

PortfolioWatch

Quarterly newsletter | Issue 2, 2020



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The Government's Coronavirus stimulus package

In response to the economic impact of the Coronavirus, the Government has announced a number of initiatives to help individuals and businesses.

Superannuation initiatives

Early access to super

If you are under financial stress, you may be able to access up to \$10,000 of your super before 1 July and a further \$10,000 after 1 July. The Australian Taxation Office (ATO) started accepting applications from 20 April 2020.

You may be eligible for early access to your super if you are either:

- unemployed
- eligible for a Jobseeker payment, Youth Allowance payment for job seekers, Parenting Payment (including the single and partnered payments), special benefit or farm household allowance.

You may also be eligible if (on or after 1 January 2020) you:

- were made redundant
- had your working hours reduced by 20% or more are a sole trader and your business was suspended or you experienced a reduction in business turnover of 20% or more.

These payments are tax-free and not treated as income under the Centrelink income test.

How to apply?

You can apply directly to the ATO through your myGov account via www.my.gov.au

Before doing so, please contact us so we can discuss if it's the best option for you.

Minimum pension payment changes

To help you if you're a retiree, the minimum pension payments you are required to withdraw from your account-based pensions or similar product will be reduced by 50%. This is to help retirees re-gain the value of their super after the market downturn.

Social security payments and changes

Tax-free lump sum payments

You may be eligible to receive up to two, separate, tax-free \$750 lump sum payments if you receive one or more Centrelink payments or concession cards.

A single person may receive up to \$1,500 and couples may receive up to \$3,000 from the first and second payments.

You do not need to apply for these payments, Centrelink will automatically allocate this to you depending on your eligibility.

The payments will not be treated as income for Social Security, DVA and Farm Household Allowance purposes.

JobSeeker Coronavirus Supplement

From 27 April 2020, if you are eligible, you will be automatically paid the Coronavirus Supplement. The Coronavirus Supplement is a taxable \$550 fortnightly payment for six months.



Other income support during the six-month period

The Government has expanded eligibility for income support payments, including JobSeeker, such as waiving some waiting periods and increasing the amount of income your partner can earn before it stops your JobSeeker payment.

If you wish to make an application please go online to your myGov account at www.my.gov.au

Reduced deeming rates

From 1 May 2020, the upper deeming rate for income in excess of the income threshold will reduce from 3% to 2.25%, and the lower deeming rate from 1% to 0.25%.

These reductions reflect the low interest rate environment and its impact on the income from savings. Also, people who are currently receiving part pensions and less than the full rate of income support may receive increased entitlements.

Tax benefits for small businesses

Increasing the instant asset write-off threshold for small businesses

From 12 March 2020 until 30 June 2020, if you own a small business with aggregated annual turnover of less than \$500 million (increased from \$50 million) you may be eligible for an instant asset write-off on assets of up to the value of \$150,000 (from \$30,000).

From 1 July 2020, this threshold reduces to \$1,000 (for businesses with less than \$10 million turnover).

The measure applies to new or second-hand assets first used, or installed ready for use, between 12 March 2020 until 30 June 2020 (inclusive). Certain assets are excluded, for example, horticultural plants and capital works deductions.

This initiative will mean an additional 5,300 businesses who employ around 1.9 million Australians will be able to access this concession for the first time. If you are an owner or director of a business and are currently struggling due to the Coronavirus crisis, the ATO will tailor solutions for your circumstances.

Other initiatives

Boosting cash flow for employers

If you own an eligible small or medium business, the Government has announced a maximum payment of \$100,000 and a minimum payment of \$20,000 to help with cash flow in order to keep operating, pay bills and retain employees. Not-for-profit organisations and charities are also included.

The ATO will pay this as an automatic credit to the business upon lodgement of your business activity statement. If this means you are eligible for a tax refund, the ATO will pay the refund within 14 days. You don't need to fill out any new forms and the payments are tax-free.

JobKeeper initiative

On 30 March 2020, the Federal Government announced the introduction of the JobKeeper Payment. The payment is a wage subsidy paid by the Government to businesses significantly impacted by the Coronavirus. This will allow employers to continue paying their employees whether they are able to work or not.

The Government will provide \$1,500 per fortnight, per employee for up to six months to eligible businesses. The business must pass on the payment to eligible employees.

Deductions for expenses related to working from home

If you are working from home and incur expenses that are not reimbursed by your employer, you may be able to claim them as a tax deduction. The expenses must be directly related to working from home and you need to keep a record of your working from home hours and your expenses. There are three ways you can choose to calculate additional running expenses:

Shortcut method - A deduction of \$0.80 for each hour worked from home is allowed if you incur additional deductible running expenses as a result of working from home.

Fixed rate method - allows:

- a rate of \$0.52 per hour for the cost of utilities, cleaning and depreciation of office furniture
- work-related phone and internet expenses, computer consumables and stationary
- work-related depreciation of a computer, laptop or similar device.

Actual cost method - claim the actual work-related portion of all running expenses, calculated on a reasonable basis.

For more details, please refer to the ATO website under 'employees working from home'.

Early Childhood Education and Care Relief Package

Eligible early childhood education and care services will be free for a three-month period and will then be reviewed.

We're here for you

We believe these initiatives are well-considered by the Government and are for the wellbeing of all Australians and the Australian economy. If you are or your business is struggling during this unprecedented time or you have any questions, please contact us.

The new normal

The Coronavirus has had a devastating impact globally and forced us to quickly reinvent how we go about our personal and professional lives to protect ourselves, our loved ones and the community. Is this new way of doing things the new normal?



Working from home

At the start of the Coronavirus crisis, much of our day-to-day work moved into the home. Apart from the technological challenges, there was also the mental health challenges that comes with self-isolation. People living alone faced one type of mental health challenge, while people who live together faced another - the pros and cons of having to spend more time with a partner, family or housemates than ever before.

The change has been swift and broad with nearly half (46%) of all Australians who were working in late-April to early-May reporting that they were now working from home.¹

Also, many people were forced to, and continue to, help children carry out schoolwork at home by tackling new online learning procedures, which were very unusual for some, while simultaneously doing their day job. This produced significant challenges and a new appreciation for our teachers!

As we worked through these issues, for some, working from home has become the preferred future working environment, while for others the return to work can't come quickly enough.

Online services and deliveries

With people requiring to social distance and stay at home, deliveries across the country have increased, with approximately 25% of people reporting that they have increased their levels of online shopping.¹

Now, deliveries within a couple of hours or days is the new norm for everything from groceries, books, restaurants to bike shops. This provides a new convenient service, plus employment for delivery drivers.

Will people go back to queuing for their groceries when social distancing restrictions are lifted, or will they continue to order online?

New ways of communicating

While we've social distanced and self-isolated, video conferencing has been embraced, and we're now regularly 'meeting' with and 'socialising' with workmates, family and friends online.

Zoom, a popular video-conferencing app, has seen downloads and subscriptions soar with video conferencing being embraced by many companies as a way to keep team meetings occurring and to encourage collaboration.

Our own recent client meetings have been conducted online and we've seen some benefits including the ability to share information immediately and less time spent on travelling. In the future, we will be able to offer you the choice of meeting face-to-face or via video conference.

The environment

There has been significantly less travel during the crisis. Global plane travel has been cut almost completely and is likely to be one of the last restrictions to be lifted. There have also been far fewer cars on the road resulting in less traffic and petrol prices plummeting.

As a result of the decline in human activity, the environment has benefited. In China, carbon dioxide emissions dropped by about 25% since March. The air pollution research organisation Centre for Research on Energy and Clean Air has said that China's reduced output is the equivalent of taking 200 million tonnes of carbon dioxide, or more than half the entire annual emissions output of the United Kingdom, out of the environment.²

The result is cleaner air and clearer waterways.

But, will countries go back to fossil fuels when the pandemic ends to fast-track economic recovery? Or is there an opportunity to re-build economies through alternative energy sources, for example, solar, hydro and wind?

Going local

The pandemic has truly shown our reliance on goods and services from our overseas neighbours, especially when it came to critical items such as personal protective equipment and Coronavirus testing kits for our doctors and nurses. This showed a weakness in our self-reliance as a nation.

With a shortage of items which are only available from abroad, there may be an opportunity for business to start to manufacture some of these items locally.

Also, the great traditional Australian road trip holiday is likely to become popular as more exotic locations become too expensive or difficult to get to.

A new kind of normal

It's likely not possible for the world to go back to exactly how it was after the Coronavirus crisis ends. Will handshakes disappear? Maybe cash really is a thing of the past. Will we ever go to a smorgasbord buffet again? Or will these things become stories of times past?

Some people will no doubt be wary of being in large crowds and this could financially impact the arts, sports and entertainment industries for some time.

Businesses may well realise their employees working from home has had benefits such as increased productivity and the option to reduce office space. Employees may also like the convenience of working from home which can mean more time with the family or replacing the time spent on the daily commute with other more pleasurable activities. It may also allow people in the future to live further afield and make a sea change or tree change while still working.

Eventually we'll all have a new appreciation of moving around freely, being able to travel and socialise at will.

While the Coronavirus crisis has been devastating in so many ways and for so many people, often, with struggle comes opportunity and new ways forward, new ways to support each other and those in need.

If you are struggling financially during the Coronavirus crisis, please contact us and we can help you work through the options available to you.



1 <https://www.abs.gov.au/ausstats/abs@.nsf/mf/4940.0>

2 <https://thenewdaily.com.au/life/science/environment/2020/04/09/how-coronavirus-could-save-australia-from-climate-change-or-make-it-worse/>

Investment market review Quarter-ended 31 March 2020



Australian shares

The S&P/ASX 300 Accumulation Index underperformed global markets in the March quarter, falling 23.4%.

Most sectors performed poorly with Energy the worst (down 48.9%). Defensive sectors outperformed the market with Utilities (down 10.3%), Consumer staples (down 4.3%) and Healthcare (up 1.5%) performing relatively strongly. Consumer staples were supported by consumer hoarding behaviour who were fearful of shortages due to the Coronavirus situation. This saw Metcash (ASX: MTS), which operates IGA stores, become one of the top performers during the quarter. In addition, healthcare stocks were supported by both their defensive characteristics and increased usage of their products which counter the Coronavirus. Fisher and Paykel Healthcare (ASX: FPH) was a key beneficiary of this trend with its ventilator products in strong demand globally given how the Coronavirus attacks the respiratory system.

Separately, we saw the Reserve Bank of Australia (RBA) cut interest rates by 0.5% during the quarter. This decision impacts bank profits negatively by reducing the spread between the rate they lend at and the rate they pay savers. This is called their 'net interest margin' and a lower rate environment implies weaker bank profits (and dividends) in the future. This contributed to the weakness in the Financials sector (down 28.7%).

	1 year (%)	5 year (% pa)	10 year (% pa)
Australian shares	-14.5	1.4	4.8



Listed property trusts

The Australian real estate investment trust (A-REIT) fell by -34.3% during the March quarter.

The Coronavirus lockdowns were a key factor for the decline with consumers staying at home rather than shopping or seeking entertainment such as going to the movies following the Government's instructions. Retail A-REITs were amongst the worst affected with Westfield operator Scentre Group (ASX: SCG) having only 39% of its retail store tenants open according to their most recent update. In addition, commercial landlords are facing restrictions on tenant evictions and rental increases per a new Code of Conduct issued by the Government.

	1 year (%)	5 year (% pa)	10 year (% pa)
Listed property trusts	-31.3	0.5	7.2



International shares

International shares also declined but by considerably less than Australian shares. The MSCI World Index in Australian dollar terms fell -9.3%.

Global share markets fell during the quarter (in local currency terms) led by weakness in Europe and the United States (US). European and US weakness reflected the struggles both are facing in handling the Coronavirus outbreak. Europe has, in general, been one of the most adversely affected regions with over 138,000 deaths and 1.27 million confirmed cases (as of early May). This saw substantial business shutdowns and job losses across Europe. The economic damage caused is expected to harm business profits substantially in the short-term. This caused concern among investors who sold global shares, driving prices lower.

The Australian dollar fell 9.3% against major trading partners during the quarter. This added to the performance of unhedged international shares. Hedged international shares by contrast declined by 21.1% as these did not benefit from the fall in the Australian dollar (hedging protects against both good and bad currency movements). The main factor for the Australian dollar was concern over the economic slowdown from the Coronavirus reducing demand for Australian exports, particularly commodities and education services.

	1 year (%)	5 year (% pa)	10 year (% pa)
International shares	4	7.9	11



Fixed interest

Australian fixed interest performed positively with the Bloomberg AusBond Composite Index, rising 3% during the March quarter.

In Australia and globally, the Coronavirus outbreak sparked a major shutdown of non-essential businesses such as tourism and hospitality. This has caused economists to declare that the Australian economy and the global economy was entering a recession.

In response to this, the RBA cut interest rates twice taking its cash rate to 0.25%. It also committed to targeting the 3-year Government bond yield to be 0.25% to keep short-term interest rates low across the economy. This helps corporate borrowers by lowering their financing costs but also lowers the future returns for lenders and investors.

Bond prices were pushed higher (and bond yields lower) by investors seeking safe assets.

This 'flight to safety' response is something we typically see when share markets decline sharply and contributed to the positive bond returns.

	1 year (%)	5 year (% pa)	10 year (% pa)
Fixed interest	6.8	4.2	5.9



Cash

The Bloomberg AusBond Bank Bill Index rose 0.3% during the March quarter.

The RBA cut interest rates twice during the quarter by 0.5% overall, taking the cash rate to 0.25%.

The lower interest rate means borrowers will be able to repay larger amounts and therefore increase their spending while investors and savers will generally receive lower returns. It's unlikely the RBA will cut rates again by 0.25% to 0%. This is because of how its policy works. A 0.25% rate cut would effectively 'tax' banks with negative interest rates which would discourage lending and impact economic growth.

The RBA has indicated any normalisation of rates will be gradual as the economy recovers and is expected to take a number of years.

	1 year (%)	5 year (% pa)	10 year (% pa)
Cash	1.2	1.8	2.8

Asset class returns

Different asset classes have, over time, produced different returns on investment. Many investors consider changing asset classes to chase the next return. But, as you can see from the table below, it's very difficult to predict which asset class will perform strongest in the following year. This year's winner may not necessarily be next year's.

Year	Australian shares	International Shares	International Shares (Hedged)	Australian listed property	Australian fixed interest	Cash
2009	37.6	-0.3	26.7	9.6	1.7	3.5
2010	1.9	-2.0	13.1	-0.7	6.0	4.7
2011	-11.0	-5.3	-1.9	-1.6	11.4	5.0
2012	19.7	14.1	18.7	32.8	7.7	4.0
2013	19.7	48.0	32.3	7.3	2.0	2.9
2014	5.3	15.0	12.6	26.8	9.8	2.7
2015	2.8	11.8	3.8	14.4	2.6	2.3
2016	11.8	7.9	10.3	13.2	2.9	2.1
2017	11.9	13.4	20.0	6.4	3.7	1.7
2018	-3.1	1.5	-7.6	3.3	4.5	1.9
2019	23.8	28.0	26.8	19.6	7.3	1.5
Annualised return (% p.a.)	10.2	11.1	13.4	11.4	5.4	2.9

Why appoint a power of attorney?

A power of attorney is a legal document that allows you to nominate someone you trust to make financial decisions on your behalf if you are unable to do so.

A popular misconception is that a person's partner can make financial decisions for them and manage their assets. However, unless a formal power of attorney has been granted, these decisions may revert to a government agency instead. Having a power of attorney in place means you can nominate the person you want to make the decisions – it protects your interests.

Depending on state and territory laws, as well as your circumstances, a power of attorney can operate in different ways:



A general power of attorney

allows someone to make financial and property decisions on your behalf for a limited time only, for example, if you are overseas for an extended amount of time.



An enduring power of attorney

is the most common form and allows you to nominate someone you trust to make legal and financial decisions on your behalf if you, for instance, have an accident, fall ill or lose capacity. The benefit of an enduring power of attorney is that unlike an ordinary power of attorney, it will continue to operate even if you lose full legal capacity.

An enduring power of attorney is an extremely powerful legal document, so it's not only vital to ensure you have one in place, but it's also critical that you appoint the right person or persons for the job.

Your attorney can step into your shoes and enter into contracts, operate your bank accounts and pay your bills for you. They even have the ability to sell your house or incur debt on your behalf.

It is a position that carries great responsibility and your attorney(s) should always act in your best interests. You can imagine the possible problems and difficulties that can ensue if your appointed attorneys don't get along or can't agree on important decisions that need to be made. If you can foresee conflicting issues arising amongst your attorneys, or if there is no one that you can absolutely trust, appointing a reputable, professional trustee company may be a good option.

What happens if you don't have an enduring power of attorney?

If you do not get around to putting an enduring power of attorney in place and suffer an illness or loss of mental capacity, an application would need to be made to the relevant Administrative Tribunal in your state or territory for a financial administrator to be appointed to act on your behalf.

If the relevant Administrative Tribunal feels there are no appropriate family members or friends who can be appointed, they would usually appoint the Public Trustee to manage your financial affairs.

If you would like more information about enduring powers of attorney, please contact us.

Source: Australian Executor Trustees

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