FINPAC Financial Group

Wealth creation & protection

Outlook

Financial Update & Outlook

Autumn 2017

Financial markets have once again shown their capacity to wrong-foot investors. During the first quarter of 2017, contrary to conventional wisdom, the top-performing stock markets have not been in the US, not even in a resurgent Europe, but in the emerging markets.

Stock markets in the developing world have risen by about 12% since the start of the year. That's twice as fast as Wall Street, which itself has done twice as well as London. This wasn't in the script following Donald Trump's election on an America First, protectionist ticket. Emerging markets should have been first up against the wall.

The main reason commonly cited for emerging markets expected under-performance was trade. Emerging markets have prospered on the back of an open, global system of minimal tariffs and free trade. In fact, Trump's rhetoric on free trade has (so far at least) been more talk than action.

Investors typically place emerging markets in the 'risky' bucket while considering developed markets as 'safe'. Recent developments in countries like Turkey and Venezuela confirm that anyone investing in these markets needs to do so with their eyes wide open. The events of the past nine months in Britain and America show that the discount that investors typically attach to emerging markets might just as sensibly be applied to the developed world.

Who knows whether President Trump will be any more successful with his proposed tax reforms, deregulation and infrastructure spending programme than he was with his botched replacement of Obamacare? In the meantime, investors can only hope for the best and prepare for the worst.

Dealing with monetary policy first, history suggests that emerging markets do relatively well in an environment of gently rising interest rates. This is because rate hikes reflect stronger global growth in the initial stages of a tightening cycle, which is good for all markets but particularly those in the developing world.

There are three reasons why a trade war is unlikely. First, Trump's power is quite limited. Any China-specific tariffs would simply see jobs move to other countries like Vietnam where Chinese companies have already moved to capitalise on lower wages.

Second, the imposition of import duties such as the mooted border tax would simply push up costs for US consumers and these would hit hardest the very people that voted Trump into power. Finally, China would simply retaliate, hitting sales of big US employers like Boeing and General Motors which are major exporters across the Pacific. Protectionism won't bring jobs back to America; it will destroy them.

So perhaps the performance of emerging markets this year is not so surprising after all. And neither are the fund flows into the asset class, their strongest on record, according to Morgan Stanley.

Living standards have grown steadily during the past 20 or so years even as wages have stagnated in real terms in the developed world. Trump talks about spending $1trillion on infrastructure over 10 years. China has spent the same on roads, rail, bridges and telecommunications in a single year.

Quite often in investment, the interesting story happens while you are looking the other way. The past year has all been about the developed markets in America and Europe. Meanwhile, the ongoing shift of economic power is playing out in the stock markets of Asia, Africa and Latin America. Despite flickering back to life in the past year, emerging market shares are no higher than they were in 2009 and something like 25% cheaper than in America. After nine months of navel-gazing, it may be time to look further afield.

Remember if you have any questions please contact the relevant advisor listed below. Alternatively, if you have any feedback on our updates or articles you would like covered please give me a call or send an email to **gricks@finpac.com.au.**

Andrew Gricks

Andrew R Gricks
Managing Director
FINPAC Financial Advisors
AFSL 237820 ABN 74 010 494 489

FINPAC Insurance Advisors Pty Ltd
ph 07 4771 5600
p o box 2362, townsville qld 4810

Tony Muller — **Life, Trauma & Income Insurance**
Julie Ramage — **Life, Trauma & Income Insurance**

Karen Giannopoulos - Commercial Insurance

Danielle Turner - Claims

Alison Barton - Personal Lines

Michael Giannopoulos - Commercial Rural

FINPAC Financial Advisors Pty Ltd
ph 07 4772 5655
p o box 1577,townsville qld 4810

Andrew Gricks — **Managing Director**
Tony Muller — **Personal Wealth Advisor**
Nikki Taylor — **Personal Wealth Advisor**
Tricia Gricks — **Client Relationship Manager**

this may be your LAST CHANCE to make a SIGNIFICANT CONTRIBUTION to your SUPERANNUATION account

With changes to superannuation coming into full effect from the 1 July 2017, this financial year is the **last opportunity** many investors will have to make a significant contribution to their retirement nest eggs. The last time an opportunity like this arose was in 2007, some 10 years ago. Those FINPAC clients who took advantage of this window of opportunity have been well and truly rewarded.

This is vital for those not only with surplus funds available but also for those whose superannuation balances are already close to $1.6 million because after the 1 July, you will no longer be able to make non-concessional (after tax) contributions if you have more than that amount. You can however, continue to salary sacrifice even if your superannuation balance is at or above $1.6 million. Even if your superannuation balance is nowhere near that $1.6 million cap you can still take advantage of this opportunity to make the most of the higher contribution caps.

Right now investors can contribute up to $575,000 to their superannuation accounts. This consists of $35,000 concessional contributions and $540,000 non-concessional contributions (provided the "bring forward" rule has not previously been triggered).

Here's what the changes to the contribution caps will look like from the 1 July:

CONTRIBUTION TYPE	CURRENT CAPS	POST 1 JULY CAPS	VARIANCE
Concessional *(less than 45 years of age as at 30 June 2016)*	$30,000pa	$25,000pa	up to $10,000pa
Concessional *(over 49 years of age as at 30 June 2016)*	$35,000pa		
Non-Concessional	$180,000pa	$100,000pa	up to $240,000
Non-Concessional *(bring forward rule)*	$540,000	$300,000	

It may seem impossible or irrelevant to people right now to think about making large contributions to superannuation but if you are considering selling a property or shares some time in the future now might be the time to do so and contribute these funds to superannuation. This can be achieved by either selling the assets and contributing prior to 30th June or borrowing against the assets and contributing prior to 30th June and repaying the loan from the eventual proceeds of the sale. This is too good an opportunity to let pass without second serious thought.

After the 1 July, these changes mean a couple will lose the opportunity to make up to $500,000 in contributions to their superannuation accounts.

It is important to remember that **concessional contributions (e.g. salary sacrifice) are tax deductible** however they do attract contributions tax payable by the superannuation fund at 15%. Earnings within a superannuation fund are only taxed at a maximum rate of 15%, compared to non-superannuation investments where you could pay anywhere up to 47.5% (i.e. your marginal tax rate). Even after the reforms, superannuation remains one of the most tax effective ways to save for your retirement.

Contact your FINPAC Financial Advisor and take action now to make the contributions while you still can.

and preservation

other EOFY tax planning actions

Prepay your interest

If you have borrowed funds to make an investment that will generate an assessable income, you may be eligible to claim a tax deduction for the interest payable on your loan. The interest for the next year can be paid before the 30 June effectively bringing the tax deduction forward into the current tax year.

Prepaying your interest may also allow you to lock in a discounted interest rate, which will not be effected by any further interest rate rises, for the following tax year.

Income protection and life insurance

Both employed and self-employed persons are eligible to claim premiums paid for Income Protection insurance as a tax deduction. So it makes sense to prepay 12 months income protection insurance premiums. This will bring forward your tax deduction allowing you to pay less income tax this financial year.

If you are self-employed and eligible to make salary sacrifice contributions to superannuation, you are eligible to purchase Life and Total and Permanent Disability insurance through a stand alone superannuation policy.

This means you will either save on premiums or be able to purchase more insurance cover due to the tax deduction available on premiums. Investors need to be aware that these premiums count towards their concessional contribution limit.

Now is the time to talk to your FINPAC advisor about the tax planning and superannuation strategies available to you prior to the 30th June.

new smoke alarm legislation

Since **1 January 2017** new legislation has specified the type, positioning, and inter-connectedness of smoke alarms for Queensland homes. Photoelectric alarms must now be installed.

When you sleep, your sense of smell also sleeps. If a fire starts, toxic fumes can overcome you. Photoelectric smoke alarms see smoke and will alert you early, so you can escape.

For existing dwellings:

- **Existing smoke alarms manufactured more than 10 years ago must be replaced** with photoelectric smoke alarms which comply with Australian Standards (AS) 3786-2014. (Note: the date should be stamped on the back)

- Smoke alarms that do not operate when tested must be replaced immediately.

- Existing hardwired smoke alarms that need replacement, must be replaced with a **hardwired photoelectric smoke alarm**.

It is also recommended that:

- smoke alarms be either hardwired or
- powered by a non-removable 10-year battery; and
- ionisation smoke alarms be replaced with a photoelectric type as soon as possible.

For the best protection smoke alarms **should be installed on each storey**:

- in every bedroom
- in hallways which connect bedrooms and the rest of the dwelling
- if there is no hallway, between the bedrooms and other parts of the storey; and
- if there are no bedrooms on a storey, at least one smoke alarm should be installed in the most likely path of travel to exit the dwelling.

All smoke alarms should be interconnected.

To get everyone out safely during a house fire, it is essential to also have a well-practised fire escape plan.

direct life insurance

Buying life insurance without an adviser might be faster up front, but the sting is in the tail.

Buying life insurance over the phone or online after just a handful of questions should set off alarm bells because it will generally mean that the policy has not been underwritten and at claims time, you might well find out you were never covered.

These are the underwriting practices behind most direct insurance offerings, as opposed to all the insurers that FINPAC utilise. Where every policy is fully underwritten at the start ensuring that **you can be confident of the level of cover at claims time,** assuming you have disclosed your medical history fully.

The Association of Financial Advisors has called for all life insurance to be underwritten at application time to ensure a better claims experience for consumers.

“Clearly, the consumer experience when purchasing direct life insurance may be perceived as better because the customer only has to answer a handful of questions, doesn’t have to go through the underwriting process, can make the purchase via credit card and have immediate cover put in place. But what have they actually bought? What happens at claim time?”

The Parliamentary Joint Committee on life Insurance has highlighted this issue - the poor claim outcomes of direct life insurance.

Our process will take longer to put the insurance in place because **it will be carefully underwritten in line with your individual medical and family history before it is offered to you.**

This gives you greater certainty that you are covered if you have a claim.

At claim time, if a direct insurer determines you had health issues back when you purchased the policy, or even in the years before, they may only refund the premiums, and not pay out.

I know I am beating my our drum when I speak about Direct Life Insurance but **I firmly believe we can always offer a better experience both from a coverage and premium perspective.** And remember we manage your claim with you, not against you.

what’s happening at finpac?

Earlier this year, Nikki Taylor celebrated her 10 year anniversary at FINPAC Financial Advisors. In this time she has completed both her Bachelor of Business (Financial Planning) and her Certified Financial Planner qualification and now is a fully fledged financial advisor.

FINPAC has always placed a strong emphasis on developing and maintaining their expertise through continued training and research. The FINPAC Insurance team have been busy attending training workshops and seminars to make sure they are across all aspects of insurance. Attending these sessions regularly ensures that the staff here at FINPAC are always up to date enabling them to provide the services that best suits your needs.