

PortfolioWatch

Quarterly newsletter – Summer 2016

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times they're a changin'

Executive
Wealth Management



Boosting inflation

Central banks struggle

Banks boost deposit rates and diverge from the Reserve Bank of Australia

The Reserve Bank of Australia (RBA) reduced the official cash rate by 25 basis points to 1.50 per cent in the September quarter.

This decision was widely anticipated and so it had little effect on the share market and the Australian dollar. The Australian dollar actually rose and reached US 77 cents during the September quarter. The low rate of inflation, as reflected in Consumer Price Index, was a major factor in the RBA's decision. In the June quarter the annual rate of inflation fell to one per cent, well below the RBA's target of two to three per cent. Despite the official interest rate cut, the big four banks were criticised by some of their customers because they only passed on about half of the 25 basis point rate cut through to their mortgage interest rates. At the same time other customers were pleased when the same banks actually increased their term deposit rates in an attempt to maintain their market share.



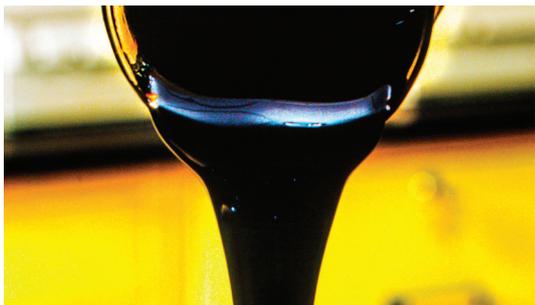
US interest rates poised for further hikes

The US Federal Reserve (commonly referred to as the Fed) didn't raise interest rates during the quarter.

The world's central bankers arrived in Jackson Hole in August for their annual economic meeting and conference. Investors carefully listen to what central bankers say at Jackson Hole because it can offer some clues as to future policy decisions. Investors were particularly interested in Janet Yellen's speech for guidance on future US interest rate hikes. Janet Yellen, the Chairman of the Fed, indicated that

"the case for an increase in the federal funds rate has strengthened in recent months".

This sent the probability of a September rate hike soaring to 52 per cent but the Fed kept the main cash rate in a range of 0.25 to 0.50 per cent. This was because of mixed labour market data and inflation continuing to run well below the target of two per cent. This helped US shares hit an all-time high with the S&P 500 climbing to just below 2,200 points. Federal Reserve members were divided in the meeting, with three of the ten voting members preferring an immediate 25 basis point hike. This adds to our view that the Fed is on track for monetary policy tightening in December.



Could crude oil production be cut?

The price of crude oil almost reached US\$48 in September after the Organisation of Petroleum Exporting Countries (OPEC) surprised investors by indicating that a production cut is necessary to lift prices. OPEC proposed a cut of up to 700,000 barrels a day on the level of oil they produced in August. This potential cut won't be finalised until the official OPEC meeting in November. Historically, it has proven difficult for OPEC to carry through on its desire to cut production. Countries that are part of OPEC need oil prices to rise and this could be achieved by cutting production.



Japan fails to reach goal of two per cent inflation

The Bank of Japan (BOJ) is struggling to meet the challenge that other central banks have encountered in attempting to revive growth and boost inflation. This is despite the use of quantitative easing and in Japan's case introducing negative interest rates. Inflation in Japan was negative 0.4 per cent in July, far below the BOJ target of two per cent. The BOJ has therefore announced an innovative approach to reaching its inflation target. The BOJ has decided to buy more short term bonds rather than longer term bonds, this reduces the yield on short term bonds and should encourage banks to lend money to borrowers. This approach should be positive for bank profitability in Japan because banks typically borrow money short term and lend it out over the long term. Insurance companies and pension funds should also benefit because they are buyers of long term bonds, which should have higher yields because the BOJ is reducing purchases of these in favour of targeting short term bonds.

Appointing a guardian



Why should you appoint a guardian for your children?

Appointing a guardian for your children will be beneficial if both you and the other parent die before the children are 18. You can provide the guardian with an outline of specific factors you want them to consider in the raising of your children. You are also nominating a person who will be responsible for the care and welfare of your children and for making important lifestyle decisions on their behalf. You can appoint a guardian in your Will but your decision can be overruled by the Family Court if it considers this to be in your children's best interests.



Are the powers and responsibilities of the guardian the same as a trustee?

No, they're different. A guardian is responsible for the daily and long term care and welfare of your child and for making important lifestyle decisions on their behalf. The guardian must ensure that the child is adequately housed, clothed and educated. A guardian does not have any control over, or power regarding, the assets of your estate or trust funds established for your children under your Will – the trustee you nominate in your Will has this responsibility. While this separation of duties may act as an effective 'check and balance', it is important that the trustee and guardian are able to communicate easily and work together in the best interests of your children.



Other considerations

Before you appoint a guardian in your Will, you should discuss the appointment with your intended guardian and consider whether they're able to accept the responsibility, are of a suitable age and understand your views on how you wish your children to be raised. The guardian will need money to provide for your children's welfare and there is standard wording that can be written in your Will that gives the trustee the power to provide income and capital for the maintenance, support and education of your children. You also need to be aware of potential issues for the guardian in relation to your children having a potential claim on the guardian's estate and any super benefits if the guardian dies.

If you would like more information about appointing a guardian, please contact your **financial planner**.

Australian holidays

Explore some great festivals

As you reach or get close to retirement, you may think about using some of the extra time you will have to travel, either abroad or in Australia. Before booking an expensive holiday to Italy, you may want to consider looking closer to home. A great way to see more of Australia and perhaps expand your cultural horizons is to visit one of the many festivals that now take place all over Australia.

Festivals traditionally trigger thoughts of mud, cramped tents and suspect food but festivals have changed during the last five years. As the number of older people attending festivals has increased the entertainment and the accommodation has changed to reflect a more discerning customer. Many festivals now have accommodation and dining options that can almost rival what you would expect from five star hotels.

We've looked at some of the best Australian cultural festivals that offer art, music, good food and wine.



Margaret River Gourmet Escape Mid-November 2017

This is your chance to meet internationally-celebrated chefs, food producers and winemakers, all while exploring the extraordinary natural beauty of the Margaret River Region. The event showcases the expertise and passion of more than 50 culinary superstars from around the world. In 2016 the festival offered the unique opportunity to rub shoulders with the likes of Nigella Lawson, Rick Stein and Guy Grossi. Similar chefs are expected to be at the 2017 festival.

Located in the stunning surrounds of the Leeuwin Estate Winery, the Gourmet Village comes to life with hands-on masterclasses, live music, book signings with your favourite chefs and an abundance of opportunities to enjoy good food and wine as produced by some of Western Australia's top restaurants. While most of these are add-on options and cost extra, entry to the Gourmet Village is only \$50.

While you're in Margaret River, why not explore further afield? The nearby coast hosts migratory whales from June to November, and the Cape to Cape Track fringes the limestone caves and sea cliffs of Leeuwin-Naturaliste National Park. There are also several other national parks, some with unique plants that you can't see anywhere else.





Hobart – Dark Mofo
8-21 June 2017

Hobart’s midwinter festival Dark Mofo celebrates the dark through large-scale public art, food, film, music, light and noise. Featuring a number of rule-breaking performances, this event is best suited to those with a strong sense of adventure and a curiosity for the unknown. Warm up for the night in an eclectic bar and sit back and enjoy the spookily-lit choirs that gather to greet guests.

Event highlights include exhibitions held at Mona Museum of New and Old Art and the Tasmanian Museum and Art Gallery, a public art playground at Dark

Park, international music shows at The Odeon Theatre, MAC2 and Federation Concert Hall. If you’re an extreme adventurer, who enjoys the cold, the Nude Solstice Swim could be an option.

Should you need a break from art, venture out during daylight to some of Hobart’s more traditional attractions. A tour to Port Arthur offers the chance to see the wild Tasman Peninsula or you could go on a tour of the Cascade brewery, opened in 1824. A short trip to Richmond will introduce you to the state’s convict roots and some of Tasmania’s finest wine-growing areas.



New South Wales – Byron Bay Blues Festival
14-17 April 2017

Known as Australia’s premier contemporary blues and roots music

festival, Byron Bay Bluesfest has been showcasing music from around the world on the Easter long weekend for the past 28 years. In that time, audiences have been dazzled by the likes of Bob Dylan, Hozier, Paul Simon, James Brown, Alabama Shakes and the legendary BB King, just to name a few.

Held on 120 hectares at Tyagarah Tea Tree Farm, Bluesfest presents more than 200 performances, on up to seven stages, over five 12-hour days – the ultimate getaway for blues fans everywhere.

Should you decide not to join the other 6000 campers on-site, nearby Byron Bay now offers a much wider range of accommodation than before. When you have finished at the festival, this area has some of Australia’s best beaches, cuisine and nature walks.



Perth International Arts Festival
February to March 2017

The Perth International Arts Festival is Australia’s longest-running cultural

festival, with a program packed full of contemporary and classical music, dance, theatre, opera, visual arts, large-scale public works, the Lotterywest Film Festival and the Perth Writers Festival.

With a reputation for excellence, the event regularly features visionary artists who transform the city of Perth with projects both bold and beguiling. While basking in the festivities, head to the Chevron Festival Gardens for great eating and refreshment opportunities, while meeting fellow festival-goers. Alternatively, you can explore one of the many world-class restaurants Perth has to offer. After the festival, if you feel the need for some exercise, you can take a boat trip to Rottnest island and then hire bikes to do some exploring.

Retirement offers you the chance to discover new experiences because you have more time to spend on recreation rather than work.

To get the best out of retirement you need to think about the type of experiences you plan to enjoy beforehand. You can then work with your **financial planner** to create a plan that helps you reach your lifestyle goals in retirement.

But wait, there’s more...

1.  The Melbourne Herb and Chilli Festival (March 2017)
2.  Jane Austen Festival – Canberra (April 2017)
3.  Alliance Francaise French Film Festival – Nationwide (March – April 2017)
4.  Hunter Valley Wine and Food Festival (June 2017)
5.  Barunga Festival – 70km south-east of Katherine, NT (June 2017)

Investment market review Quarter ended 30 September 2016



Australian shares

The S&P/ASX 300 Accumulation Index rose 5.3% in the September quarter.

The best performing sectors were materials, up 12.8%, consumer staples which rose 10.5% and information technology that climbed 9.0%. Materials led the market despite a volatile quarter that saw iron ore fall 10.3% and crude oil fall 1.3%. The worst performing sectors were telecommunications, which fell 8.8% and utilities which lost 3.3%. The telecommunications sector suffered as TPG Telecom fell 27.6% during the quarter as management downgraded guidance for FY17. Vocus Communications also declined, down 26.0%, as investors became more negative in their outlook and the Chief Financial Officer resigned.



	1 year (%)	5 year (% pa)	10 year (% pa)
Australian shares	13.5	11.0	5.0



Listed property trusts

The A-REIT sector declined 1.9% during the September quarter.

The sector underperformed the general market and lost some of its attraction to investors as global bond yields rose. Some market participants view REITs as a proxy for bonds so with the US three-year and ten-year bond yields rising 18bps and 12bps, REITs experienced a fall in demand. Low interest rates in Australia are still supportive for A-REITs but the sector is expensive on an historic, relative and absolute basis.



	1 year (%)	5 year (% pa)	10 year (% pa)
Listed property trusts	20.8	19.5	1.7



International shares

International shares posted strong results for the September quarter.

Share markets showed resilience despite events such as the UK's decision to leave the European Union (EU), which did not have the negative impact that some participants expected it to. The S&P 500 gained 3.3%, the FTSE 100 was up 6.1%, the German DAX 30 rose 8.6% and the Nikkei 225 climbed 5.6%. The MSCI World Index in Australian dollar terms was up 2.0% in the September quarter.

Policy easing in China has helped stabilise GDP growth at 6.7% and it appears that the People's Bank of China is now focusing on discouraging the use of excessive leverage in the financial system. The European Central Bank left monetary policy unchanged because recent data has indicated resilience in the Euro area following the Brexit referendum. The Bank of England cut the interest rate by 25 basis points to 0.25% because the outlook for the UK economy has deteriorated as a consequence of Brexit. The US Federal Reserve maintained the official cash rate within a range of 0.25-0.50%. US economic data is, however, becoming increasingly supportive of a rate increase.



	1 year (%)	5 year (% pa)	10 year (% pa)
International shares	2.5	17.8	4.8



Fixed interest

International bond yields were mixed over the quarter.

The US ten-year bond yield rose 12 basis points but the Australian ten-year bond yield actually fell 7 basis points. The mixed performance reflects diverging monetary policies as the US Fed is likely to increase interest rates by 25bps this year but the Reserve Bank of Australia has cut interest rates to 1.50%. Global bond yields moved higher towards the end of the quarter as the European Central Bank's decision to keep monetary policy unchanged began a bond market sell-off offshore. The Bank of Japan's decision to steepen the Japanese Government Bond yield curve by implementing a yield curve targeting measure also helped global bond yields move higher.

	1 year (%)	5 year (% pa)	10 year (% pa)
Fixed interest	5.7	6.0	6.5



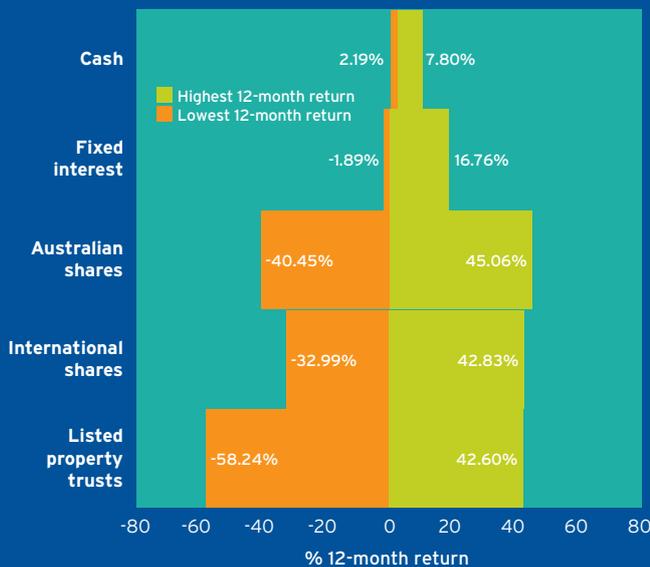
Cash

The RBA lowered the cash rate by 25bps to 1.50% in the September quarter.

Inflation was an important catalyst in the decision because headline inflation was reported at 1.0%, well below the RBA's medium term target zone of 2.0% to 3.0%. The new RBA Governor, Phillip Lowe, has given indications that greater emphasis will be placed on the medium-term nature of the inflation target. The RBA is therefore unlikely to cut interest rates again in 2016.

	1 year (%)	5 year (% pa)	10 year (% pa)
Cash	2.2	2.9	4.2

The long view



This chart displays the highest and lowest 12-month returns of the major asset classes since September 1996.* As you can see, cash provides stability and security, having never generated a negative return over a 12-month period. The trade-off for this stability and lower risk is that cash will be unlikely to match the higher returns generated by other asset classes.

Source: Morningstar. Indices used are: Cash – AusBond Bank Bill; Fixed Interest – AusBond Composite 0+ year; Australian shares – S&P/ASX 300 Accumulation; International shares – MSCI World Accumulation Index (AUD); Listed property trusts – S&P/ASX 300 A-REIT Accumulation.

* The listed property index is only available from June 2001 and the international shares index is only available from January 1999.

Are you eligible?

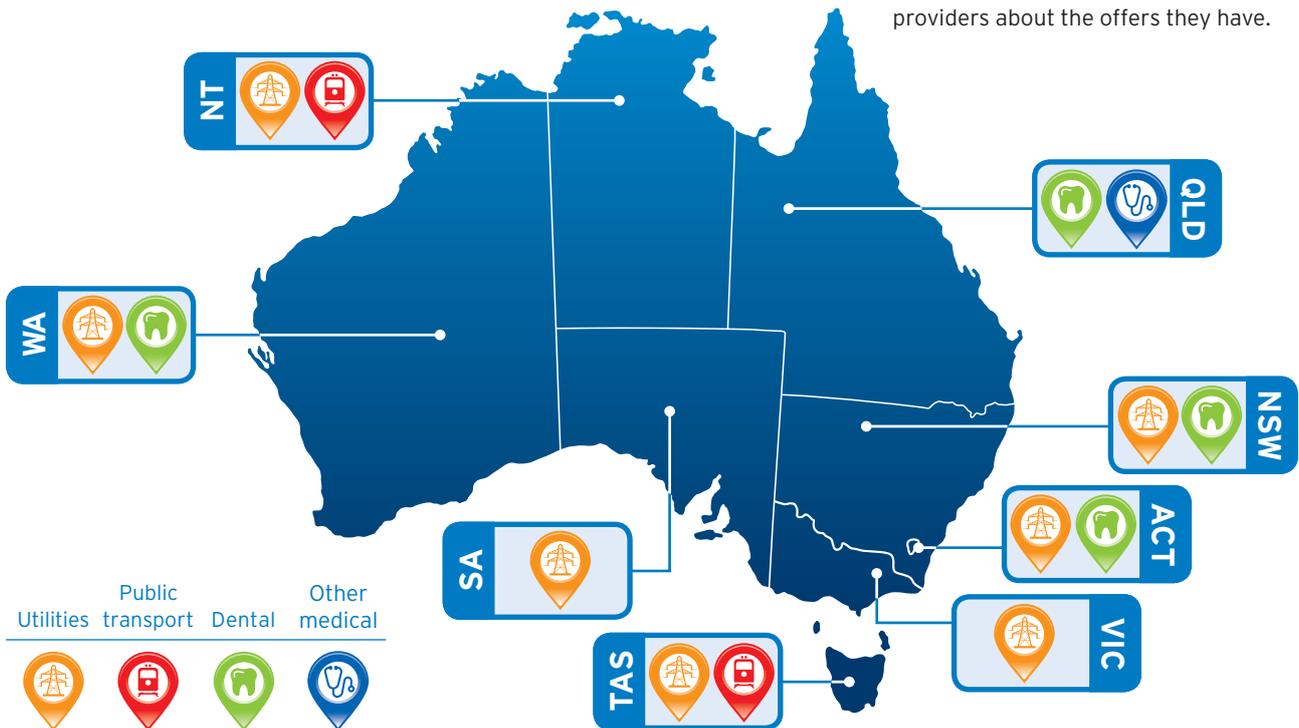
Changes to concession cards

Centrelink asset test rules are changing on 1 January 2017. This could mean you lose the Age Pension and the Pensioner Concession Card (PCC).

When the Government announced the Age Pension changes they said people who no longer qualify for the Age Pension and the Pensioner Concession Card will automatically be given a Commonwealth Seniors Health Card (CSHC). Normally, you must meet the CSHC income test to obtain the card, but this requirement will be permanently waived if you qualify as a result of the asset test changes on 1 January 2017.

Compared to the PCC, the CSHC only offers a limited range of benefits. To ease some of the burden on people who lose the Age Pension and the PCC, they will automatically qualify for a Low Income Health Care Card (LIHCC) in addition to the CSHC. The LIHCC provides more benefits than the CSHC in certain states and while not as generous as the PCC, it could still save you hundreds of dollars per year.

The level of discounts you can receive varies from state to state. Most states and territories offer discounts or rebates on utility costs and some also offer dental health services and cheaper public transport. The map below shows what types of concessions an LIHCC and a CSHC cardholder could be eligible for, but it doesn't show all of the possible discounts or concessions for CSHC and LIHCC cardholders so check with service providers about the offers they have.



If you're unsure how you may be affected by the asset test changes on 1 January 2017, and what discounts or offers you might be eligible for, please contact your **financial planner**.

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