PortfolioWatch

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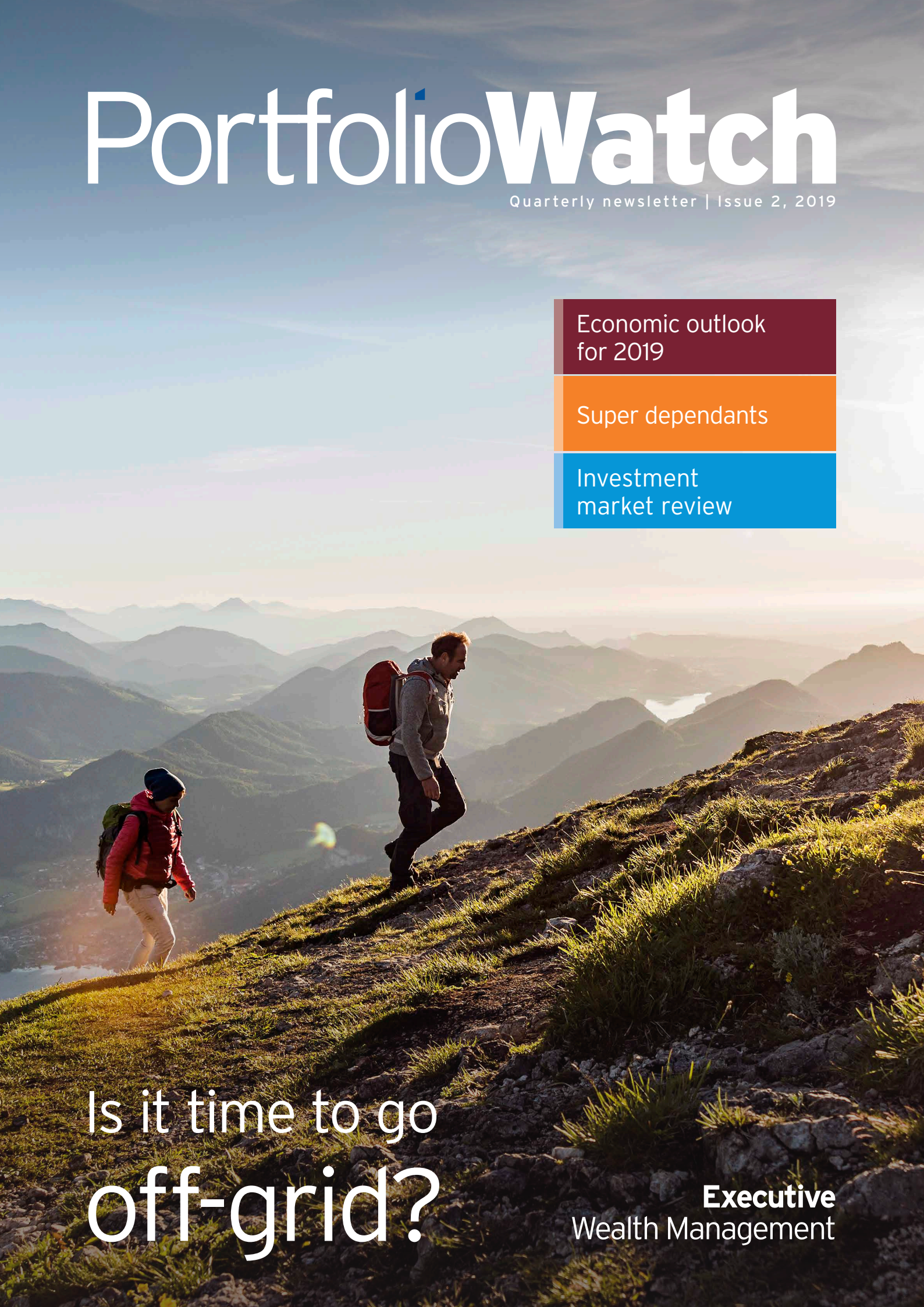


Is it time to go off-grid?

Executive
Wealth Management

Economic outlook for 2019

Overall, we are likely to see a slowdown in growth for both the Australian and global economies over the next year. Upcoming elections, including our own Federal election, will have a major influence on the economy as will government spending.

In Australia, new lending standards will continue to affect lending levels which, in turn, will influence property prices and the overall economy.

The global economy

The global economy is predicted to be slow this year. Europe and Japan are both at risk of being in a recession. However, the outlook for the US remains positive as its economy performed relatively well during 2018 and still appears to be the most robust developed economy so far this year.

Globally, interest rates are on hold as a slowdown in growth alleviates any pressure to raise rates. However, central banks may try a mix of rate cuts and unconventional policy measures in a bid to stimulate growth.

The US and China trade war

The trade war between the US and China dented investor confidence in 2018. We anticipate a deal will be agreed between the two nations later this year. In the meantime, news on the trade negotiations may contribute to market volatility.

Brexit

As the UK Parliament could not find consensus, Brexit has been delayed until 31 October but may occur earlier if a consensus can be reached. There's still a strong case for passing a deal but observers underestimated the division within the Parliament. This has prevented successful negotiations both within Parliament and outside the UK over the past year.

European Union elections

Anti-European Union populist parties are likely to attract more votes compared to previous elections. This is because of voter discontent with an economic model that has struggled to deliver jobs and growth for voters. This has led to protests such as the 'yellow vest' protests in France which were a reaction to tougher living standards.

Further government spending may be needed to address these problems with signs that both Italy, with an unemployment rate of 10.5%, and France, with an unemployment rate of 8.8%, will increase government spending during the coming year. In these countries, many people are unemployed, relative to recent history, making their lives tougher and prompting protests and populist wins.

The Australian economy

The Australian economy is likely to slow throughout 2019, continuing the weak economic growth experienced in the second half of 2018. This is due to weaker consumer and business sentiment influenced by a mix of weaker global growth and the decline in house prices.

However, population growth which, in turn, grows the economy, interest rate cuts and government stimulus could help offset this.

Property market

The property price correction is likely to continue until the end of 2019, perhaps beyond.

Borrowers are finding it harder to meet lending standards and this has seen lower levels of investor lending especially in the key markets of Sydney and Melbourne.

As illustrated in Figure 1, credit growth (in blue) has generally been a predictor of future house price growth (in red). Current (weak) lending points to falling house prices in the short term.

Unemployment

The labour market tends to lag behind other parts of the economy and therefore it is anticipated that unemployment will increase owing to the lower economic growth outlook for Australia.

Interest rates

The Reserve Bank of Australia (RBA) will probably make at least one interest rate cut by the end of 2019 as the weaker economy and inflation outlook prompts a response from the RBA. Inflation continues to track below its 2% minimum target as shown in Figure 2.

Figure 1: Annual housing price growth versus housing finance growth, Sep 05 to Dec 18

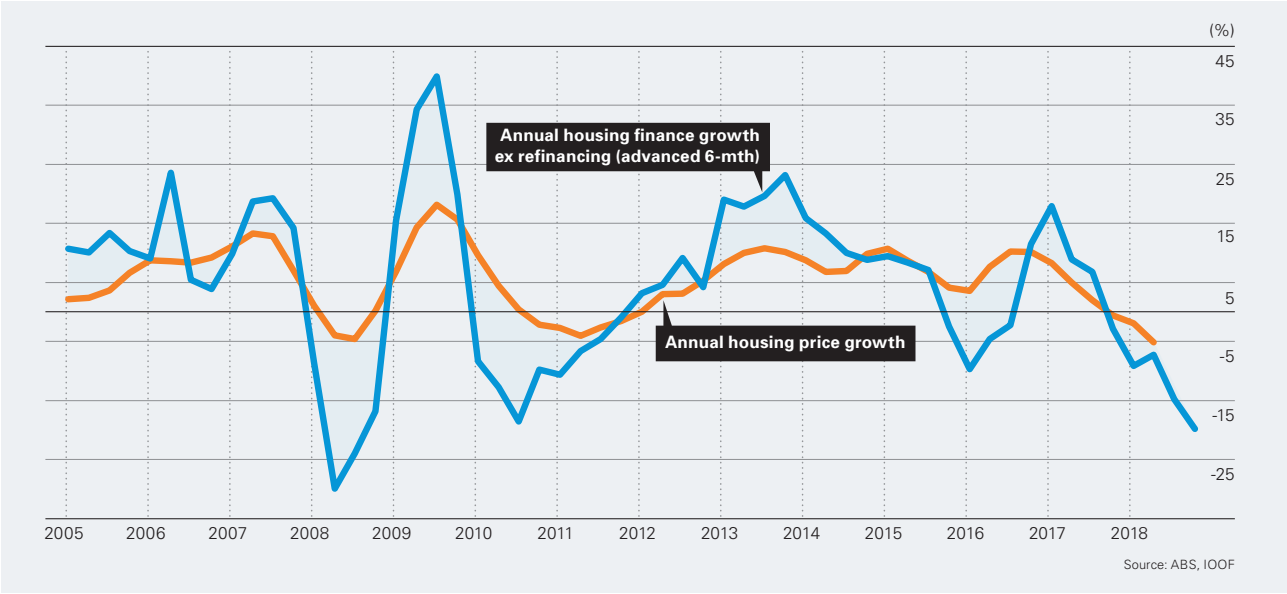
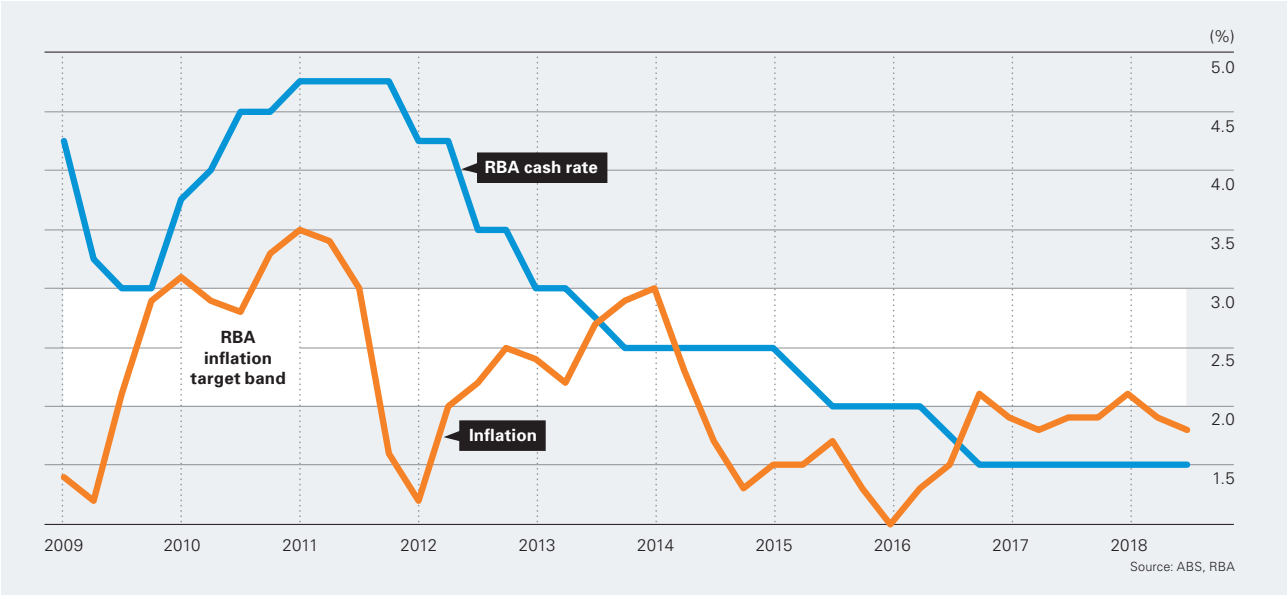


Figure 2: Annual inflation versus interest rates, Jun 08 to Dec 18

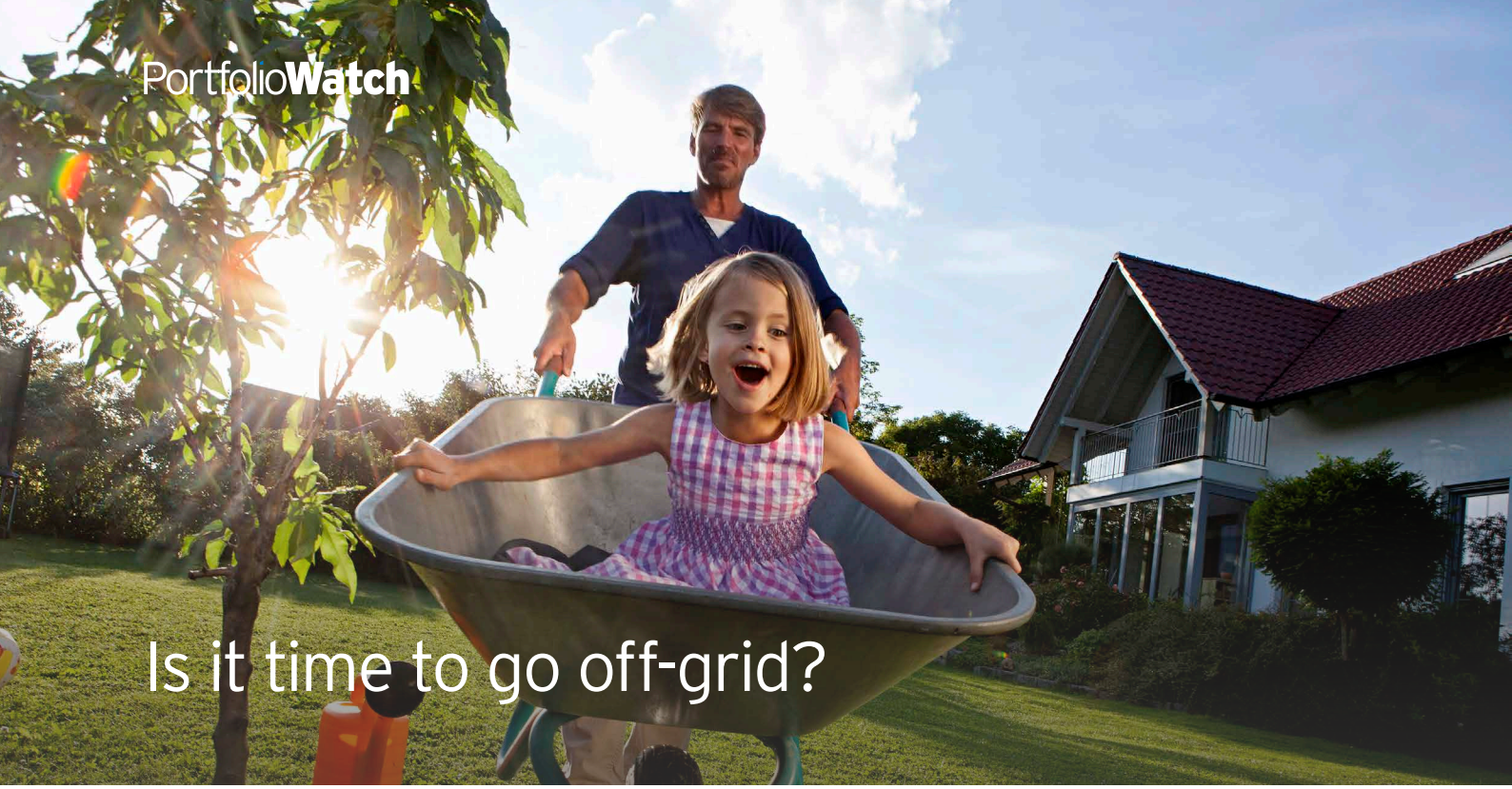


The Federal election

Newspoll and other voting ballots have indicated a strong likelihood that the Labor party will win the May Federal election.

There are potential implications for tax reform and changes in the financial sector, both significant policy points for Labor. If Labor wins, expect at least some of their initiatives to be advanced by year-end, including capital gains tax, franking credit and negative gearing reforms. This could also see dividend payments being brought forward in an attempt to avoid the financial repercussions of the reforms. Depending on the scale of the reforms to negative gearing, there may also be pressure on property market investors to sell.

There's also likely to be changes to the financial industry to improve consumer outcomes following the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.



Is it time to go off-grid?

Once considered a radical way to live, many Australians are now viewing an off-grid lifestyle as both economically and environmentally savvy. We delve into some of the pros and cons and whether it's a good choice for you.

Just a few years ago, going off-grid wasn't something many people would seriously consider unless they lived in a remote area or had strong environmental leanings. However, increasing instability in the electricity grid, soaring utility bills and climate change are some of the reasons why more Australians are exploring the idea of an off-grid lifestyle.

What does going 'off-grid' mean?

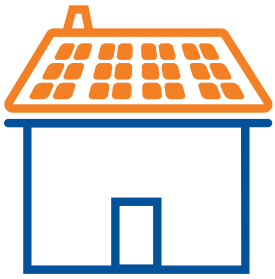
Going off-grid means living self-sufficiently by detaching from public or private utility companies. While solar is generally the first thing that comes to mind when we hear the words 'off-grid', going off-grid isn't just about electricity – it also involves disconnecting from municipal water, sewerage and gas services and adopting a lifestyle underpinned by self-sustainability.

The transition to an off-grid home will often occur when families are either renovating or building a new home, which makes it relatively easy to add things like batteries, rainwater tanks, new plumbing and solar panels, but these things can also be easily retrofitted to an existing home.

How much does it cost?

In terms of costs, to live off the electricity grid you will need a reliable solar battery, a large off-grid solar system and a backup generator. All up, living entirely off the energy grid could initially cost up to $25,000, even after factoring in government rebates and incentives. Water-wise, the best rainwater tank system and fittings depend on your house. Most complete rainwater systems cost around $11,000.

Sewage can sometimes prove the trickiest aspect to transitioning off-grid, with some local councils reluctant to allow people to treat their own sewage. However, with the appropriate permissions, there are options such as composting toilets and worm farms. A complete sewage recycling system could cost up to $11,000.



Government solar incentives

The Federal Government's Small-scale Renewable Energy Scheme encourages households and businesses to install small rooftop solar systems. The scheme awards people by allocating 'Small-scale Technology Certificates' which is like a discount voucher for your system. The number, and therefore the value of the certificates awarded to you depends on factors such as the size of your solar system and your location. By 2030 this scheme is likely to be completely phased out.

There are also differing state incentives such as rebates and interest-free loans. To find the programs available, refer to the Government's energy website.

What are the pros and cons of going off-grid?

Despite the costs listed, taking your home off the grid has never been more affordable than it is today. Solar power is a cost-effective way for homes to generate their own electricity in the long term. And, with battery costs coming down, the length of time from purchase to 'payback' is getting shorter and shorter.

What is the payback time?

Payback occurs when you have covered the cost of setting up an off-grid system via savings incurred from no longer having to pay utility bills.

It's important to remember that calculating the payback time for your solar and battery system depends on a number of factors, such as average sunshine hours in your location, individual consumption patterns, the future price of electricity (whether it will go up or down) and the size and cost of your system.

As a rough estimate, a five kilowatt solar system with a medium-sized battery will take the following number of years to pay back[1]:

City	Years
Adelaide	6.8
Sydney	8.1
Brisbane	9.0
Melbourne	10.5

From an environmental perspective, going off-grid halts your reliance on fossil fuels and creates a self-sustaining system of energy, water and waste management, which will heavily reduce your environmental footprint.

That being said, there are a number of things to be aware of before turning your back on the grid entirely. These include:

Roof limitations: make sure your roof has plenty of space to fit enough solar panels to go off-grid.

Maintenance costs: you will need to maintain and replace your systems as needed. For instance, solar batteries need to be replaced every six to 12 years, depending on usage.

Property value: not everyone is interested in off the grid systems and may see them as a deterrent to buying your home rather than an attraction, potentially pushing your house price down rather than up.

Going off-grid is a considerable investment and it may not be the right option for you and your family. There are a host of other changes you can implement to help reduce your impact and live a more environmentally-friendly life such as reducing the amount of meat you eat, not using disposable items such as plastic cutlery and reducing your electricity consumption.

If you're considering an off-grid lifestyle, contact us and we can help assess how it could affect your financial plan.

[1] www.solarchoice.net.au/blog/home-solar-battery-storage-worth-it-2018

Investment market review Quarter ended 31 Mar 2019

Australian shares

Australian shares slightly underperformed global markets in the March 2019 quarter, rising 10.9%.

At a sector level, the best performers were Technology (up 20%), Mining (up 15.7%) and Telecommunications (up 14.5%). Relatively speaking, Consumer Staples were the worst-performing sector (up 4%), followed by Financials (up 4.8%) and Healthcare (up 5.5%).

Strength in the Australian mining sector was driven by a dam collapse in Brazil that reduced iron ore production. Due to the reduction in world-wide supply, iron ore prices rose and Australian miners such as Rio Tinto and BHP benefited from increased demand and higher prices.

Technology shares were clear outperformers during the March 2019 quarter with investors comfortable chasing growth opportunities in this space.

	1 year (%)	5 year (% pa)	10 year (% pa)
Australian shares	11.7	7.4	10.3

Listed property trusts

The Australian real estate investment trust (A-REIT) sector generated a strong return of 14.4% for the March 2019 quarter influenced by a decline in bond yields.

In addition, we saw the growth prospects of select REITs such as Dexus and Goodman Group re-rated by investors on the back of positive earnings results relative to the broader market. Retail REITs by contrast such as Scentre Group continued to track at a discount to their underlying asset base as investors were concerned about their prospects given poorer retail sales.

A-REITs are often viewed by investors as a substitute for bonds so falling bond yields can result in stronger performance for this asset class. The trigger for lower bond yields was weaker Australian economic data. For example, economic growth in 2018 was lower than expected. This saw markets increasingly price-in rate cuts, driving yields on existing bonds lower. Therefore, by comparison, yields on income substitutes like A-REITs look more attractive so their prices go up as a result.

	1 year (%)	5 year (% pa)	10 year (% pa)
Listed property trusts	25.9	14.9	15.3

International shares

The international share market had a strong March quarter with the MSCI World Index in Australian dollar terms gaining 11.5%.

The shift in international markets has been driven by two factors. Firstly, the US Federal Reserve has effectively signalled an end to interest rate hikes for 2019. This means it will continue to be easier for consumers and businesses to borrow, supporting economic growth. Secondly, there was positive progress on the US-China trade war. Both countries halted their 'tit-for-tat' on raising tariffs against each other and are working towards a final deal to resolve their disagreements, calming fears that further escalation would hit international trade and reduce global growth. The easing of trade tensions and the end of US interest rate increases in the short term have both supported riskier assets like shares. Prices have now almost completely recovered from the December 2018 sell-off.

	1 year (%)	5 year (% pa)	10 year (% pa)
International shares	12.3	12.6	12.1

Fixed interest

Both the Australian and US yield curve fell during the March 2019 quarter for different reasons.

In Australia, the focus was on the weaker economic environment with soft and hard data highlighting economic weakness. An example of soft data is the weaker business sentiment disclosed in the NAB Business surveys which reflected weaker business confidence compared to the historical average, falling over the course of 2018 to weakly positive levels. Business conditions have held up better, supported by strong commodity prices but have still weakened in recent months.

	1 year (%)	5 year (% pa)	10 year (% pa)
Fixed interest	7.2	5.1	5.5

Cash

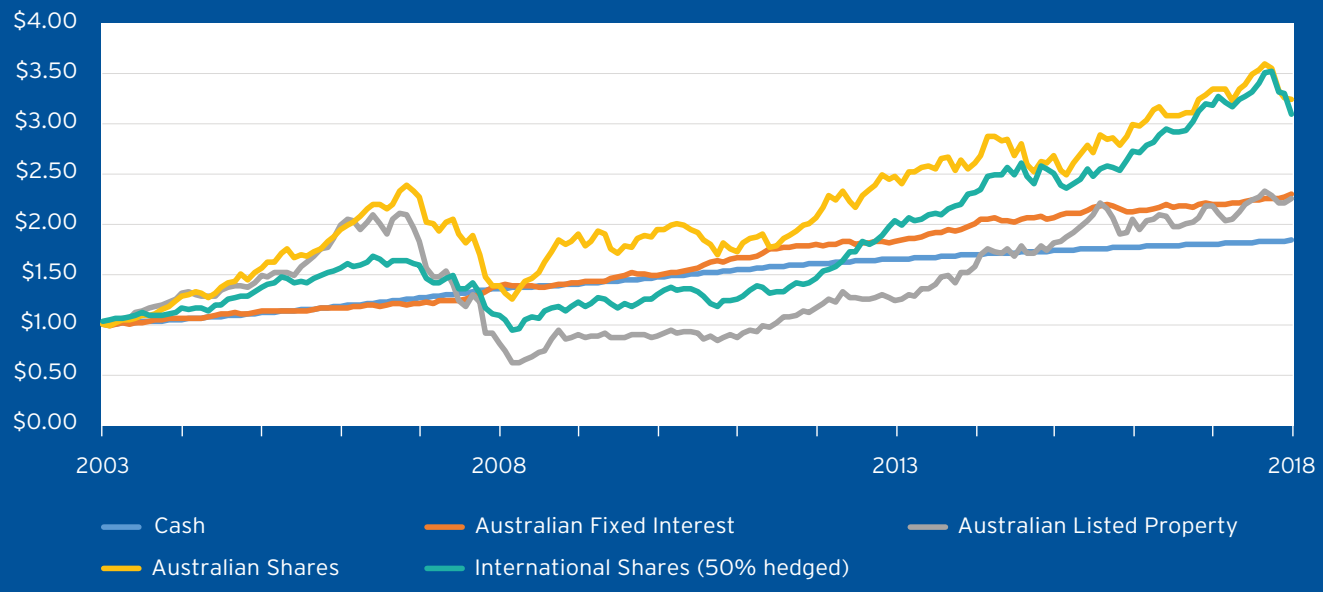
The Reserve Bank of Australia (RBA) left the cash rate unchanged at a historical low of 1.50% in the March quarter.

It focused on the disconnect between slowing economic growth and a strong labour market. This was triggered, in part, by disappointing Australian economic growth data for the December 2018 quarter (released in the March quarter).

	1 year (%)	5 year (% pa)	10 year (% pa)
Cash	2.0%	2.1%	3.0%

The value of the dollar

The below chart shows the growth of different investments if you invested one Australian dollar in 2003.



Source: Bloomberg

Super dependants

If you have a superannuation fund, you've probably been asked to nominate your beneficiary. But, super fund trustees can only pay your super death benefit to eligible dependants[1] or to the legal personal representative (LPR) of your estate. If you haven't elected a valid beneficiary the super fund trustee generally decides who your super goes to.

Here's what you and your family need to know about super dependants.

Who can you nominate as a super dependant?

Spouse

A spouse includes a legally married spouse or de facto spouse, both same sex and opposite sex.

A spouse can be a person you're legally married to but estranged or separated from. So, if you haven't formally ended a marriage, your husband or wife is still considered your dependant under superannuation law. And, while you can't be legally married to two people, it is still possible to have two spouses – a legally married spouse and a de facto spouse.

Child

A child includes an adopted child or a step-child.

Even though a step-child is included in the definition of a child, if you end the relationship with the natural parent or the natural parent dies, the child is no longer considered your step-child. However, they may still be considered a financial dependant or in an interdependency relationship with you and could therefore continue to be a beneficiary of your super.

Financial dependant

Generally, a person is financially dependent on you if the level of support you provide them is 'necessary and relied upon', so that if they didn't receive it, they would be severely disadvantaged rather than merely unable to afford a higher standard of living.

Interdependency relationship

Two people have an interdependency relationship if they live together and have a close personal relationship. One or each of them must also provide a level of financial support to the other and at least one of each of them needs to provide domestic and personal care to the other.

Two people may still have an interdependency relationship if they do not live together but have a close personal relationship. For example if they're separated due to disability or illness or due to a temporary absence, such as overseas employment.

Who is not a dependant?

A person is not a dependant if they are your parents or other friends or relatives who don't live with you and who are not financially dependent on you or in an interdependency relationship with you.

If you do not have a dependant you should direct your super to your LPR and prepare a Will which outlines your wishes.

Legal personal representative

An LPR is the person responsible for ensuring that various tasks are carried out on your behalf when you die. You can nominate an LPR by naming the person as the executor of your Will. Your Will should outline the proportions and the people you wish your estate, including your super, to go to.

If you're not sure of the best way to nominate your super beneficiaries please contact us and we can help.

[1] In this article a dependant refers to a 'SIS dependant' which is an eligible person under the *Superannuation Industry (Supervision) Act 1993* that a member may nominate as a beneficiary.

Source: Australian Executor Trustees

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