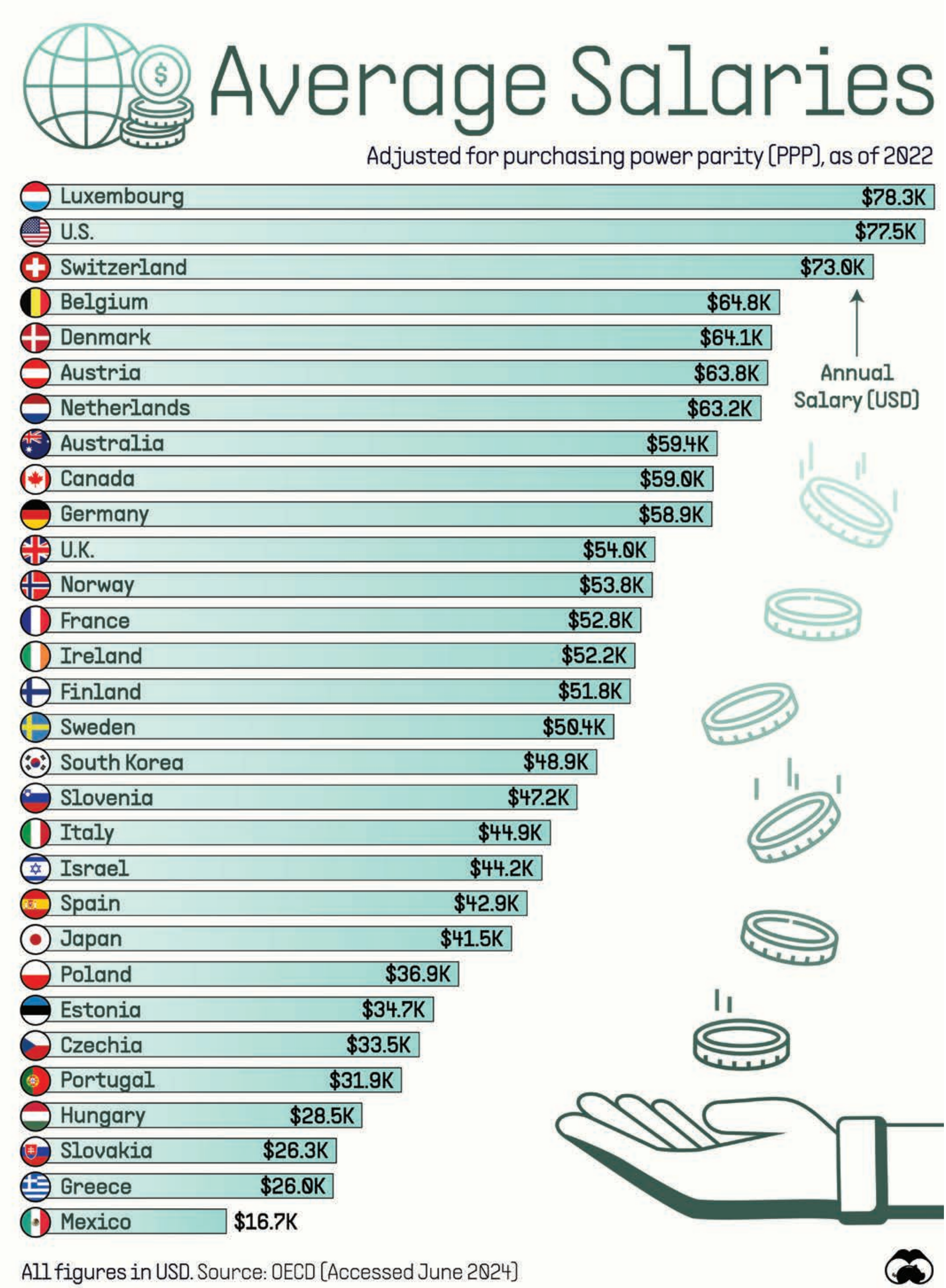
By implementing a recontribution strategy to reduce the taxable component of your super benefit, you may be able to decrease – or even eliminate – the tax your non-tax dependant beneficiaries are required to pay.

Watch the contribution and withdrawal rules

Our retirement system has lots of complex tax and super rules governing how much you can put into super and when and how much you can withdraw.

Before you start a recontribution strategy, you need to check you will meet the eligibility rules both to withdraw the money and contribute it back into your super account.

If you would like more information about how a recontribution strategy could help your non-dependants save tax, give our office a call today.


Average Salaries
Adjusted for purchasing power parity (PPP), as of 2022
Luxembourg $78.3K
U.S. $77.5K
Switzerland $73.0K
Belgium $64.8K
Denmark $64.1K
Austria $63.8K
Netherlands $63.2K
Australia $59.4K
Canada $59.0K
Germany $58.9K
U.K. $54.0K
Norway $53.8K
France $52.8K
Ireland $52.2K
Finland $51.8K
Sweden $50.4K
South Korea $48.9K
Slovenia $47.2K
Italy $44.9K
Israel $44.2K
Spain $42.9K
Japan $41.5K
Poland $36.9K
Estonia $34.7K
Czechia $33.5K
Portugal $31.9K
Hungary $28.5K
Slovakia $26.3K
Greece $26.0K
Mexico $16.7K
Annual Salary (USD)
All figures in USD. Source: OECD (Accessed June 2024)

Is your money mindset holding you back?

Does your Money Mindset have your back? Or… Is it holding you back?

If you've never really thought about it, you'd be forgiven. When it comes to our financial success, we tend to focus on things like income, investments, and expenses. It makes sense to put our financial position down to how much we earn or spend, or the performance of our investments. But what about the role of our Money Mindset?

What is a Money Mindset?

A money mindset is your set of beliefs and attitudes about money. It shapes how you make financial decisions, how you perceive wealth, and how you react to financial challenges. Understanding your money mindset is important because it can either support you in achieving financial success, or hold you back from it.

There are various types of money mindsets, but they often fall into two broad categories:

Abundance Mindset vs. Scarcity Mindset

Abundance Mindset: An abundance mindset is the belief that ample opportunities exist to earn, grow, and enjoy wealth. People with this mindset see the world as full of potential and possibilities. They tend to be optimistic about their financial future and are willing to take calculated risks.

Scarcity Mindset: A scarcity mindset, on the other hand, is the belief that resources are limited and difficult to obtain. People with this mindset often focus on what they lack rather than what they have. This can lead to fear, anxiety, and a reluctance to take risks.

Fixed Mindset vs. Growth Mindset

Fixed Mindset: A fixed mindset in a financial context means believing that your financial abilities and knowledge are static and unchangeable. People with a fixed mindset might think they are either "good" or "bad" with money and that this cannot be altered.

Growth Mindset: A growth mindset is the belief that financial skills and knowledge can be developed through effort and learning. Individuals with a growth mindset see financial challenges as opportunities to improve and grow.

Money Mindsets in Everyday Life

Having explored the concepts of abundance vs. scarcity and fixed vs. growth mindsets, let's look at how these money mindsets might manifest in everyday life:

- **Abundance and Growth Mindset:**
  Kylie believes there are many ways to grow her wealth. She takes an online investing course, consults a financial adviser, and starts a diversified investment portfolio. She views market fluctuations as learning experiences and opportunities for growth.
- **Scarcity and Fixed Mindset:**
  Jacob believes he will never be good with money and that financial success is reserved for others. He avoids investing due to fear of losing money and prefers to keep his savings in a low-interest account. He often feels stressed about his financial future and is reluctant to seek advice.
- **Abundance and Fixed Mindset:**
  Taylor is optimistic about her financial future and believes in plenty of opportunities. However, she thinks her financial skills are unchangeable. She sticks to familiar, low-risk investments and dismisses new strategies, missing out on potentially higher returns.
- **Scarcity and Growth Mindset:**
  Oscar grew up believing money is scarce and financial security is hard to achieve. Despite this, he commits to improving his financial situation through education. He starts with low-risk investments to build confidence and gradually diversifies his portfolio, overcoming his fears over time.

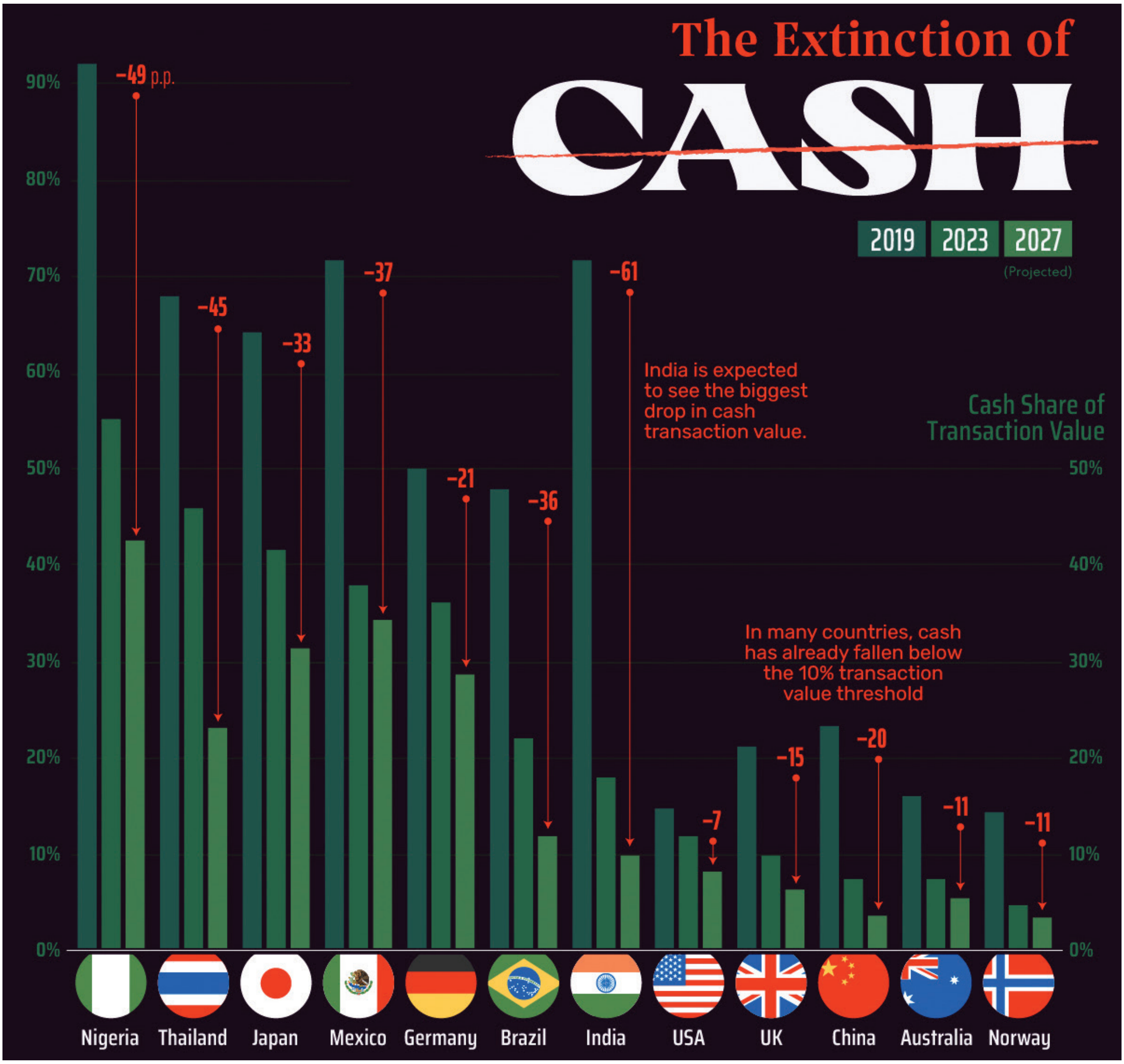
Strategies to shift a negative Money Mindset

If you've identified that your money mindset might be holding you back, don't worry! The following strategies can be used to help you to shift your mindset to a more positive one:

1. Set Realistic and Achievable Financial Goals - Start with small, manageable goals and gradually increase their complexity. Achieving these goals will build confidence and encourage a positive mindset.
2. Educate Yourself on Financial Management and Investing - Understanding financial principles and investment strategies can reduce fear and build a sense of control over your finances.
3. Practice Mindfulness and Emotional Intelligence - Mindfulness can help you stay present and make thoughtful financial decisions. Emotional intelligence will enable you to manage financial stress and maintain a positive outlook.
4. Seek Advice - Professional financial planners can provide valuable insights and strategies tailored to your unique situation. They can help you navigate complex financial decisions and create a roadmap for achieving your goals.

Your money mindset plays a crucial role in your financial success… it should have your back, not hold you back!

By identifying and overcoming negative financial beliefs, you can create a healthier relationship with money and achieve your financial goals. Take the first step today by reflecting on your financial mindset and seeking professional advice to guide you on your journey.



How your insurance premiums are calculated

The amount you pay for your life insurance – usually each month or year - is called a premium. Before you purchase your insurance, you'll be provided with a quote which will estimate how much you will pay in premiums.

So how do life insurance companies decide the amount they will charge you? There are a number of factors that typically go into the final cost of your premium.

Your level of cover

The amount and types of cover you have decided to include in your insurance will play a key role in what you are charged. You may have a combination of cover types, including life cover, income protection and total permanent disablement (TPD) cover.

You will also be insured for a certain amount under the benefits you've selected, and in the case of income protection and business expense cover, you will have a set waiting period before you can receive benefits, and a set time that you will be able to receive those benefits.

You may also have selected some optional add-on benefits as part of your cover, which may affect the price of your premium.

Your personal circumstances

A range of factors about your personal situation can also affect your premium. As you get older the risk of you contracting a serious illness increases, so your premiums will be higher with age.

Factors such as your gender, general health, whether you smoke, your occupation and lifestyle will be taken into account when calculating the premium price.

Your premium type

When you take out life insurance, you are able to choose the premium type that best suits your needs. You can choose from variable age-stepped premiums (previously known as stepped premiums) – where your premiums are recalculated each year based on your age – or variable premiums (previously known as level premiums), where your premiums do not increase due to age (up to age 65). However, if you choose variable premiums, your premiums can still increase for other reasons, such as indexation with inflation.

Variable premiums are likely to be higher when your cover begins compared to variable age-stepped premiums.

Your payment frequency

Whether you pay your premiums monthly or annually will also affect how much you pay. If you choose to pay on a monthly basis, you will need to pay an extra administrative loading to cover the cost to the insurer of collecting your premium more frequently.

Government taxes

Insurance sales duties imposed by state governments should also be included as part of your premium costs, either as part of your base rate or as an additional charge. These taxes may vary depending on where you live.

The World's Least Affordable Housing Markets in 2024

Many cities around the world have become very expensive to buy a home in, but which ones are the absolute most unattainable?

In this graphic, we highlight a number of housing markets that are deemed to be "impossibly unaffordable" in 2024, ranked by their **median price-to-income ratio.**

Data and Key Takeaway

The median price-to-income ratio compares *median house price to median household income* within each market. A higher ratio (higher prices relative to incomes) means a city is less affordable.

See the following table for all of the data we used to create this graphic. Note that this analysis covers 94 markets across eight countries: Australia, Canada, China, Ireland, New Zealand, Singapore, the United Kingdom, and the United States.

According to the Demographia report, cities with a median price-to-income ratio of over **9.0** are considered "impossibly unaffordable".

We can see that the top city in this ranking, **Hong Kong,** has a ratio of **16.7.** This means that the median price of a home is 16.7 times greater than the median income.

Which Cities are More Affordable?

On the flipside, here are the top 12 most affordable cities that were analyzed in the Demographia report.

Cities with a median price-to-income ratio of **less than 3.0** are considered "affordable", while those **between 3.1 and 4.0** are considered "moderately unaffordable".

Rank	Metropolitan Market	Country	Median price-to-income ratio
1	Hong Kong (SAR)	China	16.7
2	Sydney	Australia	13.8
3	Vancouver	Canada	12.3
4	San Jose	U.S.	11.9
5	Los Angeles	U.S.	10.9
6	Honolulu	U.S.	10.5
7	Melbourne	Australia	9.8
8	San Francisco	U.S.	9.7
9	Adelaide	Australia	9.7
10	San Diego	U.S.	9.5
11	Toronto	Canada	9.3
12	Auckland	New Zealand	8.2

Rank	Metropolitan Market	Country	Median price-to-income ratio
1	Pittsburgh	U.S.	3.1
2	Rochester	U.S.	3.4
2	St. Louis	U.S.	3.4
4	Cleveland	U.S.	3.5
5	Edmonton	Canada	3.6
5	Buffalo	U.S.	3.6
5	Detroit	U.S.	3.6
5	Oklahoma City	U.S.	3.6
9	Cincinnati	U.S.	3.7
9	Louisville	U.S.	3.7
11	Singapore	Singapore	3.8
12	Blackpool & Lancashire	U.K.	3.9

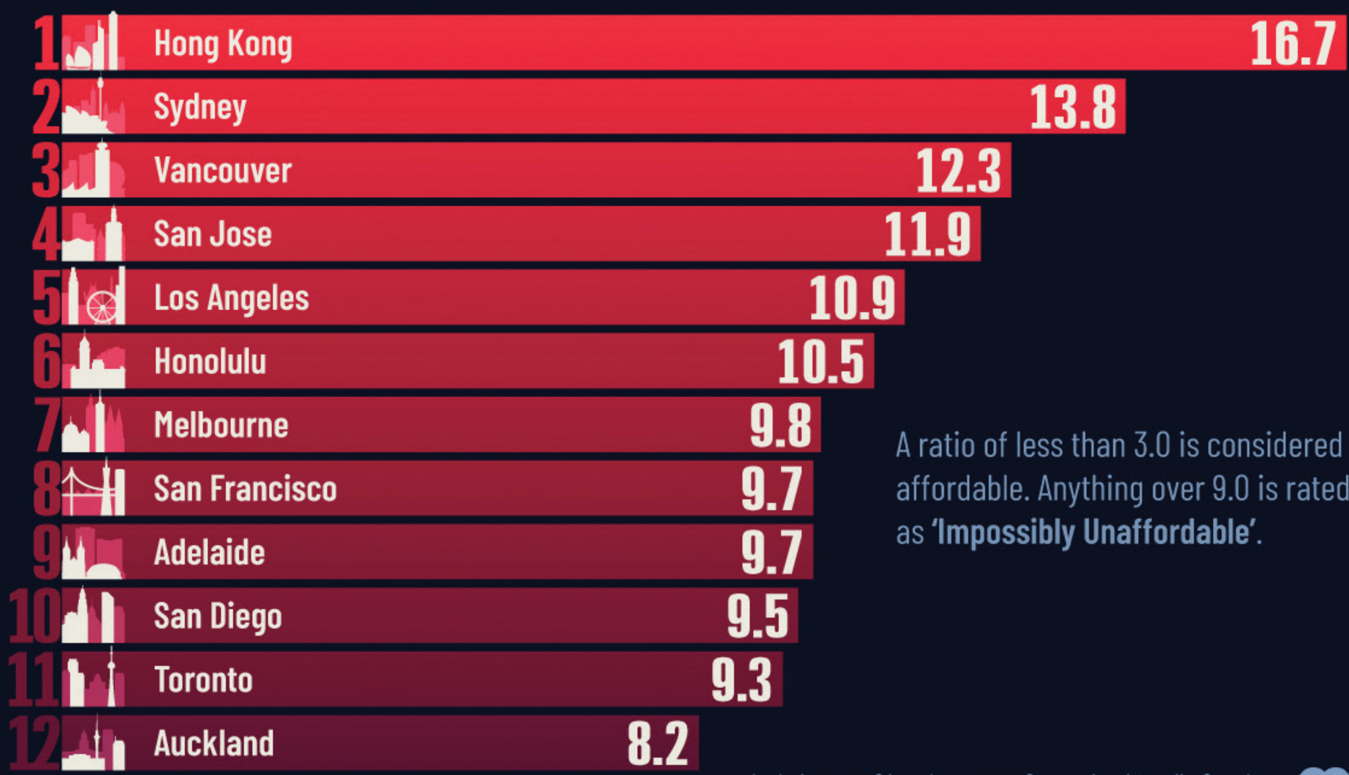
Source: https://www.visualcapitalist.com/mapped-the-worlds-least-affordable-housing-markets-in-2024/

IMPOSSIBLY UNAFFORDABLE

HOUSING MARKETS As of Q3 2023

Median Price-to-Income Ratio = Median House Price / Median Household Income

MEDIAN PRICE-TO-INCOME RATIO

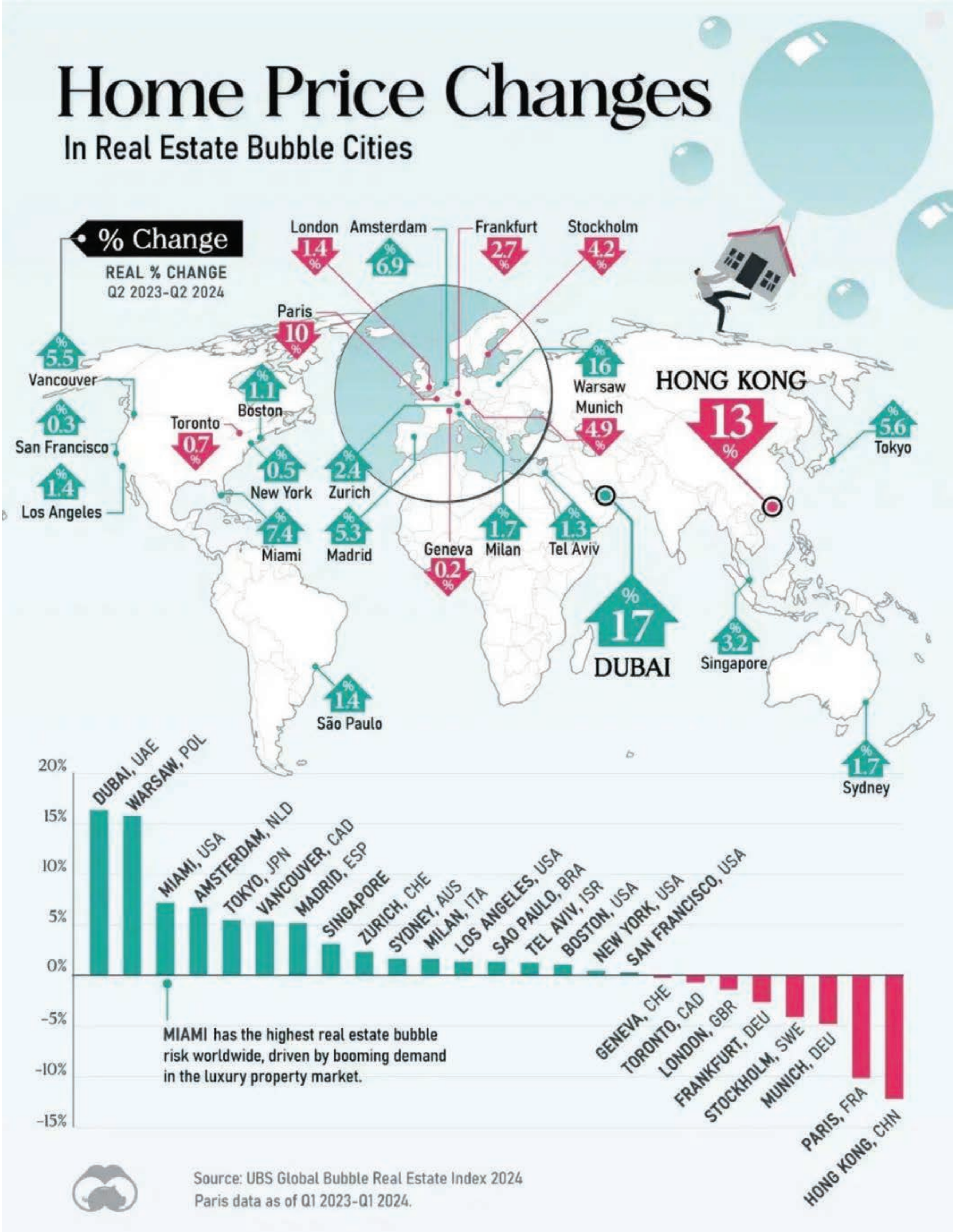


A ratio of less than 3.0 is considered affordable. Anything over 9.0 is rated as **'Impossibly Unaffordable'**.

Source: Center for Demographics and Policy, Chapman University (2024)

Analysis covers 94 markets across 8 countries: Australia, Canada, China, Ireland, New Zealand, Singapore, United Kingdom and the U.S.

How does our 'property bubble'



compare to the rest of the world

Housing policy has been a big political issue for some time now and politicians are scrambling to tackle affordability.

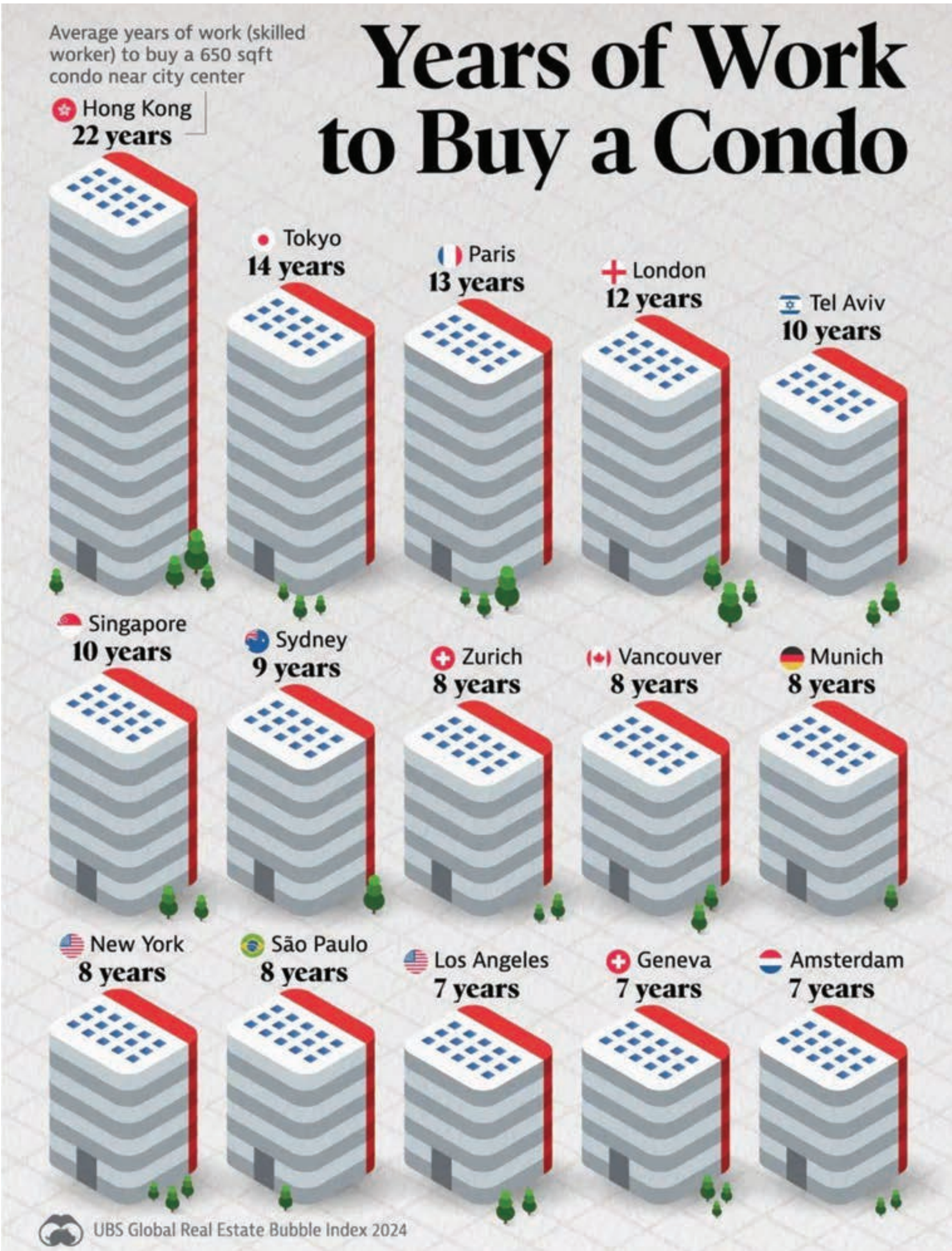
Historically, Australians are a property loving people but with recent sharpest rise in interest rates in history the affect on household finances is rapidly becoming a political 'hot potato'.

Despite what the politicians may want to tell us, there really is no quick fix to solving the housing crisis. As has always been the case, it is a matter supply and demand putting pressure on the ability to build new homes and increasing land supply as well as reducing construction costs.

Putting our current residential property issues into a global perspective provides some interesting insights.

Looking at the graphic below called Home Price Changes ranks the global housing 'bubble' markets and how they performed in the last financial year. People living in Dubai and Warsaw have experienced accelerated housing growth performance, while Hong Kong and Paris saw their property markets deflate badly.

Australia's biggest bubble property market has always been Sydney which showed only a very small rise in value as the big capital city markets slow.



2024 Vanguard Index Chart

Market returns – 1 July 1994 to 30 June 2024

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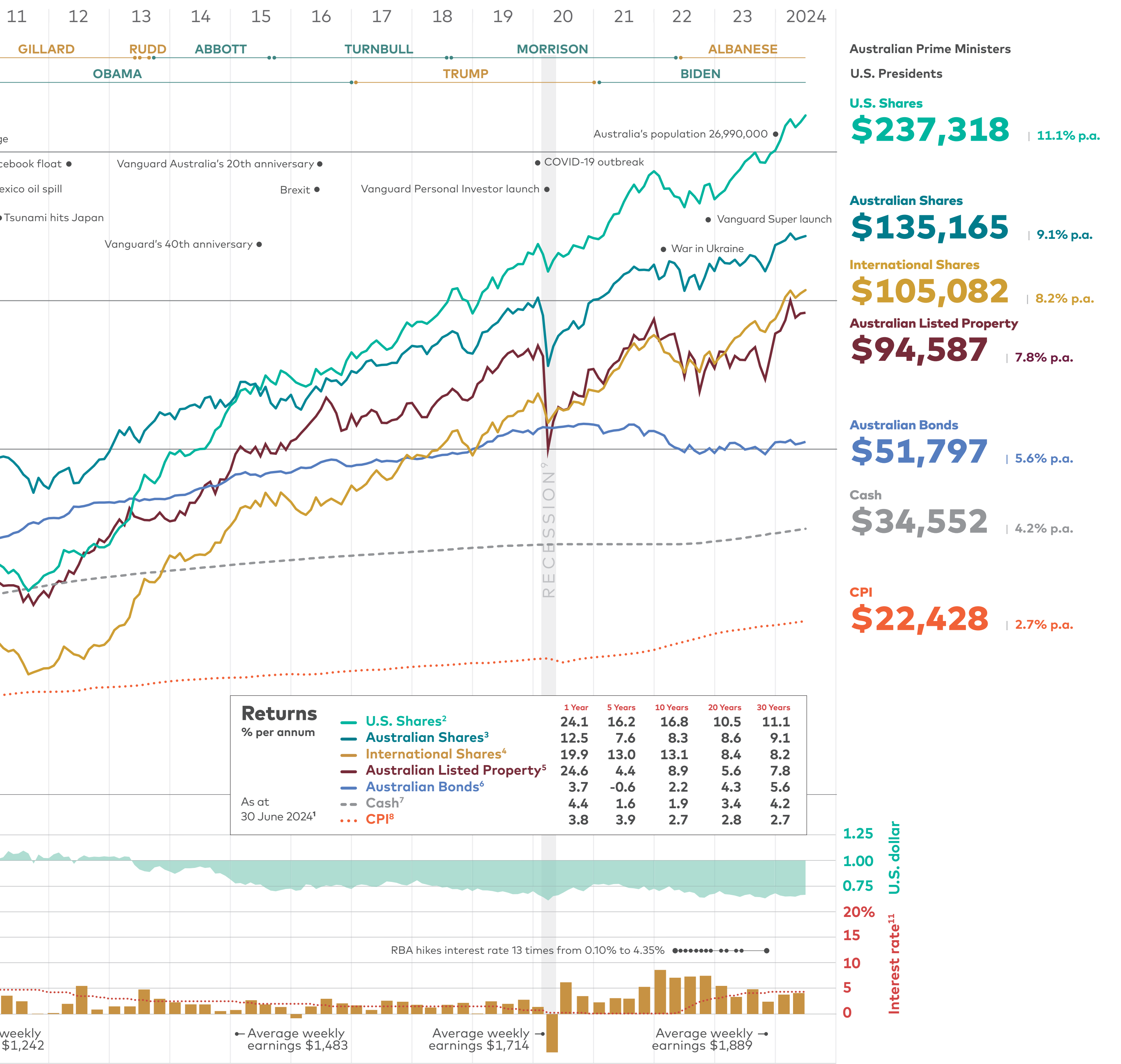
Vanguard
Strong and Steady



Returns
% per annum

As at 30 June 2024[1]

	1 Year	5 Years	10 Years	20 Years	30 Years
U.S. Shares[2]	24.1	16.2	16.8	10.5	11.1
Australian Shares[3]	12.5	7.6	8.3	8.6	9.1
International Shares[4]	19.9	13.0	13.1	8.4	8.2
Australian Listed Property[5]	24.6	4.4	8.9	5.6	7.8
Australian Bonds[6]	3.7	-0.6	2.2	4.3	5.6
Cash[7]	4.4	1.6	1.9	3.4	4.2
CPI[8]	3.8	3.9	2.7	2.8	2.7

Is FORO ruining your retirement?

FORO – the fear of running out.

I'd never heard the expression until I met Mark and Susan. Of course I'd heard of FOMO, the fear of *missing* out, but never FORO.

As the newly-retired couple sat across from me, explaining how they were so afraid of running out of savings that they were not enjoying the retirement they'd worked so diligently for, I grasped the meaning of FORO immediately.

They rarely went out for dinner, bought anything new or – heaven forbid – took a holiday. After a lifetime of saving hard, paying off a mortgage and raising a family, Mark and Susan were naturally frugal, but FORO had left them feeling vulnerable and afraid of the future.

After two decades as a financial planner, I'd come across this situation before, although, it is unfortunately becoming more common.

Mark and Susan had never sought financial advice before and weren't sure what I could do to help, but came to see me because they didn't know where else to turn.

When I assured them that there was plenty I could do to help, they visibly relaxed.

I explained that the key to overcoming FORO was having a well-structured financial plan. After I outlined my 5-step strategy, they were eager to proceed.

The steps we took were as follows:

1. **Conduct a financial assessment**

   By thoroughly assessing their current financial position (superannuation, savings, investment and social security entitlement), I formulated a picture of where they were at, and their future cash flow projections.

2. **Establish a sensible strategy**

   Working together, we identified essential living expenses and discretionary expenses, then allocated funding that balanced financial security with lifestyle goals.

   Next, we determined a retirement investment portfolio with a sensible withdrawal rate to support their retirement plans.

3. **Create an emergency buffer**

   In my experience, the what if factor is a major concern for retirees. What if…I become ill? What if…the fridge breaks down? What if…the car dies?

   These questions, and more, play on peoples' minds to the point where they fall back into a FORO mind set.

   To ease their anxiety, I recommended they include a contingency fund in their portfolio to ensure that unplanned expenses were covered. That way, if something unexpected pops up, their retirement lifestyle strategy remains on track.

4. **Enjoy the early years**

   FORO had been holding Mark and Susan back for too long. I explained that hobbies, travel and social activities are crucial to mental well-being. So once we had established a responsible financial plan, I showed them how they could afford to spend, sensibly, and enjoy themselves. I especially encouraged them to make the most of their early retirement years, while they were fit and energetic.

5. **Schedule regular reviews**

   The final step in the process was my ongoing commitment to Mark and Susan. Retirement planning is not a set-and-forget strategy; it's a journey through every stage of life – physical retirement being one of those stages.

By regularly reviewing their financial position, I helped Mark and Susan monitor their spending and investment performance, and made portfolio adjustments that kept them in control of their retirement plan.

Last week I bumped into the couple on the street. They were glowing with excitement and told me they'd just booked a Pacific cruise.

Of course, I was thrilled for them – it was a big tick off the bucket list! But when Susan said they'd turned FORO into FOMO and were living their best lives, well, I'll just say it was one of those moments when I absolutely love my job!

Sources: www.superannuation.asn.au 'The ASFA Retirement Standard', The Association of Superannuation Funds of Australia Limited (accessed March 2024)

www.moneysmart.gov.au 'Prepare to retire', Moneysmart website (accessed March 2024)

Investing Strategies
BY GENERATION

Share of U.S. investors currently using each investing strategy

INVESTING STRATEGY	GEN Z 1997–2002	MILLENNIALS 1981–1996	GEN X 1965–1980	BOOMERS 1948–1964
Buy and hold	57%	59%	48%	60%
Growth investing	57%	56%	51%	49%
Fractional shares investing	48%	48%	33%	25%
Short-term trading	52%	52%	31%	20%
Direct indexing	44%	42%	26%	23%
Socially responsible investing	43%	45%	27%	17%
Robo-advisor investing	40%	41%	25%	11%
Thematic investing	41%	41%	20%	9%

Data as of March 2024. Survey of 1,000 U.S adults
Source: Charles Schwab Modern Wealth Survey 2024

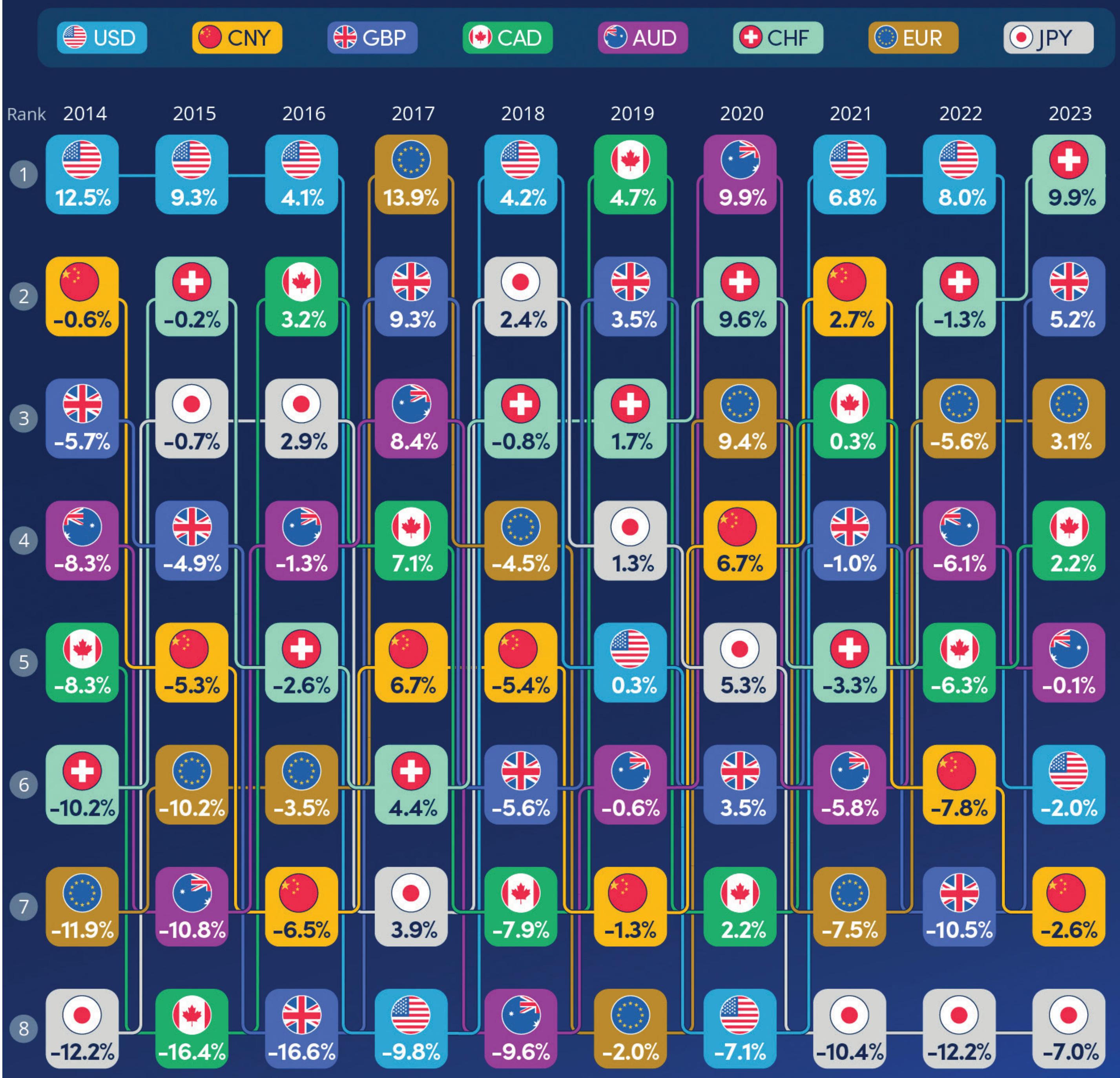
RANKED

A Decade of Major Currency Returns

The U.S. dollar (USD) was the best-performing currency, taking the top spot in six of the last ten years.

What else can investors learn from patterns in historical performance?

Annual Returns of Major Currencies Since 2014 Year-over-Year Percent Change



Monetary policy, geopolitical events, and economic conditions all played a role in determining currency returns throughout the last 10 years.

Why the cash rate is being kept on hold

The RBA is unlikely to start easing interest rates until the second quarter of 2025.

"The board needs to be confident that inflation is moving sustainably towards the target and we need to see more progress on underlying inflation coming down."

That was the bottom line from Reserve Bank of Australia (RBA) Governor, Michele Bullock, last week in justifying the central bank's decision to keep its policy cash rate on hold at 4.35%.

Furthermore, she noted that Australia's underlying inflation is forecast to be in the top of the RBA's 2-3% target range by the end of 2025, and to the midpoint of the band by the end of 2026.

"Right now we believe settings are restrictive and we need to keep rates restrictive for the time being," she said. "We're watching the data closely and we're not ruling anything in or out. We do think that there are still some risks on the upside."

Unlikely near-term rate cut

Vanguard Senior Economist, Grant Feng, says that despite slowing economic growth, core inflation remains elevated, and Australia's labour market remains tight.

"The September quarter Consumer Price Index was largely in line with expectations, with trimmed-mean inflation increasing by 0.8%, despite utility subsidies helping to reduce headline inflation to a modest 0.2% increase over the quarter" Dr Feng says.

"In our view, while some housing and goods related inflation is showing signs of easing, this deceleration is gradual. Services inflation remains particularly resilient, bolstered by steady increases in administrative costs, which suggests that trimmed-mean inflation will stay above the RBA's target range in the near term.

Figure 1: While subsidies and fuel have assisted headline disinflation, services has shown no disinflation this year.

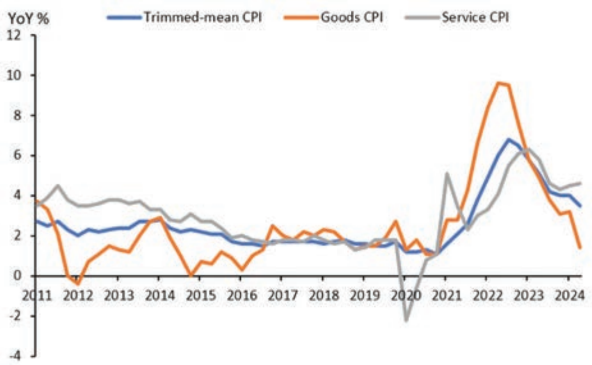
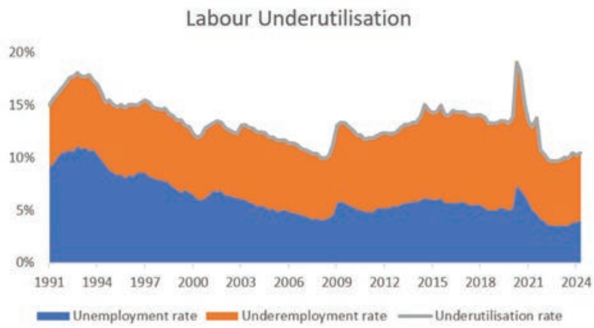


Figure 2: Measures of labour market capacity are off peak tightness but have not loosened much this year.



Although the RBA's aggressive rate hikes totalling 425 basis points since 2022 has depressed household spending and weighed on growth, other factors have partly offset this effect.

"First, the surge in inward migration since Australia's reopening after COVID has driven aggregate demand higher, and although the pace of migration is now slowing, it remains above historical averages," Dr Feng says.

"Second, government spending has played a substantial role in supporting economic and employment growth, a trend that's likely to continue ahead of the federal election scheduled for Q2 2025.

"Fiscal policy has thus become expansionary at a time when the RBA continues to maintain tight monetary conditions to curb inflation.

"Moreover, weak productivity growth has constrained the economy's supply capacity, underpinning unit labour costs that are inconsistent with the RBA's inflation target."

Dr Feng says aggregate demand is consequently likely to exceed aggregate supply, keeping the labour market historically tight and the economy operating close to, or slightly above, full capacity.

"In light of these dynamics, we expect the RBA to be slow in pivoting toward policy easing," he says.

"To tame inflation, a prolonged period of subdued demand will be necessary, weakening economic growth.

"Our base case is the RBA will not enter the easing cycle until the second quarter of 2025, with a gradual and slow pace to follow.

"A focus on the supply side, especially on labour productivity, would be a key help for the RBA in disinflating the economy while also lifting Australia's long-term growth potential."

Dr Feng says it would be less painful to achieve disinflation with lower disruption to demand and the labour market.

"However, Australia has shown the weakest productivity growth among comparable developed economies since the pandemic," he says.

"Without significant improvements on the supply side, demand will likely need to remain suppressed for an extended period to bring inflation in line with the RBA's target."

Source:

https://www.vanguard.com.au/personal/learn/smart-investing/markets-and-economy/why-the-cash-rate-is-being-kept-on-hold

5 Psychological Traps Hurting Your Investments

Market trends aren't the only factors affecting your investment portfolio—behavioural biases can significantly impact your returns.

These psychological tendencies, like confirmation bias and herd mentality, often lead to poor investment decisions.

Behavioural biases are mental shortcuts or blind spots that can mislead us, even when our choices seem rational.

Understanding the most common biases and their impact on our investment decision-making is crucial for achieving the best possible returns.

1. Confirmation Bias

Confirmation bias means that we seek out information that confirms existing beliefs or investment decisions while ignoring contradictory evidence. This can lead to a lack of diversification and increased risk exposure. For example, a person who holds significant shares in a company might ignore all negative news about that company.

2. Overconfidence Bias

This bias leads investors to overestimate their ability to predict the market or pick winning shares. It can result in excessive trading, higher transaction costs, and lower returns.

3. Loss Aversion

People always feel the pain of losses more acutely than the pleasure of gains. As a result, investors may hold onto losing investments for too long in the hope that they will rebound rather than cutting their losses and reallocating their capital.

4. Anchoring Bias

Investors often fixate on a particular piece of information, such as the price at which they bought a stock, and use it as a reference point for future decisions. This can prevent them from adjusting their strategies in response to new information or changing market conditions.

5. Herding Behaviour

Herding behaviour occurs when individuals follow the actions of others instead of making independent decisions. This behaviour can lead to exaggerated market movements driven by mass sentiment rather than fundamentals.

How can we overcome behavioural biases?

The good news is that you can manage your behavioural biases and minimise their impact on your portfolio.

1. Awareness

Becoming aware of behavioural biases is the first step. This awareness can help you identify triggers that lead to biased thinking, enhance self-reflection to question your instincts and reactions, and improve your ability to regulate emotional responses like fear and greed, which often drive biased decisions.

2. Stick to a plan

Create a clear investment plan based on your goals and risk tolerance. Regularly review this plan to stay on track and avoid impulsive decisions.

3. Get different opinions

Don't rely on just one source of information. Seek out different perspectives and understand the reasoning behind recommendations. This helps you see the bigger picture.

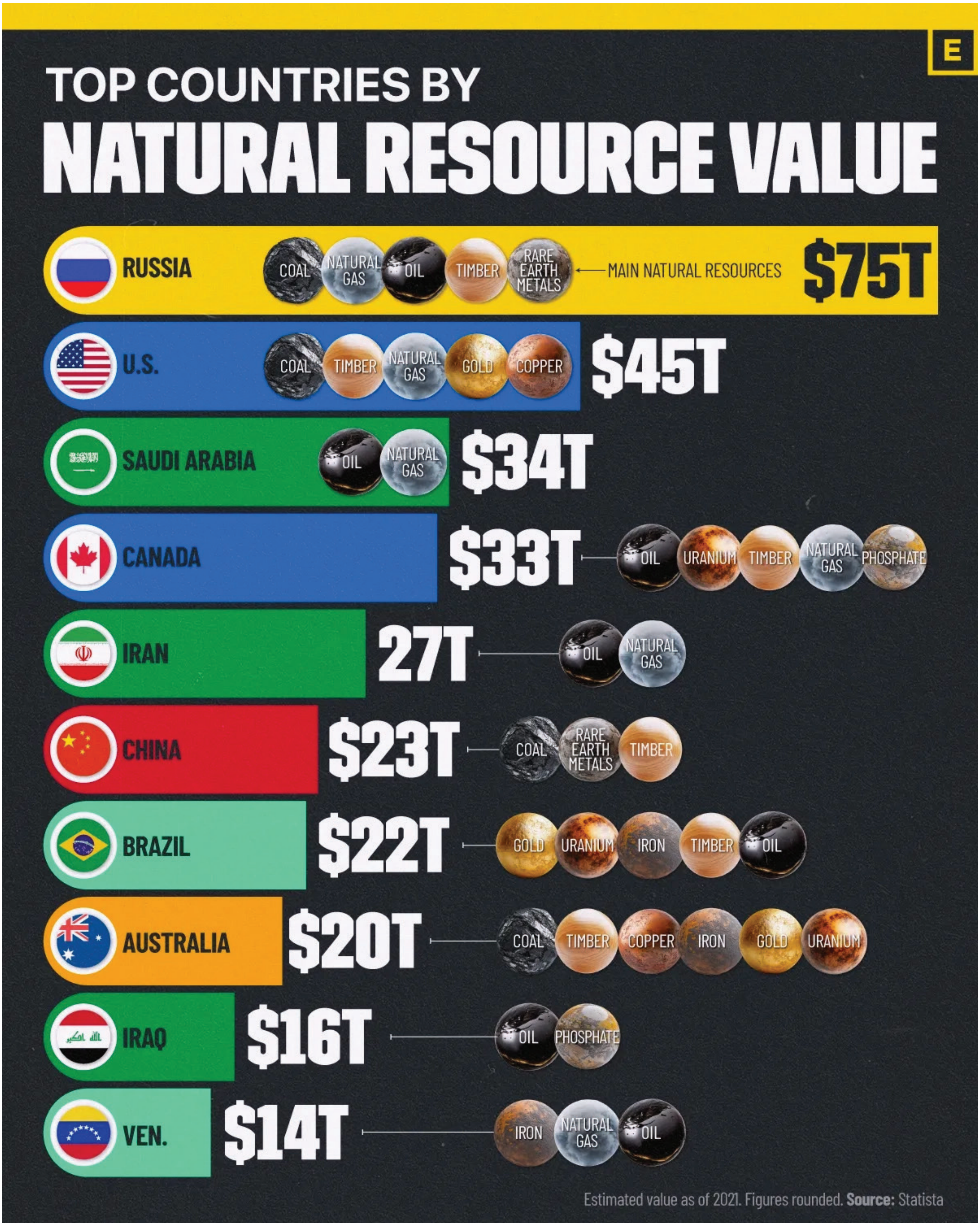
4. Review regularly

Schedule regular reviews of your investment portfolio to ensure your investments are aligned with your goals and adjust for any changes in the market or your life.

Investing can be challenging, especially when dealing with behavioural biases. This is where a Financial Adviser can be incredibly valuable.

Advisers provide expertise and objectivity, helping you navigate and overcome these biases. They guide you through a disciplined investment process, regularly review your portfolio, and offer diverse perspectives to ensure better decision-making.

Don't leave your financial future to chance—work with a Financial Adviser to confidently navigate the complexities of investing and achieve your long-term goals.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Estimated value as of 2021. Figures rounded. Source: Statista

How to Ensure Your Savings Benefit Your Loved Ones

Most of us work hard to save for our retirement, and thanks to tax concessions and compulsory contributions, superannuation often forms a large part of retirement savings. But it's essential to understand who controls where your super goes if you pass away and how to ensure your loved ones receive the inheritance you want them to have in the most effective way.

It's a common misconception that you can include your superannuation as part of your Will. However, this is not the case, and you need to take action before you pass away to make it possible.

Here are a few key things you need to consider if you want to keep control of your superannuation benefits.

Nominate a beneficiary

The first thing to decide is who should inherit your superannuation savings and how—for example, your spouse, children, charity, friends, or a combination of these.

Once you have made this decision, it is important to formally nominate a beneficiary or beneficiaries. However, you must make sure the superannuation rules allow you to nominate the person or people you would like to receive your savings, and then you must consider the consequences of the choice. Remember that not all nominations are the same, and Wills can be challenged.

Anyone can nominate their spouse and/or children as beneficiaries as they meet the allowable definitions under the superannuation rules. Wanting to leave all your superannuation to a friend or favourite charity can't be done this way because they won't meet the relevant definition of a beneficiary. Instead, you can nominate your legal personal representative as a beneficiary, meaning that benefits are paid to your executor and distributed in line with your Will. But that means you need a good, up-to-date Will that aligns with this nomination: having one without the other is no good.

Suppose you don't have a nomination in place, an invalid nomination, or your fund doesn't allow nominations. In that case, the Trustee will decide who gets what, how much, and how. This can be slow and cause unnecessary strain on your loved ones at a time when they are already distressed.

What about possible tax implications?

Superannuation death benefits are taxed based on the type of beneficiary receiving them and the tax status of the components of the death benefit. Tax can be as high as 30% plus Medicare for an adult child and a fund with some untaxed elements, or it can be 0% if the beneficiary is your spouse or dependent child. Knowing what tax applies is vital when choosing a beneficiary or selecting the percentages left to different beneficiaries. For example, one child could get a tax-free benefit, while another could have tax applied, so percentages may need to be adjusted to account for that.

What are binding vs non-binding nominations?

Where a super fund allows it, a binding death benefit nomination obligates the trustees to make the superannuation payments in line with the nomination regardless of the Will, whereas a non-binding nomination is like a polite request asking the trustees to make the payment in the way you would like, hence, binding nominations usually offer more certainty. Still, they can lapse, or circumstances change. It is essential to know it is not a simple set-and-forget option, and regardless of the type, all nominations must be regularly reviewed - particularly if you divorce, your children become adults, or your circumstances change.

What should you do?

Ideally, call your financial adviser and/or solicitor (or estate planner) to ensure that you have the right nominations in place and a current, up-to-date Will that aligns with these nominations. That way, you can be as sure as possible that your loved ones are provided for in the way you want them to be in the event of your death.

Sources:

https://www.ato.gov.au/, "Tax on super benefits", Australian Taxation Office, Last updated 02/08/2023 (accessed 15/03/2024)

Caregiving can have a retirement sting

Around 3 million Australians are unpaid caregivers. Most face a super risk.

National Carers Week runs from Sunday October 13 to Saturday October 19 this year, and aims to recognise, celebrate, and raise awareness about the 3 million Australians who provide care to relatives or friends in need of their support.

The need to provide support can arise at any time as a result of people needing to help others with a disability, a mental health condition, a chronic or terminal illness, or who are elderly.

In many ways, caregivers are unsung heroes. Their work is invaluable, but they are typically forced to forego paid employment and also miss out on precious compulsory superannuation payments that would otherwise have been paid by an employer.

As research by Vanguard shows, the financial cost of caregiving can be very costly over time and can have a significant impact on retirement savings balances.

There are a number of ways individuals can potentially lessen the long-term impact on their superannuation balance from having to stop work.

The cost of caregiving

We've estimated the potential impacts on individual superannuation retirement balances for those who need to provide unpaid caregiving.

The numbers represent the monetary effect of foregone compulsory Superannuation Guarantee (SG) contributions as a result of people taking 12 months of carers' leave by comparing them to the estimated retirement balances of individuals who do not take any time out of the workforce.

They are in today's dollars and adjusted for inflation, real wage growth, and rounded to the nearest 100 dollars. However, the numbers do not take into account the possible impact of career breaks on an individual's' actual wages growth over time or any additional superannuation contributions they may make at a later stage.

For a 25-year-old taking one year of carers' leave (based on a median wage of $43,200), we've estimated their superannuation balance would potentially be $12,900 less at age 67 than someone of the same age who takes no carers' leave during their career.

Using the same measures for a 35-year-old (based on them earning a median wage of $62,500), we've estimated their retirement balance would be $14,300 lower; and likewise, for a 45-year-old (based on a $65,600 median wage), we've estimated their retirement balance would be $11,500 lower than someone who didn't take any carers' leave.

The calculations are based on the 11.5% SG contributions rate in 2024-25, which rises to 12% from 2025-26, and assume investment returns of 6.5% per annum (including CPI growth of 2.5%); annual real wage of 1.2%; and a 15% tax on SG contributions.

Of course, the numbers would likely be substantially higher for people who need to take longer periods out of the workforce to provide caregiving.

We've undertaken additional calculations, using the same assumptions, based on individuals earning 50% less over a five-year period so they can be a part-time caregiver.

This would lead to a $26,100 retirement savings gap for a 25-year-old compared with someone the same age working full-time; a gap of $29,900 for a 35-year-old; and a gap of $24,300 for a 45-year-old.

Mitigating the financial impacts

There are a number of ways individuals can potentially lessen the long-term impact on their superannuation balance from having to stop work to provide caregiving on a temporary basis.

1. When full-time work is resumed, try to make personal concessional contributions (taxed at 15%) in addition to the compulsory SG contributions made by an employer. Even small extra amounts can make a big difference. For example, $20 per week adds up to more than $1,000 into super every year.
2. Individuals may also be eligible for the Federal Government's automatic $500 annual superannuation co-contribution payment. For more information, check the Australian Tax Office's website. When added to extra contributions, the co-contribution payment can significantly reduce the impact of taking carers leave.
3. Making concessional superannuation catch-up contributions down the track is another option. This can allow individuals with a total superannuation balance below $500,000 to take advantage of unused pre-tax contributions from previous financial years, on a five-year rolling basis.
4. Individuals can also make after-tax contributions into their superannuation in any financial year, perhaps using money from an inheritance or an asset sale. The current limit is $120,000 per financial year, however individuals can contribute up to $360,000 in one financial year under the three-year "bring forward rule".

If you are a caregiver and unsure about your options or need some additional advice on how to protect and maximise your retirement savings over time, come and talk to us today.

Source:

https://www.vanguard.com.au/personal/learn/smart-investing/retirement/caregiving-can-have-a-retirement-sting

Health Spotlight: What is lung cancer?

What is lung cancer? Lung cancer is one of the leading causes of cancer-related deaths in Australia.

- In 2023, about 14,782 Australians were diagnosed with lung cancer.
- Lung cancer is the leading cause of cancer deaths with a reported 8,691 deaths in 2023.
- It is the fifth most common cancer in Australia and accounts for 9% of all cancers diagnosed.[1]

Causes and risk factors

The primary cause of lung cancer is smoking tobacco. Both active smokers and those exposed to secondhand smoke are at a higher risk. Other causes for lung cancer include exposure to radon gas, asbestos, pollution and a family history of lung cancer.[2]

Symptoms of lung cancer can vary but often include:

- Persistent cough
- Shortness of breath
- Unexplained weight loss
- Chest pain
- Hoarseness
- Coughing up blood[3]

The diagnosis of lung cancer typically involves:

Imaging tests: X-rays and CT scans to look for abnormal masses in the lungs

Biopsy: A Sample of abnormal cells is taken for analysis

Sputum cytology: Examining sputum under a microscope for cancer cells.4

Types of lung cancer

There are 2 types of lung cancer: Non-small lung cancer (NSCLC) which makes up about 85% of cases Large-cell Carcinoma (SCLC), accounting for 10-15% of cases. This is aggressive and typically affects smokers, spreading rapidly.[5]

Treatment options

Treatment depends on the type and state of cancer, as well as the patient's overall health.

Common treatments include:

Surgery: To remove the tumour and some surrounding healthy tissue

Radiation therapy: using high-energy rays to kill cancer cells

Chemotherapy: Involves drugs to kill cancer cells or stop their growth.

Targeted therapy: Uses drugs to target specific molecules involved in cancer growth.

Immunotherapy: Helps the immune system fight cancer.[6]

Preventing lung cancer

Preventing lung cancer starts with avoiding tobacco smoke. Other measures include testing homes for radon, avoiding carcinogens at work, eating a healthy diet, and exercising regularly.[7]

Vaping

Cigarettes and vaping each have their own set of health risks While it may be challenging to stop smoking, swapping out cigarettes for vaping comes with its own set of health risks, including lung damage and exposure to harmful chemicals.

Here are some of the potential health effects of vaping:

1. Nicotine addiction: Most e-cigarettes contain nicotine, which is highly addictive and can harm brain development, especially in young people.

2. Respiratory problems: Vaping can cause lung injury and other respiratory issues, including persistent coughing, shortness of breath and even lung damage.

3. Irritation: The chemicals in e-cigarette vapor can irritate the mouth and airways, leading to symptoms like sore throat and mouth sores.

4. Headaches and dizziness: Some users experience headaches, dizziness, and nausea from inhaling the chemicals in e-cigarettes.

5. Seizures: High levels of nicotine from vaping can lead to seizures, especially in young people.

6. Mental health effects: Vaping can increase stress and anxiety levels, and negatively impact mood and impulse control.

7. Exposure to harmful chemicals: e-cigarette vapor can contain harmful substances like formaldehyde, acrolein, and heavy metals such as nickel and lead.8

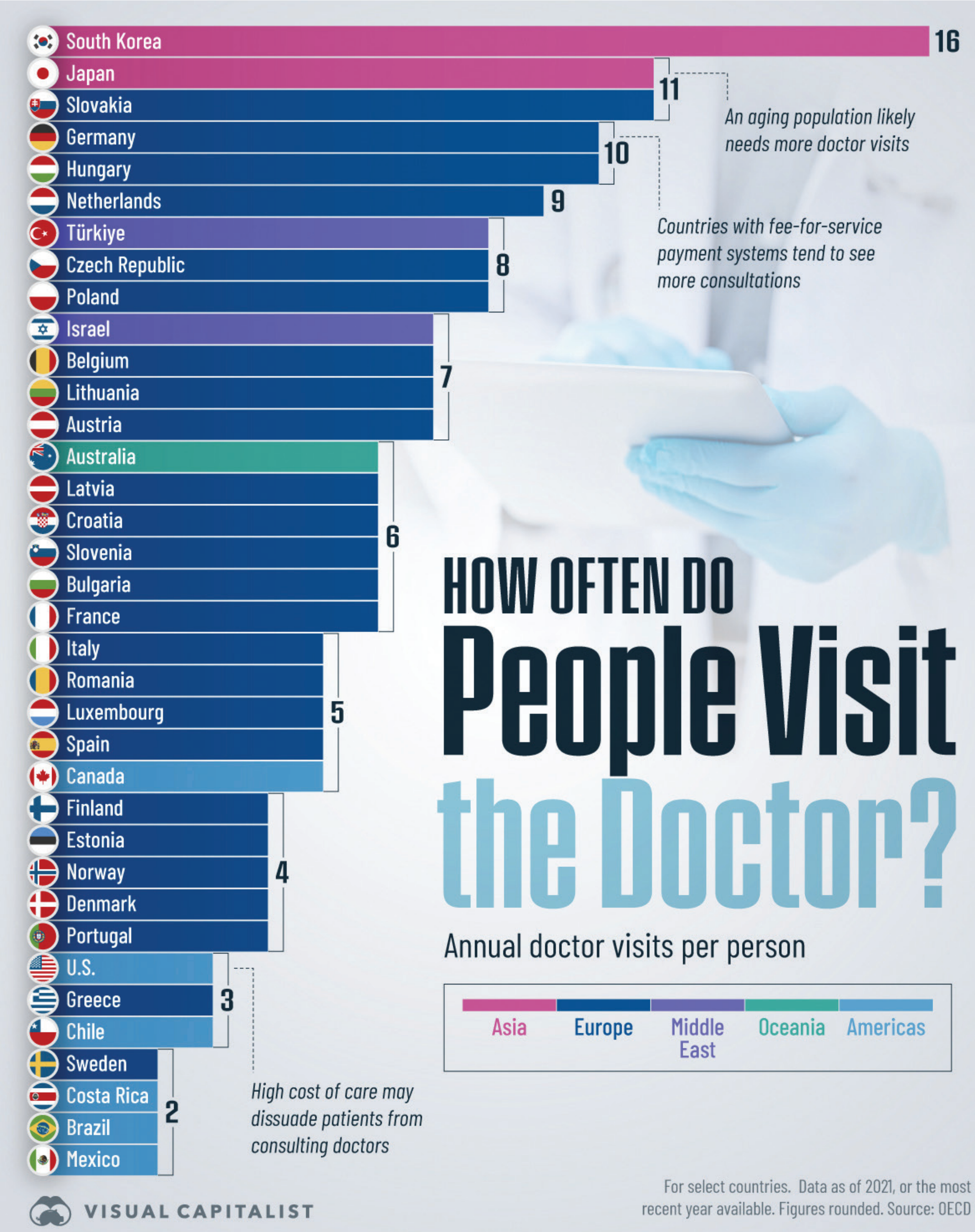
Resources

For more information on how to quit smoking the following resources can help. Quit smoking cancer.org.au/cancer-information/causes-and-prevention/smoking/quit-smoking

How to quit smoking and vaping?

health.gov.au/topics/smoking-vaping-and-tobacco/how-to-quit

1 *Lung Cancer Statistics. Australian Government, Cancer Australia 2024*
2 *Lung Cancer. Cancer Council Victoria. May 2024*
3 *Lung Cancer. Cancer Council Victoria. May 2024*
4 *Lung Foundation Australia. Diagnosis and Types of Lung Cancer 2024*
5 *Lung Cancer. St Vincents Hospital Lung Health 2024*
6 *Lung Foundation Australia. Diagnosis and Types of Lung Cancer 2024*
7 *Lung Cancer. Health Direct 2024*
8 *About vaping and e-cigarettes. Department of Health and Aged Care, Australian Government 2024*


HOW OFTEN DO
People Visit
the Doctor?
Annual doctor visits per person
Asia
Europe
Middle East
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South Korea 16
Japan
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Germany
Hungary
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Netherlands 9
Türkiye
Czech Republic
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Finland
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Norway
Denmark
Portugal
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U.S.
Greece
Chile
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Sweden
Costa Rica
Brazil
Mexico
2
An aging population likely needs more doctor visits
Countries with fee-for-service payment systems tend to see more consultations
High cost of care may dissuade patients from consulting doctors
For select countries. Data as of 2021, or the most recent year available. Figures rounded. Source: OECD
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