MST ADVISORS
Financial Business & Tax Advisory Services

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Market St. Market Mix

ABOUT THIS NEWSLETTER

Welcome to the MST Advisors monthly newsletter, keeping you on top of the issues, news and changes you need to know. Should you require further information on any of the topics covered, please contact us via the details below.

T: 02 4225 9022
E: admin@mstadvisors.com.au

Inside this issue

Retirees' cash flow drought

While cuts in interest rates are greeted with glee by homebuyers and other borrowers, for the millions of retirees and others who depend on interest payments for their income, falling interest rates can be a disaster. For them, a drop in interest rates from 4% to 3% equates to a 25% drop in income. If rates fall from 2% to 1%, income falls by a massive 50%. Add in even a modest level of inflation, and many retirees are going backwards financially. And while the RBA has indicated it doesn't want to go down the strange path of negative interest rates, this has happened in several European countries and Japan. Imagine: depositors pay banks a fee to store their money, and borrowers receive interest payments rather than make them.

The idea behind negative interest rates is to encourage lending for productive purposes, and to head off deflation. If prices of goods start to fall, consumers delay spending in anticipation of lower prices in the future, further weakening economic activity. However, negative interest rates carry the risk that depositors will withdraw cash and hide it under the bed or in safes. Aside from the risks of fire and theft, which could lead to a total loss of funds, withdrawal of cash on a large scale could lead to liquidity issues for the banks and less economic stimulus.

What are the alternatives?

Aside from the term deposits favoured by many retirees, **annuities** are worth considering. An annuity effectively exchanges an up-front lump sum for regular income payments. They are generally considered to be low risk. However, as an interest-producing investment, returns are low when interest rates are down.

High dividend yielding **shares** have also been a traditional source of income for retirees, offering not just income but also the prospect of capital growth. However, shares can also fall in value, and the economic uncertainty precipitated by COVID-19 saw many companies cut or cancel their dividends as their profits fell.

Hybrids such as **converting shares, preference shares and capital notes** have elements of debt and equity investments. Their pricing is usually more stable than ordinary shares, and they pay either a fixed or floating rate of interest, often as a fully-franked dividend, above a particular benchmark, usually the Bank Bill Swap Rate.

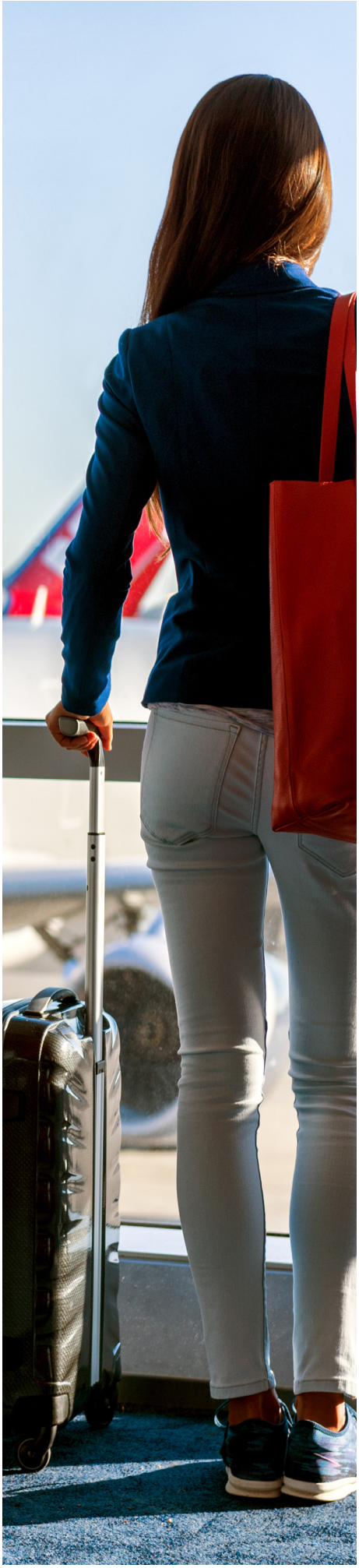
For retirees with a less hands-on approach to managing their portfolios, a vast range of **managed funds** are available that suit all risk tolerance levels, and that can provide regular income.

With interest rates at unprecedented lows, many retirees will have no choice but to dip into their capital to meet their cash flow needs. If the portfolio contains a reasonable allocation to growth assets and depending on market conditions, then capital growth may be sufficient to cover cash withdrawals.

A long-term perspective

In abnormal economic times it's important to keep some perspective. Economic upheavals are often short term. Retirement, on the other hand, can last for decades.

To make sure your retirement portfolio is set to help you weather a cash flow drought, talk to your financial planner.



Thinking of living overseas?

Many Aussies dream of living in different countries at some point during their life. For some this remains just a dream but for hundreds of thousands of Australian residents who move away permanently from our shores, it is a reality. Whether it's a long-term career move to New York or retiring in an island paradise, the decision to permanently leave Australia is one that requires sound financial planning.

In addition to learning as much as you can about your new home, there are many areas you must address before you leave Australia and some that need ongoing attention after you have settled abroad. These include taxation and superannuation, regardless of whether you are working overseas or retiring. There are also things like insurance cover and updating your Will that must be taken into account. Here are just some of the important points to include in your plans.

Taxation

The first point to consider with taxation is your status as an Australian resident.

Declaring as a non-resident is not just a matter of saying so; there is a set of domicile tests that you need to satisfy beforehand.

Becoming a non-resident for tax purposes carries significant advantages when acquiring or disposing of certain assets, specifically when it comes to capital gains tax (CGT). Some assets can potentially carry a 50% CGT discount for non-residents, depending on the date of purchase.

But the CGT rules are complex at the best of times, so it's imperative that you seek professional advice – especially if you plan to derive income by renting out your home in Australia.

If you're an Australian resident and you're working while living overseas, remember that any income you earn must be declared to the Australian Taxation Office (ATO) – even if tax was deducted in the country you earned it.

Your tax adviser is the best qualified person to consult in determining your residency status for tax purposes.

Superannuation

On the flip-side, as a non-resident, investing back into Australia can attract a relatively low withholding tax rate.

This can be particularly favourable for superannuation, however a number of pitfalls exist, especially with Self-managed Super Funds (SMSF). Trustees of SMSFs must set up a Power of Attorney to ensure the fund's central management and control remains in Australia.

Be aware that SMSFs risk losing their complying status if the benefit entitlements of non-residents exceed 50% of the fund's assets.

Both residents and non-residents may contribute to superannuation provided they have a tax file number (TFN), and those over age 65 must satisfy the work test.

When accessing super, regardless of residency status, the normal release restrictions apply; if you retire after reaching preservation age, you may access your funds.

Superannuation is extremely complicated, so it's recommended that you speak with your financial adviser before making any decisions.

Centrelink

If you receive a Centrelink benefit, your departure may affect your payments. To learn more, go to www.humanservices.gov.au and type "Australians overseas" in the search field.

Health and pharmaceutical benefits

Australia maintains reciprocal health agreements with some countries. For details, go to www.humanservices.gov.au and type "reciprocal health care" in the search field.

If you need prescription medicine, check your medicine's availability overseas.

Additionally, don't assume your medicine is legal in your new country just because it's legal here. Your best advice is to check with the relevant embassy or consulate before leaving Australia.

Other issues

Equally important are insurance and estate planning.

Ensure your will is current and appoint the appropriate Powers of Attorney – especially if you have assets in Australia. Overseas assets will need to be included in your planning.

Further, not all life insurance policies remain valid if you're living overseas. Check the terms and conditions with your financial adviser and make the appropriate updates.

Moving overseas can be life-changing. Planning and professional advice can make it life-changing for the right reasons.

Super in your 60s. It's still not too late!

For most Australians, their 60s is the decade that marks retirement. For some this means a graceful slide into a fulfilling life of leisure, enjoying the fruits of a lifetime of hard work. However, for many it means a substantial drop in income and living standards. So how can you make the most of the last few years of work before taking that big step into retirement?

Are we there yet?

Allowing for future age pension entitlement the Association of Superannuation Funds of Australia (ASFA) calculates that a couple will need savings of around $841,000 at retirement to maintain a 'comfortable lifestyle' .) ASFA equates 'comfortable' to an annual income of $63,352.)

How are we tracking as a nation?

In 2015-2016, 50% of men aged 60-64 had super balances of less than $110,000. For women the figure was a more alarming $36,000 – not even enough to provide a single person with a 'modest' lifestyle. (ASFA estimates that to upgrade from a 'pension only' to a 'modest' lifestyle would require a retirement nest egg of $70,000.)

Last minute lift

If your super is looking a little on the thin side there are a few ways to give it a boost before retirement.

• Make the most of your concessional contributions cap. Ask your employer if you can increase your employer contributions under a 'salary sacrifice' arrangement. Alternatively, you can claim a tax deduction for personal contributions you make. Total concessional contributions must not exceed $27,500 per year, although from July 2018 you may be able to carry forward any unused portion of this cap for up to five years.

• Investigate the benefits of a 'transition to retirement' (TTR) income stream. This can be combined with a re-contribution strategy that, depending on your marginal tax rate, can give your retirement savings a significant boost.

• Review your investment strategy. A common view is that as we near retirement our investments should be shifted to the conservative end of the risk and return spectrum. However, in an age of low returns and longer life expectancies, some growth assets may be required to provide the returns that will be necessary to support a long and comfortable retirement.

• Make non-concessional contributions. If you have substantial funds outside of super it may be worthwhile transferring them into the concessionally taxed super environment. You can contribute up to $110,000 per year, or $330,000 within a three-year period. A work test applies if you are over 65.

• The 60s is often a time for home downsizing. This can free up some cash to help with retirement. The 'downsizer contribution' allows a couple to jointly contribute up to $600,000 to superannuation without it counting towards their non-concessional contributions caps.

Bye-bye tax, hello aged pension?

One reward, just for turning 60, is that any withdrawals from your super account will be tax-free. This applies to both lump sum withdrawals and income stream payments. Depending on the preservation status of your funds you may need to meet a condition of release to access your superannuation.

Based on your date of birth, somewhere between age 65 and 67 you'll reach age pension age. The age pension is subject to both an assets test and an income test and some advanced planning can boost your eligibility for the pension. For example, the family home is exempt from the assets test. Releasing cash by downsizing may reduce your eligibility for the age pension.

Get it right

This important decade is when you will make the key decisions that will determine your quality of life in retirement. Those decisions are both numerous and complex.

Quality, knowledgeable advice is critical, and wherever you are on your path to retirement, now is always the best time to talk to your licensed financial adviser.

Why are SMSFs so popular?

A popular choice for managing superannuation is to take personal control via a self-managed superannuation fund (SMSF).

Although membership is limited to a maximum of six people per fund, the Australian Tax Office (ATO) reports there are almost 600,000 SMSFs, representing more than 1.1 million members. It estimates the value of assets held within SMSFs is more than $822 billion!

So, what's the attraction? Below are some key advantages of managing your own super:

• Control. With SMSFs, all members of the fund are also trustees and are therefore responsible for all decisions. They are required to manage the fund in accordance with current superannuation laws.

• Flexibility. Trustees can seek the assistance of administrators and licensed advisers to help them meet and maintain their legal responsibilities in the running of their fund or they can do it all themselves.

• Investment choice. A much wider range of investments is available to trustees than may otherwise be offered by retail or industry funds. This allows maximum flexibility in investment selection, especially for geared investments and non-traditional assets like artwork, bullion and certain types of landholdings. There are, however, strict rules that govern how personal use assets and collectibles held in SMSFs are stored.

• Direct property. An SMSF can invest in direct property, whereas retail funds usually cannot. In addition, a business property owned outside superannuation can be transferred into an SMSF. For many self-employed people, having their SMSF own their business premises can make financial sense.

• Cost savings. SMSF fees are usually fixed whereas retail super funds are charged as a percentage of the account balance so for accounts over for example, $250,000, it may be more cost effective to establish an SMSF than to use a retail fund.

• Taxation. SMSFs can allow trustees to take a more tailored approach to managing taxation, especially when it comes to capital gains tax.

• Insurance. SMSFs can hold life, temporary and permanent disability insurance on their members. This can be a tax-effective way of managing both the cost of the insurance and any future insurance payouts.

• Estate planning. The trust deed for an SMSF may allow for binding death benefit nominations. A will can be challenged in court, but under a properly executed binding death benefit nomination trustees must pay a death benefit as directed. This can provide greater certainty in the distribution of assets.

Despite the detailed legal responsibilities attached to SMSFs, it is clear that many people find the ability to manage their retirement nest eggs highly rewarding. Although there are many things to consider when converting your super funds to an SMSF, the added choices, flexibility and cost effectiveness may outweigh the additional time taken for administrative purposes.

Please contact us if you would like more information to help you determine if a SMSF might be right for you.

Self-Managed Super 101

Self-Managed Super Funds (SMSFs) have become a popular way for Australians to control their superannuation. The basic requirements are that the fund must have between one and six members and these people are normally family or business related. All members need to be trustees (guardians of the money) and even if the fund is only for one person you still require two trustees, although a corporate trustee with only one director can be used.

SMSFs give members unique control of their retirement investments, which can mean greater comfort with superannuation as a retirement vehicle. For investors with at least $250,000 in superannuation (or likely to have that much fairly quickly) SMSFs are generally cost-effective to manage.

This style of super fund will suit more experienced investors who may fall into the following categories:

• Investors capable of and interested in managing their own assets;

• Executives and professionals who wish to take advantage of super choice offered by their employer or business structure;

• Retirees who want to pay themselves a pension from a low-tax environment;

• Family groups who want to take advantage of estate planning initiatives available via the SMSF structure;

• Business owners who may own or are thinking of purchasing their premises.

Regulation and administration

Self-managed funds are regulated by law and there are strict guidelines to ensure that fund investments are made with a view to providing for the members' retirement. Administration requirements include preparing tax returns, annual audits, minuting trustee meetings and development of an appropriate investment strategy. There can be dire consequences for non-compliance of the rules, including loss of tax deductions on contributions and heavy tax penalties on the fund and its members. Depending on the severity of non-compliance, a jail sentence can be a real possibility.

The establishment of your own fund is relatively simple with professional assistance. Once you take the time to understand the rules and opportunities it may be one of the best investments you make.

To explore managing your own super and determine if it would suit you, please contact us.

Do you know your credit rating?

If you have borrowed money, whether as a loan or even signed a mobile phone contract, you have earned yourself a credit history. Each time you apply for further credit, the lender will run a check on your credit file to determine the level of risk they take on by lending you money.

With the increasing incidence of identity fraud, it's smart to check your file every year. Don't wait until a loan application is denied to find out if your history is affecting your future.

Know your credit history

A credit report includes information on whether or not you have paid your bills; if you have paid them on time; or defaulted on any loans. It also includes your repayment history and credit limits. Based on the information in your file, lenders may choose to increase your interest rate to cover your perceived risk, or may refuse you credit altogether.

Visit the website of the Office of the Australian Information Commissioner www.oaic.gov.au and go to the page on "Accessing your credit report" where you will find details on the various free and paid services available.

It's a good idea to get a copy of your credit history before you apply for finance. Knowing your rating not only improves your chances of getting your application approved quickly, but if you have an excellent history, you may be able to use it to negotiate a better deal.

Clear up disputed records

If you come across one or more entries on your credit report that you believe are unfairly impacting on your rating, whether it's a disputed phone bill or a card limit being exceeded, contact the credit providers direct to resolve these issues. Be aware that a payment default will remain on your file for five years.

A check will also show you if there have been any attempts at identify theft, in which people have tried (successfully or otherwise) to gain credit in your name. The federal government's website dedicated to monitoring and reporting scams, www.scamwatch.gov.au, reported that 20,939 Australians fell victim to identity theft in 2020.

Improve your credit report

If your credit report is not as good as you'd hoped there are measures you can take to improve it, including:

• paying more than the minimum payment (or entire balance) on credit cards and paying the full amount of all bills by the due date;

• gaining more credit and always making repayments on or before the due date (good credit outweighs bad);

• consolidating multiple loans and credit cards into one loan with a more manageable interest rate and always meet the repayment schedule.

If you would like more guidance on how to reduce debt and improve your credit rating, please talk to us.

Preparing for retirement in uncertain times

As most long-term investors know, investment markets have their ups and downs. The downs are usually associated with periods of uncertainty, perhaps due to political or economic factors, or even natural disasters. Uncertainty leads to volatility – more extreme movements in asset prices – which can have a big impact on portfolio values. This can be of particular concern if you are close to retirement and preparing for your last payday. So what can you do about it?

If you are building wealth in preparation for retirement in wobbly times, there are some options:

1. Save more. The 10% Super Guarantee will not be enough. Savings of at least 15% of salary over your working life are required to produce a sufficiently large retirement investment.

2. Spend less now and in retirement. Review your budget and review your plans about how you will live in retirement.

3. Work longer. Put off retirement until later; maybe consider working part-time in the first few years of "retirement".

4. Seek higher investment returns.

5. Implement a gearing strategy to accelerate returns.

This last solution will involve taking on more risk. Investors have always accepted that the higher the return, the higher the risk. It is often easier to see the good investment opportunities after the event but the challenge is to identify where consistent higher returns can be found.

Don't abandon shares

Over the long term, shares have produced higher returns than fixed interest though with greater volatility. The difference in returns between shares and fixed interest is called the "equity risk premium" – the reward for taking on the extra risk. In the past, the difference has been 5-7%.

When investment volatility is high, shares tend to be the hardest hit. But while it is tempting to sell shares in a falling market, this robs investors of the opportunity to ride the upswing when markets recover.

It is possible that better returns may be found amongst the 'boutique' managers who are not constrained by huge fund size and/or manage their funds on an 'absolute return' basis rather than simply trying to beat the investment sector benchmark.

This requires smart investing, not just following the pack.

Allocate more to riskier assets

Fund managers have traditionally held a significant proportion of investments in blue chip company shares. Whilst they tend to pay consistent dividends, there may be other opportunities for faster growth. These include smaller companies (or small caps), unlisted shares (private companies) and overseas shares in less developed countries (emerging markets).

Apart from shares, higher yielding debt instruments offer the potential for even higher returns but at higher risk.

The key to investing in these areas is good research – identifying sound opportunities and eliminating those with unacceptable levels of risk. Of course, the supply of "good quality, relatively safe" investment opportunities may appear to be limited when things are uncertain. Some fund managers offer products specialising in a wide variety of assets.

Active asset management

Good investment management requires talented people and sophisticated systems and strategies. Organisations with these attributes have a better chance of identifying under- and over-priced securities and markets. By moving money between countries, currencies, sectors, and asset classes, these managers aim to produce higher returns. Funds managed according to an "absolute return" philosophy is an example of where managers aim to produce above average returns in rising and falling markets.

When selecting a fund manager always pay attention to the fees charged as these can impact on the overall return on your investment. Sometimes they may even offset the larger returns made on the investment itself.

Implement a gearing strategy

Borrowing (or gearing) gives you a larger sum of money to invest. This magnifies any growth you achieve on your investments especially over the long term. Careful thought should be given regarding the method of gearing as some strategies may be more suitable to your particular circumstances than others. You should always bear in mind that gearing may not only increase your gains, it can also magnify any losses.

If none of these latter strategies appeal to you, then you may have to revisit options 1, 2 and 3 above, but before you make any rash decisions, talk to your financial adviser first to develop a plan specifically to suit your needs.

Giving the gift of investing

Did you have a savings account when you were young? It wasn't uncommon and those old Passbook accounts funded many a first car.

Now you're a parent, are you thinking of opening an account for your kids? Record low interest rates have taken some of the fun out of watching bank accounts grow, but there are alternatives.

For example, have you considered a share portfolio?

Direct shares follow market movements, whether that be up or down, but over time, quality shares have greater growth potential than many other investment types.

For a child's investment fund, you're probably looking at a savings term around 15 to 20 years – ideal for riding market ups-and-downs.

When Lincoln was born, his parents discussed possible long-term investments with their financial planner, and settled on a portfolio of diverse assets suitable for a 15-20 year time horizon.

Meanwhile, Lincoln's grandparents chose to open a traditional savings account at their preferred bank.

How did the two compare?

Consider the following example:

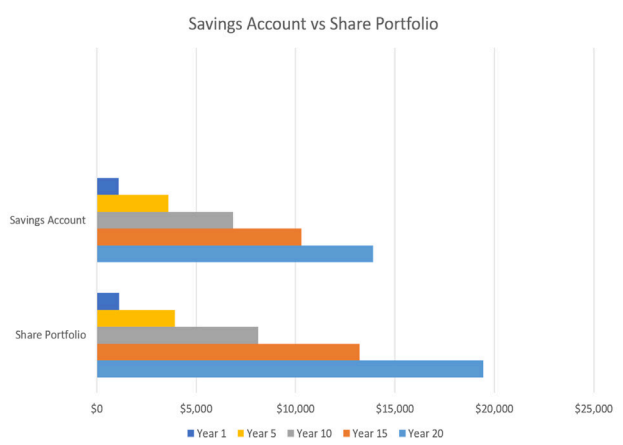
Initial investment: $500

Monthly contribution: $50

Investment term: 20 years

Assumptions: Savings account return calculated on 1% per annum interest. Share portfolio return 4% per annum based on a comparison of mixed Balanced Asset funds over the past three years to December 2020.

This example demonstrates how shares, year-on-year, can potentially outpace a savings account. By year 20, Lincoln's projected Savings Account balance was $13,899 and his projected Share Portfolio balance was $19,450.



Straight-forward? Not so fast, as here are a few other points to think about.

Tax and TFNs

Your child can have a tax file number (TFN) – there's no minimum age. All funds will request a TFN, but whether you quote the child's TFN or your own depends on a number of factors like who is contributing to the investment, whether the money is being used, etc.

Tax is tricky too. Your child's age and whether they're earning their own money will determine whether they have an income tax liability and need to lodge a tax return.

Additionally, there's Capital Gains Tax (CGT). Share portfolios are assessed for CGT if the assets are sold for more than their purchase price. The amount of CGT payable will depend on a number of elements, but your tax agent will be able to assist.

There will always be tax, but how much, what type and how it is calculated will depend on your, and your child's, circumstances.

Do your sums to work out the most suitable tax outcome for you and your child. Remember that mistakes can be costly so it's wise to consult a tax accountant for personalised advice.

Trusts

Many people consider setting up a trust for the children's savings, as it helps to protect the assets in the child's name. There are two types of trusts and they're quite different.

Trust accounts are accounts held at a bank that you open for your child, but you retain ownership. When the child turns 18, control of the account passes to them.

Trust funds are legal arrangements, managed by trustees for the child's benefit. They're generally used for substantial investments and the child can access the assets once they attain a certain age.

Where trust funds are concerned, forget everything you thought you knew about tax and speak to a professional with expertise in family trust arrangements.

Everyone's situation is different and investment types and structures are not one-size-suits-all. Before making any decisions, seek the advice of qualified professionals, and regardless of whether you choose a share portfolio or an alternative investment, you'll be across your options and confident that your particular needs are being met.

4 ways to manage uni and money

Going to university is a time of growth and independence, although the associated costs can make it an expensive proposition. Yet as Ben found, there are ways to minimise the cost and kick-start your financial future.

The day Ben was accepted into law school, he was first excited, then nervous; his life was changing forever.

Ben asked his parents whether they had a hidden cache of gold buried somewhere to fund his studies. The resulting laughter was not the desired response. He was going to have to pay his own way.

He started by writing down everything he would need to get himself uni-ready and ended up with a list of four items for consideration/investigation.

Firstly, he should find out whether he qualified for any kind of government assistance. Ben's girlfriend, Sarah, suggested he look up www.studyassist.gov.au . This website provided all the information he needed including application criteria, available concessions and ways to manage assistance loans to pay them off quickly.

Item 1: Financial assistance. ✓
Ben checked that off his list.

Nasty surprises are rarely nastier than university book lists. Unprepared for the prices, Ben first changed his underwear then got resourceful. Most books can be bought second hand, either online or through ads on university notice boards. He was careful to check the version number first – no point buying outdated books.

Item 2: Books ✓

A job was not something Ben considered while doing Year 12, now he explored his options. Cafes, supermarkets, hardware shops – many had vacancies for casual employees. Ben landed a job in the campus cafe and discovered a talent for brewing coffee. He told Sarah he was a barista, not yet a barrister!

Item 3: Income ✓

With the question of money-in dealt with, Ben now needed to consider money-out. His mother called it a budget; Ben called it interference, but after a month of working with nothing to show for it, Ben agreed to see his mum's financial adviser.

The adviser was surprisingly inexpensive and she worked with him to put together a practical budget. Ben could plan ahead for things like car expenses and uni fees; he even managed to save a bit each pay. He quietly realised he should have done this earlier.

Item 4: Expenses ✓

All items covered – job done!

If university is the key to your future, it should not be a financial spook that haunts you for the rest of your natural life.

Ben enjoyed his uni years without worrying about money. All it took was good advice and a bit of planning – oh, and agreeing that his mum was right now and then!

A helping hand to step into your first home

Struggling to save for a 20% deposit on your first home? A recent Australian Government initiative may allow you to buy your first home with a much smaller deposit, helping you take that first step to home ownership years sooner.

What is the First Home Loan Deposit Scheme?

The First Home Loan Deposit Scheme (FHLDS) provides lenders with a Government-backed guarantee that allows some eligible first home buyers to purchase a home with a deposit of as little as 5%.

Who is eligible?

• Australian citizens over the age of 18 who have saved at least 5% but less than 20% of the value of an eligible property. If applying as a couple, both must be Australian citizens.

• Genuine first home buyers only.

• Singles with a taxable income of no more than $125,000, or couples with a combined taxable income of no more than $200,000.

• Owner-occupiers only. If you move out of the property it will cease to be covered by the scheme.

• The price of the property must be less than the price cap. Price caps range from $350,000 in rural South Australia to $800,000 in Sydney and some other parts of NSW.

All of these criteria must be met.

What are the benefits?

Normally, lenders require home buyers with a deposit of less than 20% of the purchase price to take out mortgage insurance. This helps to protect the lender if the borrower cannot repay the loan. Under the FHLDS the Australian Government provides a guarantee to the lender, which means you won't need mortgage insurance. That saves you money, but more significantly, because you don't need to save as big a deposit, you'll be able to buy your first home a lot sooner.

What are the disadvantages?

Purchasing a home with a smaller deposit means you will need to take out a bigger home loan, leading to greater total interest payments over the life of the loan.

Will all eligible home buyers benefit from the scheme?

No. Only 10,000 applicants are expected to receive support each financial year. Currently, around 108,000 homes a year are sold to first time buyers, so chances are that, even if you meet all the qualifications, you may not receive approval under the FHLDS. It is, however, still worth applying. If you receive conditional approval for a loan, you have 90 days to find and settle on a property.

Can the FHLDS be used in conjunction with other first home buyer incentives?

All states and territories offer support to first home buyers, mainly in the form of the First Home Owners Grant, which is basically a cash handout, and in reduced stamp duty. These can be used in conjunction with the FHLDS. Be aware, however, that different eligibility criteria apply to each scheme and that limits and thresholds vary from state to state. Some incentives only apply to newly built homes, and property value cut-offs may differ. Depending on personal circumstances you may be eligible for some schemes, but not others.

How do you apply?

The National Housing Finance and Investment Corporation has appointed a number of major bank and non-major lenders to provide loans under the scheme. Search for "FHLDS participating lenders" to find them.

Applications are made through participating lenders and their authorised representatives, including mortgage brokers. These lenders and brokers will be able to assess your eligibility for both the FHLDS and other first home buyer incentives, and guide you through the application process.

The art of downsizing

The kids have finally left home and now you're rattling around in a house way bigger than you need. If it's time to think about downsizing, there's more to it than simply selling one house and buying another. Here are a few things to consider.

Tax-free gain

Selling a large house and buying a townhouse or unit, perhaps in a more affordable suburb, can free up a significant sum of money which you could use to help fund your retirement or take that dream international holiday. But before you get too excited by your potential windfall, remember to take into account expenses such as agent's fees, removalist costs and stamp duty on the new property. This will give you a better idea of how much additional cash you are likely to be left with.

Generally, any capital gains on the sale of the family home are exempt from capital gains tax (CGT). However, if the home has been used for income-producing activity, such as running a business or letting out a room, then a portion of the gain may be subject to CGT.

On the upside, downsizing may reduce your living costs. New homes are usually more energy efficient, and cost less to heat and cool than older housing stock.

Centrelink considerations

The family home is exempt from Centrelink's age pension asset test. If qualifying for a full or part age pension is important to you, you may not want to free up too much cash when downsizing.

Indeed, some retirees actually dip into their savings to buy a higher value home. Their aim is to reduce their assessable assets and maximise their pension entitlement. This isn't always a good idea as it increases the risk of being caught in the 'asset rich, cash poor' trap.

Super boost

As an incentive to downsize, Australians over the age of 65 are permitted to make a contribution to super of up to $300,000 each ($600,000 for a couple) from the proceeds of selling their home. The amount will be treated as a non-concessional (after-tax) contribution, and exempt from the usual restrictions. The contribution must be made within 90 days of the change of ownership.

For most people under 65, super may also be a desirable destination for most of the money freed up by downsizing. Make sure that any contributions fall within the relevant limits.

Emotional cost

While the financial benefits of downsizing can be considerable, moving house is amongst life's most stressful events. This is particularly the case when you are giving up a home full of family memories, and parting with many prized possessions to fit into a smaller space. Just being aware that you may face an emotional reaction is a start, but be open to seeking professional support if moving does bring on a bout of the blues.

Seek financial advice

Downsizing has both financial and lifestyle dimensions, and you'll want to make the most of any profits you realise. Talk to your financial adviser before you get the real estate agent in. He or she will work with you to craft a short-term strategy to help ensure your downsizing experience supports you in achieving your long-term goals.

The US influence on Australian shares

There's an old saying in investment circles: 'when Wall Street sneezes, the rest of the world catches a cold'. That's not surprising. The New York Stock Exchange is by far the world's largest, so what happens there is bound to be noticed by stock exchanges everywhere, including Australia.

It works on the upside too. A good day on the US market is more likely than not to be followed by a good day here (and elsewhere). This is particularly so when comparing similar indices such as the S&P 500, which tracks the performance of the top 500 US companies, and the S&P/ASX 200, comprising Australia's top 200 shares.

Playing follow the leader on a daily basis is one thing, but shares are a long-term investment. So what happens over longer time frames? Once again, there is a remarkable correlation between the two markets. Nearly all of the major ups and downs of the S&P 500 are reflected by the ASX 200. Most of the minor peaks and troughs also match up in both markets.

While the influence of the US market on the local market is considerable, it isn't absolute. In many cases the magnitude of the ups and downs differs quite significantly, sometimes favouring Australia, and at other times Wall Street. That's important for investors because it creates a diversification opportunity. The performance difference between the two markets is big enough that by investing in both markets an investor is likely to be able to reduce the short-term risk of their portfolio while maintaining long-term returns.

When the performance of the two markets diverge, it is often due to the differences in the underlying makeup of the S&P 500 and the ASX 200, which in turn reflects the differences in the US and Australian economies. The Australian market is dominated by the big four banks and other financial stocks, followed by the resource sector. The US market is far more diverse, with I.T. the leading sector, but with significant contributions from health care, consumer goods and energy stocks.

The influence that the US market has on us is unlikely to change in the foreseeable future, largely due to its size and its ability to set the mood of investors around the world. It certainly can't be ignored, so if you would like help in protecting your investments from the effects of a Wall Street sneeze, or to take advantage of the many periods of good market health, talk to your financial adviser.