Newsletter January 2018

Welcome to the latest edition of the Axis Financial Advisers Newsletter.

I would like to firstly take this opportunity to wish everyone a happy and healthy 2018.

The last quarter of 2017 was a significant one for myself and our business. The office renovation was finalised. We also hired a new staff member, Aaron, who is studying at University and working part time whilst he finishes his degree. I also became a Certified Financial Planner (CFP) in November which was a significant undertaking whilst also juggling a young family and my own business. It brings me great satisfaction, and relief, to have earned this designation.

As always, a very big thankyou to everyone who referred friends, family and colleagues. Your continued support is always appreciated.

Economic Update

The global economy is now experiencing a very strong expansion. I believe that we are presently in the midst of the strongest global economy since the mid 2000's which should support equities and growth assets for some time.

Europe is building momentum quickly and Asia is also growing strongly. The Chinese and Japanese economies both appear to be performing very well at the moment which is important for the Australian economy due to the resources which we export and the inbound tourism that we receive from these countries.

In the United States, Donald Trump passed the first significant legislation since coming into office with massive tax cuts reducing the corporate tax rate from 35% to 21%. This will be a boon to shareholders and might also lead to higher wages as businesses redistribute cashflow to attract and retain workers.

The timing of this massive stimulus is however very questionable. One could argue that if the economy can afford to reduce taxes (perhaps due to a large surplus for instance) it could make sense (similar to Australia in the mid 2000's). However, in the case of the United States, they don't require stimulus and are in fact at the point of potentially needing to cool the economy.

Whilst the tax cuts are undoubtedly positive for the sharemarket in the short term, I do believe that eventually it will cause the economy to overheat sooner than anticipated, with resulting inflation and possibly a significant market correction. Secondly, providing a huge stimulus when it really isn't required will also mean that when stimulus is necessary, it is harder to come by, thereby making any recovery more difficult.

As for the economic conditions in Australia, low interest rates continue to support our economy with inflation running just under 2%. This provides plenty of room for continued growth and low interest rates over the coming years as the Reserve Bank pushes for its inflation target of 2-3%. The continued strong performance of the US economy and the rapid tax cuts mentioned above may provide us with the 'push' required to further stimulate our economy and raise inflation.

Markets

It was a very strong calendar year for equities and the rally accelerated in the final 3 months.

The Australian share market recorded returns of around 12% for the calendar which was a good outcome. Resource stocks rose considerably to reflect rising commodity prices and the prospect of increasing inflation.

The United States stock market benefited from the prospect of the passing of the tax cuts and the significant increase in net profits that will result for most companies. Whilst the US stock market is expensive, the fact that net earnings will be increasing so dramatically over the next few years makes the valuation more than acceptable.

One of the most important indicators for the health of the economy and the stock market is the US 10 Year Bond which recently went past 2.50%. Fixed interest actually performed well in the last 3 months of the year but has given back some of these gains in the last few weeks. The chart below highlights the spike in long term interest rates over the last quarter:

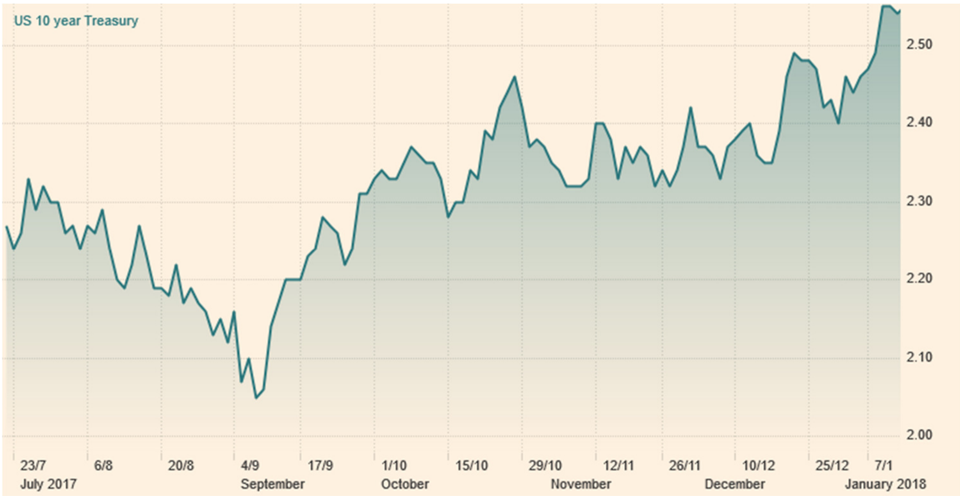

*Chart taken from Financial Times (FT.com)

Asset Class Returns

The following table highlights returns from key asset classes to 31 December 2017*:

Asset Class	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
Cash	0.42%	1.75%	2.05%	2.34%
Australian Fixed Interest	1.44%	3.66%	3.05%	4.15%
International Fixed Interest	0.86%	2.80%	3.91%	5.00%
Australian Listed Property	7.79%	6.44%	11.28%	13.38%
Australian Shares	7.74%	11.94%	8.76%	10.15%
International Shares (50% hedged and 50% unhedged)	5.68%	16.70%	11.10%	16.91%

*The above returns were compiled from various sources. More information on the source of the data or compilation can be obtained by contacting Axis Financial Advisers. Past returns should not be relied upon to make investment decisions. The above table does not in any way constitute financial advice and should not be interpreted as such.

Legislative Update

Downsizer Super Contribution

From July 2018, individuals over age 65 will be able to contribute up to $300,000 from the proceeds of the sale of their principle place of residence into super as a non-concessional contribution, even if they have retired from the workforce.

This strategy might be useful for people who are considering downsizing or even moving into a nursing home/aged care facility.

Small Business instant asset write-off

In 2017, small businesses were allowed a tax write off for an asset valued up to $20,000. This was extended for a further year and will expire on the 30 June 2018 (unless further extended).

If you have any questions about this report or any other matter, please don't hesitate to contact me.