Christmas Newsletter 2021

Wishing you a very Merry Christmas and safe, happy New Year! From all of us at CFG, may your holiday season be filled with joy and good cheer and 2022 bring you health, happiness and success.

A message from Kym

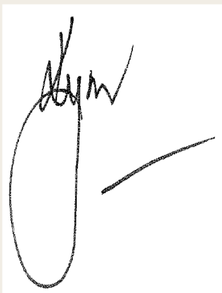
Welcome to your Christmas 2021 Client Newsletter.

I believe we all thought 2021 was going to be, in most ways, different to what we all went through throughout 2020 but, as we all now know it did not turn out to be the case. We have, however, been in a far better place, in terms of severity of lockdowns, than those of our friends on the eastern seaboard. To now be heading to the end of 2021 with a new strain of the Covid virus recently announced, creates a degree of trepidation in terms of what 2022 may look like……

Major share markets around the world have, to date, had a positive 2021, except for the Chinese Hang Seng index. The Australian market has returned just over 9% for the calendar year as we write. Once again, there are varying predictions for what 2022 might look like for the global share market given the unknown impact of the current pandemic situation around the world. We, like many, see what might be, a somewhat inconsistent year, characterised by a potential continuance of the volatility we've experienced in 2021. For further market and other economic news please refer to the Economic Update article.

We certainly hope that you, and your family will derive some insight and useful information from the variety of articles included with this Newsletter. If you think any of these articles may be of interest/use to other family members or friends, please feel free to share with them.

From all of us at CFG, please accept our very best wishes to you and yours for a safe, happy and joyous festive season and we look forward to catching up with you in 2021.



Kym Cotter DFP
Director
Authorised Representative - No. 235659

Economic update - December 2021

In this month's update, we provide a snapshot of economic occurrences both nationally and from around the globe.

Key points

- Central banks ready to hike rates
- Biden signs infrastructure bill
- Chinese economy stops the slide

The Big Picture

Up until near the end of November, most of the market chatter was about the persistence of inflation – or otherwise. Central banks – in particular, the US Federal Reserve (the Fed) – were insistent that inflation was likely to be above target levels only for a short time.

The start of this inflation 'blip' coincided with the lifting of the US COVID restrictions but it was subsequently fuelled by supply-chain blockages and energy price inflation. There is little doubt that most central bankers are now getting nervous.

The Reserve Bank of New Zealand (RBNZ) has already hiked rates twice in this cycle – the first country in the developed world to do so. The Czech central bank just did its biggest rate hike in 24 years. The Bank of England looks set to raise rates very soon.

The Reserve Bank of Australia (RBA) had been saying that it didn't expect to raise rates until 2024. It removed reference to that year in the latest minutes but it did end its so-called 'yield curve control' by which it attempted to hold down medium-term bond yields of two to three years in duration by buying bonds (by buying bond the RBA kept upward pressure on bond prices which move in the opposite direction to yield i.e. higher bond prices equals lower bond yields).

President Biden nominated Jerome Powell for a second four-year term as the Fed Chair – rather than recommend Lael Brainard, the other favoured candidate, giving her the Vice Chair instead. Brainard is thought to be more dovish. That is, Brainard was more likely to put off hiking interest rates.

The market, as measured by the CME Fedwatch tool, now expects one to four interest rate hikes by the Fed in 2022 with very high probability. Previously the Fed had been leaning towards 2023 for the first hike – or possibly just one at the end of 2022. It has already started the tapering process of reducing the bond-buying programme. Indeed, it is already talking of speeding up that plan.

Our position throughout this debate has been that raising interest rates would not reduce supply-chain blockages or energy prices. Monetary policy is not the way to tackle these problems. Biden has been trying to improve the landing and distribution of containers arriving at US ports.

At the end of November, the game changed. A new strain of COVID-19, labelled Omicron by the World Health Organisation (WHO), sprung onto the scene in Southern Africa. The ASX 200 fell sharply on the news last Friday (and again on the open of the following trading day) and Wall Street fell in tandem on that last Friday. However, during Monday's trading, US futures were strengthening and our market responded positively. Wall Street was buoyed by Biden's comment that a fresh lockdown was unlikely. The S&P 500 roared to life and the ASX 200 followed suit on the last day of November. But Powell burst that bubble the next day in his Senate hearing testimony. He spoke of the need to discuss a faster tapering of the Feds bond buying programme and markets did not like that.

There have been 12 previous strains given names by WHO before Omicron but only Delta has caused heightened concern since the original Alpha variant. It is far too early to judge how Omicron will affect public health but many countries swiftly moved to close borders.

The Netherlands and Austria had already gone into forms of lockdown prior to Omicron being brought to our attention owing to increasing infections from the Delta variant. The USA also put Germany and Denmark on 'no fly' lists.

One good thing to come out of this latest scare is that oil prices fell very sharply which may help contain global inflation fears.

We have held the position since early in the pandemic that we should ready ourselves for 'aftershocks' as new outbreaks or lockdowns arise. It is quite possible that this new more transmissible variant will not worsen the severity of health outcomes.

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Carry forward your unused contribution caps and catch up on your super sa

Topping-up your super can become a tax-effective way to provide you with an income in retirement.

That's why so many Australians choose to top up their before-tax contributions (concessional contributions) through salary sacrificing or making a tax-deductible personal contribution to their super.

The concessional contributions are currently capped at $27,500 per year, which was was increased from $25,000 on 1 July 2021. Concessional contributions can include Super Guarantee contributions from your employer, salary sacrificed amounts and tax-deductible personal contributions.

But thanks to the catch-up rules, you can now make extra before-tax contributions above this cap through a process known as 'carrying forward'. It's a great improvement to how our super system works because it gives you the flexibility to structure your contributions in a way that makes sense for you.

How do the catch-up rules work?

You can carry forward any unused portion of your concessional cap from 1 July 2018 for up to five financial years if you're eligible. You can then make a contribution using the carry forward amounts as long as your total super balance at the end of the previous financial year is below $500,000.

Let's look at an example where you have $400,000 in super on 30th June 2021.

Say you received $10,000 of employer contributions in each of the past 3 financial years and made no other concessional contributions. This was $15,000 less than you were allowed to contribute in each financial year from 1 July 2018 to 30 June 2021, when the basic concessional contributions cap was $25,000.

At 30 June 2021 your total super balance is $400,000. This means you and your employer can contribute up to $72,500 in concessional contributions in 2021-22 without exceeding your concessional contributions cap (so no extra tax would apply).

$45,000 accrued carry-forward + $27,500 basic concessional contributions cap = $72,500
Note that you must still meet the normal eligibility rules to contribute to super.

Catch up rules over time

As time goes on, if you don't use your accrued carry-forward amounts, they will expire.

Let's look at the previous example again.

At 1 July 2021 you had accrued $45,000 of carry-forward contributions. Let's say you made concessional contributions that just used up your basic concessional contributions cap in the next three financial years.

This means you haven't used any of your $45,000 accrued carry-forward, since you have to exceed the basic cap to start using up your accrued carry-forward. However, from 1 July 2024 you would have accrued carry-forward of only $30,000 left to use because the $15,000 that accrued in 2018-19 would no longer be available, as it had not been used within five financial years.

How to make the most of the new rules

If building up your super is a priority for you, it may be wise to take advantage of these new carry-forward rules. Here are some of the strategies you could consider:

- Making up missed contributions. If you've spent time out of the workforce and haven't been contributing to super, you could use this opportunity to catch up on the contributions you missed out on.
- Salary sacrificing. This is where you arrange for your employer to pay some of your pre-tax salary into your super fund, above the 10% Super Guarantee contributions they're contributing on your behalf.
- Personal deductible contributions. You can claim a deduction for your personal super contributions whether you are an employee or self-employed.
- Windfalls. If you receive a lump sum of money, such as a bonus or inheritance, you could add this to your super as a personal deductible contribution.

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Be scammer-aware!

We all know to cover our PIN from prying eyes and keep a lock on our letterbox. But are we rolling out the welcome mat to scammers targeting our investments?

Australians lost a record $851 million to scams in 2020, with investment scams accounting for the biggest losses, according to the Australian Competition and Consumer Commission's latest Targeting Scams report.

At $328 million, investment scams, were a third of the total losses. Romance scams were the next highest category ($131 million) followed by payment redirection scams ($128 million).

Remote access scams, where a scammer takes over someone's home computer and gains access to their bank accounts, are on the rise. The scammer poses as someone from organisations such as Telstra, eBay, NBN Co, Amazon, banks, government organisations, police, and computer and IT support organisations.

So far in 2021 Australians have lost $7.2 million via remote access scams, a 184 per cent increase on the same period in 2020. One of the best ways to protect yourself from scammers is to be attuned to their tactics.

Here are five tell-tale signs a scammer may have your investments in their sights.

Cold calls

Getting calls from someone claiming to be a stockbroker or portfolio manager who wants to give you advice on investments? Typical tactics include: keeping you on the phone for a long time or trying to transfer you to a senior manager. They will also create a sense of FOMO. The investments might be shares, mortgages, or real estate high-return schemes; options trading or foreign currency trading. The scammer generally operates from overseas and will not have an Australian Financial Services licence.

Unsolicited emails

If a stranger sends an email offering advice on the share price of a particular company, look out. The scammer is usually trying to inflate the share price so they can sell out and make a big profit. The share price will plummet, leaving you with large losses.

Too good to be true claims

Be wary of seminars or advertisements offering a 'risk-free investment'; or a strategy for becoming 'a millionaire in three years´; or a scheme to 'get rich quick'.

High-cost seminars

Tread carefully if you get an invitation to a free seminar but there are high fees to attend any further sessions. The scammer, posing as the promoter, may offer you a loan to cover both the cost of your attendance at the additional seminars and investments.

Red flags? Anyone selling investments or property without letting you seek independent advice and promoters trying to reel you in with promises of guaranteed rent or discounts for buying off the plan.

Unlock your super

Alarm bells should ring if an advertisement promises a quick and easy way to 'unlock' your superannuation early. Scammers may ask you to agree to a story to ensure the early release of your money and then acting as your financial adviser they will trick your super fund into paying out your benefits directly to them.
They may take large 'fees' out of the released money or leave you with nothing.

If you're ever unsure, please get in touch with your financial adviser.

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Improve your performance through the power of sleep

Struggling to get a decent sleep? Stress, noise, or a big meal right before bedtime can all take their toll.

According to the Sleep Health Foundation, 40 per cent of Australians report getting an inadequate sleep. For half of them an underlying sleep disorder is at fault. The other half? They are just not prioritising their nightly shut-eye.

When we don't get a good night's sleep it impacts our mood and memory; our physical health; and our performance (think decision-making abilities, sex drive, reaction times, ability to learn).

Here are 12 ways to get a five-star sleep every night.

1. Stop eating a few hours before bedtime

Wolfing down a pizza or cramming in a three-course dinner too close to bedtime is a recipe for a restless night.

Most people know it helps to curb the caffeine mid-afternoon. But try keeping water and alcohol to a minimum too. For starters it means fewer night-time trips to the toilet and alcohol can cause or increase symptoms of sleep apnea, snoring, and disrupted sleep.

2. Step away from the screen

Even half-an-hour of screen-free time before bed can raise your level of melatonin – the sleep hormone – and help you fall asleep faster and sleep better.
Instead, try reading, journaling, meditating, hanging out with family or pets, or simply pottering.

3. Block the blue light

Blue light from devices can affect your circadian rhythm and make it harder to fall asleep. Use blue blocking glasses or apps to reduce the impact.

4. Soak it up

Raising your body temperature by having a bath, shower, or even a foot bath, can help you to feel sleepy before bedtime.

5. Hit the hay earlier

Our body needs time to cycle through the four stages of sleep. If you struggle to go to bed when you know you should try setting a couple of alarms. One for when to start getting ready for bed and another for lights out. Then gradually set them for earlier times.

6. Get moving

Exercising during the day will help your body feel ready for rest at night.

7. Get up

Been staring at the ceiling for 20 minutes unable to fall asleep? Get up and read or listen to soothing music and go back to bed when you feel sleepy.

8. Lighten up

Exposing yourself to natural light or bright light during the day is important for your circadian rhythm.

9. Stick to the same sleep schedule

Our wake-sleep cycle works best when it is roughly the same every day. Late nights and long sleep-ins on weekends actually don't do us any favours.

10. Make your sleeping environment comfortable

A good sleep environment is free of distractions (phone, laptop, TV, radio, children, pets) and the room should be dark and quiet.

11. Ban siestas

If you must snooze during the day put a half-hour limit on it.

12. Don't worry, be happy

If you're prone to worrying your way to sleep, write down whatever is on your mind and put it aside. Develop an evening relaxation ritual to get ready for Zzzs.

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How will our children ever afford to buy a home?

As families gather to celebrate Christmas it's possible that the dinnertime conversation may turn to the latest leaps in property market prices.

For kids trying to save a deposit for their first home escalating prices can make a purchase seem like the impossible dream. And parents can find it frustrating to stand by and watch them struggling to take that first step.

While many parents may want to give their offspring a helping hand it's something that should be considered carefully.

Here are six points to ponder before you declare the bank of mum and dad open for business.

Can you afford it?

Before making any generous gestures it's good to be clear about your own financial situation. How might assisting your children affect your retirement plans, superannuation savings, or the equity in your home?

It is worth considering the impact it may have on your pension or tax status too.

Perhaps you have the means to help one child. But will that decision create an expectation that you will help other children in the same way?

Why help?

Are you agreeing to help your children out of guilt, obligation, or fear? When the emphasis is on the child's situation it can be easy to overlook your own financial and emotional wellbeing.

What is the best way to assist your children?

There are various ways you could assist your children. Some parents choose to cover the additional costs of purchasing a home such as stamp duty or conveyancing and moving costs.

Or they may agree to top up their child's savings so that they can avoid the expense of lender's mortgage insurance.
Agreeing to go guarantor for your child is another way that parents smooth the way for a first homebuyer.

It's good to weigh up the implications of each method before making any decisions.

Is it a loan or a gift?

It can become tricky terrain if there is not clear communication upfront about whether the financial assistance is a loan or a gift. Make sure any terms are clear. These should be documented in a written agreement indicating the loan term and any interest requirements including the interest rate.

Are they a good risk?

Parents can become the lender of last resort if their kids have had no luck getting a mortgage from a financial institution. Perhaps they have insufficient income to support a loan of the size they are seeking or they are lacking the 'genuine savings' built through the discipline of regular saving. In that situation the risks can be greater for parents seeking to fill the financial gap.

What happens if things change?

It's not just about the financial impact. Things can get messy if your children are unable to repay the loan or they repay it more slowly than you anticipated. Or a loan arrangement can become unglued if they are buying with a spouse or partner and the relationship breaks down in the future. And what could be the potential financial and emotional toll if the arrangement doesn't go according to plan?

Helping your children buy a home is a significant financial decision so contact your financial adviser if this is something you are considering.

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