Newsletter April 2018

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

In this edition of the Axis Financial Advisers newsletter, we will recap the last three months and update you on recent changes which may be of relevance to your situation. Once again thank you to everyone who referred a friend, family member or colleague to my practice. Your continued support is always appreciated.

Economic News

In Australia, the unemployment rate continues to fall and there was record job creation in the last twelve months. Interest rates remained on hold at 1.50%. Housing starts are now slowing but the infrastructure projects in place are providing a good landing spot for job seekers in the construction industry.

The global economy remains very strong overall. Unemployment continues to trend lower and the European economy remains particularly strong. Importantly, current inflation readings are generally acceptable (1.80% inflation for developed economies and 3.2% for emerging economies) and therefore, Central banks are not forced to raise interest rates too quickly.

We are likely reaching a turning point in interest rates as the period of Central Bank intervention prevalent since the GFC is now unwound. This unwinding will create uncertainty in the market, and therefore volatility, but as long as inflation remains contained, I don't expect the volatility to be too extreme.

Markets

The last three months have been a rollercoaster for markets with all time highs in US stocks up until mid January followed by sharp falls and a spike in volatility around mid February and a more subdued drift lower to the end of March.

We currently have a period of almost worldwide economic expansion, low interest rates, generally low inflation and very solid profit reports from most companies.

The "goldilocks" scenario present in equities up until mid January reminds us why investing in growth assets can be so difficult. Market timing is almost completely opposite to our natural instincts.

The best time to invest (when expected future returns are highest) is when problems seem insurmountable and a recovery near impossible.

Once the US tax cuts were passed, attention turned to the prospect of rising inflation, a possible sharp rise in interest rates, protectionist policies in the US and a more difficult outlook for technology companies which got way too expensive towards the end of the quarter.

Earnings estimates are all trending strongly upwards at the present time and compared to long term averages, all share markets are trading at a below or historical valuation multiples (as measured since 1990).

If a "top" was reached in equities in mid January, it is necessary for us to remain patient and stick to the long term plans which have been implemented on your behalf.

Australian listed property was comfortably the worst performer in the last quarter, down more than 6% overall. The prospect of higher interest rates reduces the long term value of property investments and this partly explains the fairly substantial sell off.

The following table highlights returns from key asset classes to 31 March 2018*:

Asset Class	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
Cash	0.40%	1.80%	1.90%	2.20%
Australian Fixed Interest	0.90%	3.30%	2.40%	4.30%
International Fixed Interest	-0.10%	2.90%	3.20%	4.70%
Australian Listed Property	-6.20%	-0.10%	5.80%	10.80%
Australian Shares	-3.90%	2.50%	3.80%	7.70%
International Shares (50% hedged and 50% unhedged)	-1.60%	12.20%	8.30%	14.80%

**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

Franking Credits

Franking credits are essentially a refund of tax that has been paid by a company when a dividend is paid to shareholders. This system was put in place to avoid double taxation and make owning shares more attractive.

The franking credit is initially used to offset tax otherwise payable and then applied as a cash refund when there is no tax to offset. People on high marginal tax rates receive a reduction in tax payable and someone (or an entity such as a superannuation funds in pension phase) who doesn't pay tax will receive the entire amount of the franking credit as a refund.

Over the last month, Bill Shorten and the Labor party originally proposed to eliminate the franking credit refund altogether. They have subsequently stated that their proposal won't apply to retirees who are also receiving an Age Pension.

Many self-funded retirees will be impacted by this change in two ways. With individual shareholdings such as IAG, Telstra or Woolworths, the benefit of the additional franking credits would be lost. There is also likely to be some impact on superannuation funds and account based pensions (who today receive the full franking credit refund).

The dividend imputation system is a fair way to treat the tax paid by companies. If changes were made to this system, it would cause distortions as shareholders may want changes to the level of dividends paid.

Centrelink Thresholds

Some of the relevant Centrelink thresholds were updated on the 20th March 2018 and will apply until the 19th September 2018.

Age Pension

The current maximum payment rates are as follows:

	Pension Rate (Including pension & energy supplement)
Single	$23,597.60 ($907.60 p.f.)
Couple	Combined: $35,573.20 ($684.10 p.f. each)

The assets test thresholds are as follows:

	Homeowner		Non-Homeowner	
	Full Pension	Pension Cut-Out	Full Pension	Pension Cut-Out
Single	$253,750	$556,500	$456,750	$759,500
Couple	$380,500	$837,000	$583,500	$1,040,000

The income test thresholds are as follows:

	Full Pension	Pension Cut Out
Single	$4,368	$51,563.20
Couple	$7,800	$78,946.40

Commonwealth Seniors Health Care Card

The relevant thresholds for eligibility for the Commonwealth Seniors Health Care Card energy supplement are as follows:

	Adjusted Taxable Income Limit	Energy Supplement
Single	$53,799	366.60 p.a.
Couple	$86,076	$275.60 p.a. for each member

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