MST ADVISORS
Financial Business & Tax Advisory Services

FEBRUARY 2024

Market St. Market Mix

ABOUT THIS NEWSLETTER

Welcome to the MST Advisors bi-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.

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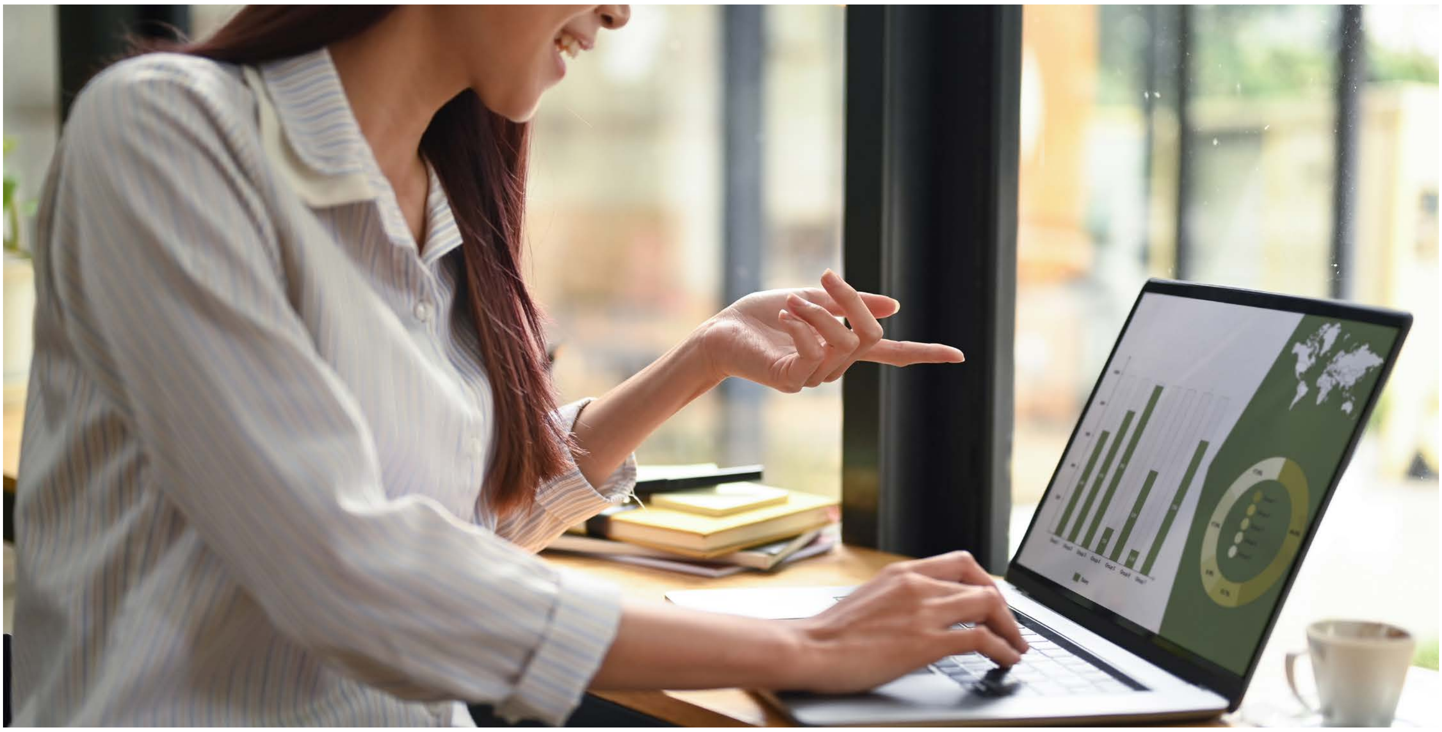
Quarterly Economic Update: Oct - Dec 2023



Global growth is forecast to slow and remain below its historical average in 2024, reflective of tighter monetary policy in advanced economies, as well as a soft outlook for China.

Australians can expect higher prices, higher interest rates and higher population growth, with economic growth and unemployment decreasing.

Inflation continues to bite

With a new Governor at the helm of the RBA, and inflation tracking down since its peak in the December quarter 2022, public sentiment hoped that rate rises would be paused. However, the RBA delivered another rate hike at the November 2023 meeting, bringing the official interest rate to 4.35% - the highest level since 2011.

It is likely that an increase in the monthly CPI indicator was a key trigger for the RBA to raise rates, as the monthly indicator rose to 5.2 per cent in August, and then rose again to 5.6 per cent in the September data. However, the next monthly data point, for October (which came out after the November rate rise) had inflation decreasing to 4.9 per cent.

Services inflation remains high and was the primary driver of stronger-than-expected underlying inflation in the September quarter.

Interest rates – will they or won't they?

The RBA continues to be cautious about the inflation outlook for Australia for several reasons: high and sticky inflation in the services market, house prices recovering sooner than anticipated, a tight labour market and increasing population growth due to migration.

A survey of 40 economists by the Australian Financial Review shows that the median forecast is that the RBA will start cutting rates in September 2024, whilst the bond market is projecting an easing of rates by mid-2024.

The RBA will meet only eight times in 2024, reduced from 11, beginning in February – following an independent review ordered by the Treasury. Coupled with the RBA governor's commitment to return inflation to the target range of 2-3%, more rate hikes may be on the cards.

Holiday spending to remain flat

A survey by Roy Morgan forecast shoppers to spend $66.8 billion during the pre-Christmas sales period, only up 0.1% from the same period in 2022, likely as a result of cost of living impacts.

Sales spending for the Boxing Day period to December 31 was expected to be about $9 billion, including $3 billion on Boxing Day itself, as retailers prepared larger discounts than usual after a slow year.

Hot Property

House and unit prices grew steadily in 2023, with a national annual growth rate of 5.42% (6.54% in capital cities). The main drivers include the highest net overseas migration levels ever recorded, few vacant properties and stronger demand for established homes due to the construction industry facing capacity and cost issues.

This growth forecast is expected to continue as most experts believe demand for housing will continue to outstrip supply. However, Australia's cost of living increases and interest rate uncertainty will keep biting—leading to weaker price growth than previous years.

The rental market remains in a critical shortage of available dwellings according to SQM Research. Due to the ongoing supply and demand imbalance, the market is expecting capital city rental increases of 7-10% for 2024, on top of an average 10% market increase in 2023.

How to create savings while paying off debt

Over the past 30 years, Australians' household debt has increased. According to the Reserve Bank of Australia, our household debt-to-income ratio has risen from 70 per cent in the early 1990s to around 190 per cent today. With numbers like this, it's understandable that you might feel like you'll never get out of debt. Changing your thinking around your finances, however, and learning how to make sure your money is working for you will reap great rewards. Below, we've outlined a few ways you can create savings while paying off debt.

Review your debt and determine what to pay off first

When you're assessing your financial position, you first need to look at your different types of debt. The most common types of debt are credit card debt, high-interest personal loans, vehicle financing, HECS-HELP loans, and mortgages. You should focus on paying off high-interest debts first.

Review your household budget

If you don't have a household budget, review your bank statements for the last few months and put everything into a spreadsheet. Your budget should include fixed expenses (mortgage payments or rent, bills and transport) and the money you'll set aside for other expenses.

Eliminate unnecessary spending

When you review your spending, you'll probably find unnecessary transactions. Identifying this unnecessary spending and adding it up will show you how much money you could put towards saving. Of course, you don't want to feel like you're depriving yourself and a treat each week is fine. So, set aside a small portion of your money to enjoy yourself while still living within your means.

Pay yourself first

Paying yourself first was a principle made popular in recent years in Robert Kiyosaki's book, 'Rich Dad, Poor Dad'. To pay yourself first, set up an automatic savings transfer to move 10% of your income straight to savings each time income hits your bank account. Once you've built up some savings, you could invest the capital into a balanced portfolio which will grow over time.

Use credit cards carefully

Make sure you're using your credit card carefully and paying it off in full each month. It might seem harmless to pay the minimum, but the interest isn't worth it.

Pay the minimum on your mortgage

It might seem responsible to make extra mortgage payments when you have the cash, but it doesn't make your money work for you. Once you've paid off the minimum on your mortgage, put your leftover capital into an offset account. This will reduce the interest payable on your mortgage while allowing you to build up savings.

Pocket change savings apps

Setting up an account with a micro-investing app is another great way to save. Apps like Raiz round up your spending on purchases to the nearest dollar. It then invests your balance based on your risk appetite.

Looking at the numbers - how you can create savings while paying off debt

Jessica's take-home salary is $5,000 per month. She sets up an automatic monthly transfer of $500 to her savings account. At the end of year two, she has $12,000 saved. If Jessica takes her savings balance, invests it in a low-cost fund returning an average of 7% per annum and continues depositing $500 per month, she will have a balance of approximately $106,000 after ten years. This doesn't factor in the fact that Jessica's income will increase over that time too. Over this time, you'll have continued to pay-off your debt, and you'll have built up a healthy nest egg.

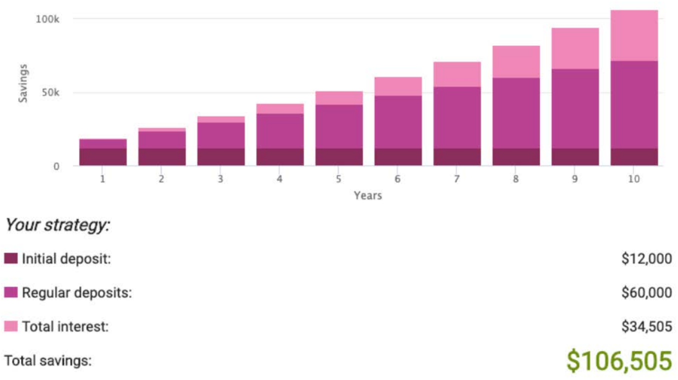


Figure 1 - ASIC's Money Smart Compound Interest Calculator: https://www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/compound-interest-calculator

Consistent small actions over time lead to big results

The hard thing about debt is you often feel like you'll never be in a comfortable financial position. It's the small, consistent actions over time; however, that will pay great dividends in the future. Everyone's financial situation is different, so make sure you speak to a financial adviser to discuss your unique situation and put together a strategy.

8 COMMON FINANCIAL MISTAKES PEOPLE MAKE IN THEIR 30'S

Climbing the career ladder, perhaps buying a home and starting a family – the 30s are an exciting stage of life.

With so much going on it is understandable, even inevitable, that the best decisions won't always be made.

1 BUYING AN EXPENSIVE CAR

New cars plummet in value, and the higher the price tag the greater the fall. Settling for what you need in a car, rather than what you want, can add hundreds of thousands of dollars to your future nest egg.

2 LIVING ON PLASTIC

If you don't pay off your credit card balance in full each month you're making it increasingly difficult to clear debt. It might sound boring, but rather than living on plastic, save up for the things you want to buy.

3 FORGETTING TO SAVE

A rule of thumb is to save at least 10% of your income, but saving even a small amount is better than doing nothing. And in your 30s you have time on your side.

4 FOCUSING ONLY ON WORK

On the other hand, it is possible to be too fixated on money and work. This may be a hard habit to break but finding balance can deliver a different type of reward.

5 GETTING CAUGHT UP IN INVESTMENTS FADS

Investment fads have come and gone, making fortunes for a few, but big losses for many. It pays to heed tried and true rules e.g. only invest in things you really understand, diversify to reduce risk.

6 NOT INSURING YOUR MOST IMPORTANT ASSET

No, it's probably not the house. For most 30-somethings your biggest asset is the ability to earn an income. Income protection insurance can replace much of the income lost due to accident or illness.

7 STILL FEELING BULLET-PROOF

Sadly, death and disability can strike at any age. Now is the time to make a Will. Investigate powers of attorney and health directives.

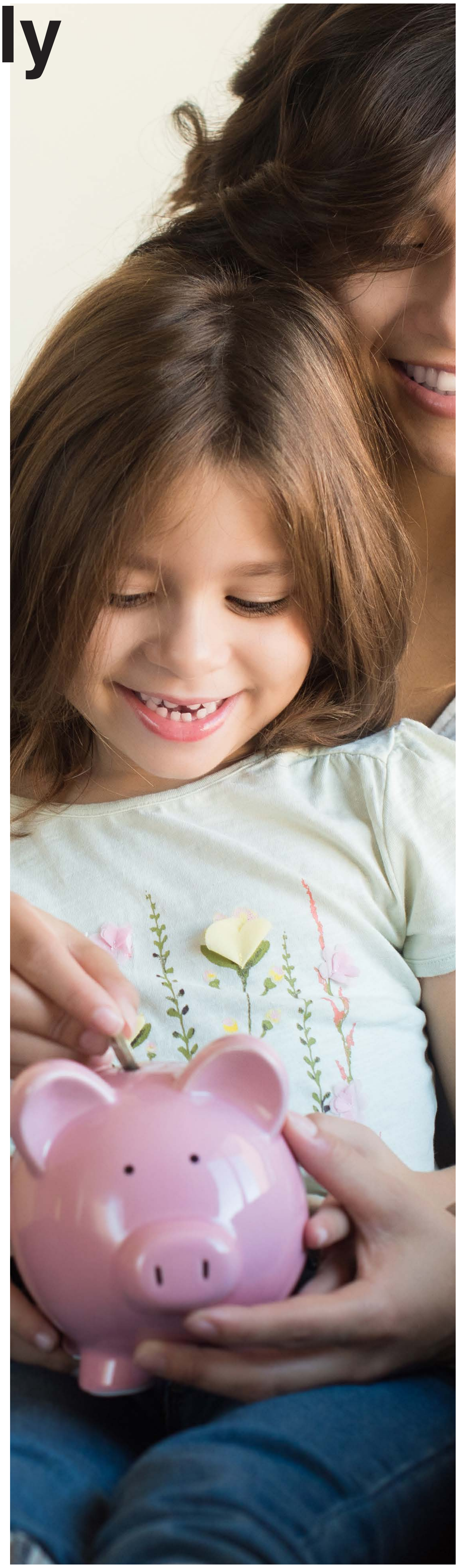
8 BEING TOO HARD ON YOURSELF

Let's face it. We're all human, and we all make mistakes. Unfortunately, if we beat ourselves up about a mistake we have made it may compound the problem.

The 30s is a decade of huge potential. Good advice now can help you unlock that potential.

To find out more, talk to a qualified, licensed financial adviser.

Placing your family wealth in trust



The basic function of a trust is to separate control and ownership. The result of using a trust is that assets are protected and profits are distributed in the most tax-effective way. There is no 'one-size-fits-all' type of trust. The trust you use depends on many factors, such as the type of asset or business, financing, income type, marital status, susceptibility to being sued - just to name a few.

Whilst there are many types of trusts the two most commonly used are:

1. **Testamentary trust** – set up through a directive left in a will, which takes effect after the will-maker's death;

2. **Discretionary trust** – set up by a 'trust deed', which commences during the life of the individual(s) establishing the trust.

Both types allow for income and capital to be flexibly distributed to beneficiaries, while those beneficiaries have no legal entitlement or interest in the trust's property until the trust deed declares it so.

The trustee is the legal owner of the trust property and is responsible for managing the trust fund on behalf of the beneficiaries. The trustee has a legal duty to obey the terms of the trust deed and to always act in the best interests of the beneficiaries. A trust can operate for up to 80 years in Australia, though it is common to have a clause within the trust deed to allow the trustee the option to wind it up earlier if considered appropriate.

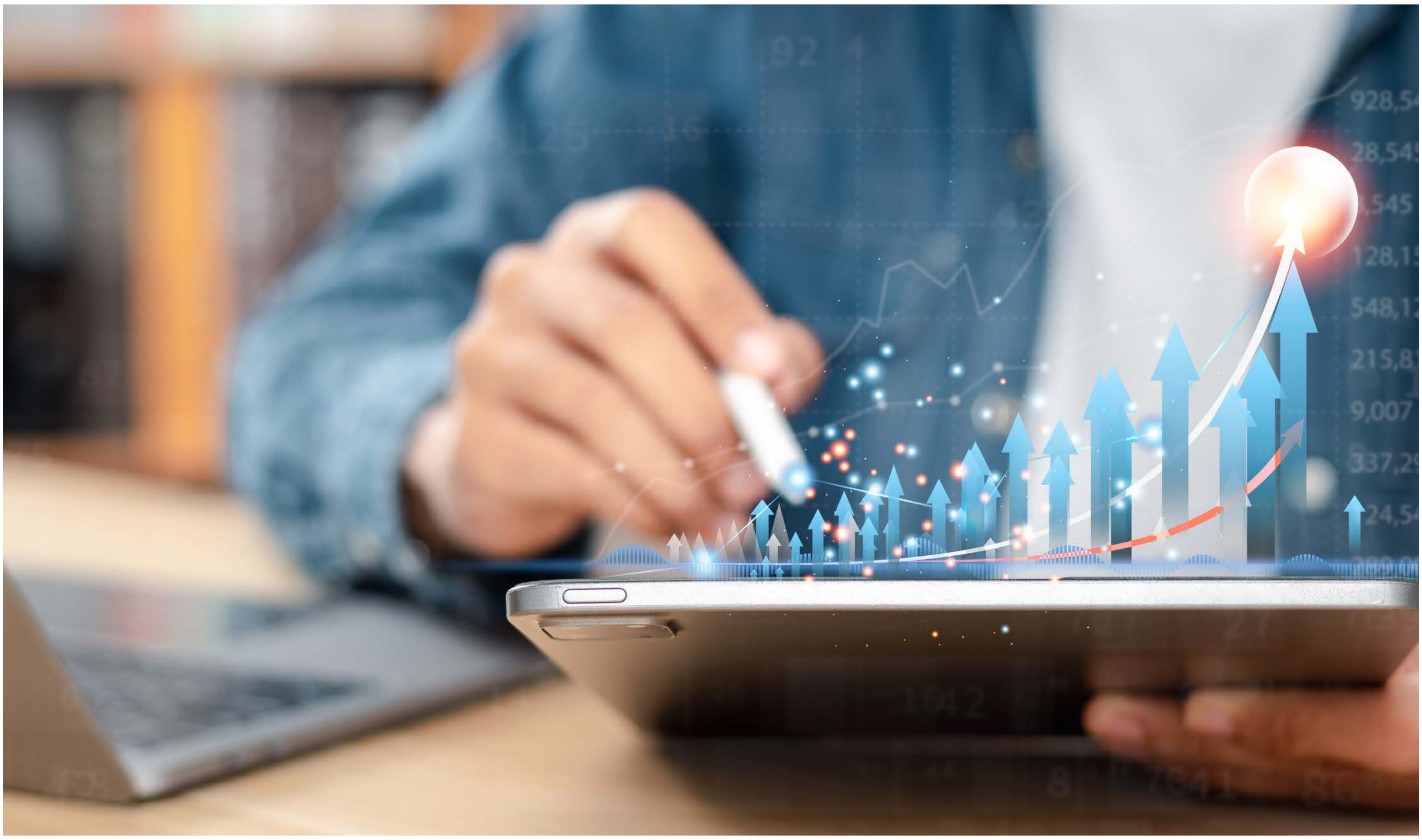
Benefits of using trusts to manage family wealth include:

- **Cost**: For a straightforward structure, the costs of establishment are relatively low. Specialist advice should be sought for more complicated family scenarios.
- **Effective family tax management**: Income can be directed to members of the family on lower tax rates. It also allows different types of income to be directed to different family members.
- **Simplified regulation**: Trusts are less complicated than operating a company structure.
- **Tailoring**: Most modern day trust deeds are flexible in their operation and can often cater for a wide variety of beneficiary classes and investments.
- **Geographical flexibility**: A trust established under Australian law can operate effectively in every Australian state. Where potential beneficiaries live overseas, specialist advice should be sought to determine the optimal structure.
- **Protection of assets**: Under certain conditions, family assets may be protected from creditors in the event of bankruptcy or insolvency.

Due to the taxation flexibility that discretionary trusts provide, the ATO scrutinises these trusts to ensure all transactions are undertaken on a commercial, arms-length basis. It checks that distributions are in accordance with the trust deed, specifically targeting the distribution of different types and amounts of income to individual beneficiaries.

Trusts allow considerable estate planning benefits providing more certainty in how your assets will be dealt with after your death. Many wealthy people in Australia use family trusts to gain some peace of mind that their loved ones will be looked after financially when they no longer can, but you don't have to be rich to benefit from a well-planned structure.

Building financial resilience



Resilience is the ability to quickly recover from setbacks, and while setbacks can come in many forms most of them will have a financial component. So what can you do to build financial resilience?

Expect the unexpected

Rarely do we get advance warning that something bad is about to happen to us, so the time to develop your resilience strategy is now. And while we don't know the specifics, we can anticipate events that would throw our finances into disarray. A house burning down or a car being stolen. Not being able to work due to illness or injury. The death of a breadwinner or caregiver.

With some idea of the type of threat we face we may be able to insure against some of them. If you have taken out any type of insurance policy you've already made a start on your resilience plan.

Create buffers

You can't insure against every possibility, but you can build financial buffers. This might simply be a savings account that you earmark as your emergency fund that you contribute to each payday. If your home loan offers a redraw facility you can also create a buffer by getting ahead on your mortgage repayments.

Buffers can be particularly important for retirees drawing a pension from their super fund. Redeeming growth assets for cash in order to make pension payments during a market downturn can lead to a depletion of capital and reduction in how long the money will last. By maintaining a cash buffer of, say, two year's worth of pension payments, redemptions of growth assets can be deferred, giving time for the market to recover.

Cut costs

The Internet abounds with tips on how to cut costs and save money. In difficult economic times cost cutting can help you maintain your financial buffers and important insurances.

Key to cost cutting is tracking your income and expenditure and yes, that means doing a budget. Find the right budgeting app for you and this chore could actually be fun.

Invest in quality

There are many companies out there that have long track records of consistently pumping out profits and dividends. They may not be as exciting (i.e. volatile) as the latest techno fad stocks but when markets get the jitters these blue chip companies are more likely to maintain their value than the newcomers.

This is important. The more volatile a portfolio the more likely an investor is to sell down into a declining market. This turns paper losses into real ones, depriving the investor the opportunity to ride the market back up again.

The other key tool in creating resilient portfolios is diversification. Buying a range of investments both within and across the major asset classes is a fundamental strategy for managing portfolio volatility.

With a well-diversified portfolio of quality assets there is less need to regularly buy and sell individual investments. Unnecessary trading can create 'tax drag' where the realisation of even a marginal capital gain triggers a capital gains tax event and consequent reduction in portfolio value.

Take advice

Building financial resilience can be a complicated process requiring an understanding of a range of issues that need to be balanced against one another and prioritised. Your financial planner is ideally placed to assist you in developing your own, personalised plan for financial resilience.

Super savings for women

Ask any woman juggling career, home and family and she'll tell you it's a hard slog. Yet as retirement looms, dreams of enjoying the rewards of all that work are shattered as the retirement savings don't support the vision.

According to an inquiry into Women's Economic Security in Retirement entitled "A husband is not a retirement plan: Achieving economic security for women in retirement", on average, women retire with approximately half the retirement savings as men. The inquiry also found that the majority of Australians on the age pension are women. Of that number, the majority are single, meaning that these women are struggling alone on an income that the Organisation for Economic Co-operation and Development (OECD) defines as poverty.

What about super?

It's a double-whammy for women whose careers were interrupted to raise children, but unfortunately, time off work means there's less money being contributed to the super pie.

Unpaid parental leave translates into no employer super guarantee (SG) contributions. To make matters worse, when they do return to the workforce, managing the school run often means women are working part-time.

So, even once she returns to her job, chances are she's still not contributing to super.

In fairness though, this is a stage of their lives when young families often have other things on their minds besides superannuation, and parents are happy to have this little extra in their pockets.

For some women, starting up a home-based business presents a viable option. Given that sole traders are not required by law to pay superannuation to themselves, most manage to find something better to do with 11% of their income.

So what can be done?

The answer lies in planning and budgeting.

Over recent times the federal government has implemented measures designed to help low income earners – particularly women – by supporting and encouraging even the smallest contribution to retirement savings. They include:

- **Spouse tax offset**

  If your spouse is earning $37,000 per annum or less, making contributions to her eligible super fund can attract a tax offset of $540 per annum. This amount gradually reduces for income above $37,000 and phases out when income reaches $40,000 per annum. This means that a contribution to your wife's super fund can benefit you both.

- **Low income super tax offset contribution (LISTO)**

  This replaces the former Low Income Super Contribution (LISC). Eligible individuals with an adjusted taxable income of $37,000 or less will receive a contribution equal to 15% of their total pre-tax super contributions for an income year.

  Although capped at $500 per annum, this scheme encourages even the smallest super contribution, meaning that it's possible to continue contributing to super while on parental leave, or if you're a sole trader. Every dollar will make a difference as compounding applies over the years.

There will be many reading this who believe it's too late – yes, blokes too! Fact is it's never too late to develop a financial strategy that can help you achieve your goals.

Governments are beginning to acknowledge women's financial needs, however independence means taking control and building your own plan too.

Professional financial advice will help you get on track and through a combination of government policy and personal financial strategy, retirement dreams can come true.

What to do if you aren't a financially compatible couple?

According to the Australian Bureau of Statistics (ABS), in 2021 there were 89,164 marriages. Sadly in the same year there were 56,244 divorces, with financial issues cited as one of the major reasons for marriage breakdown.

For couples deciding to move in together, the idea of buying a home and building a future can be very exciting, and prompt a lot of discussion.

Conversations around shared finances and where one another stands on money – in particular, financial goals and obligations – don't seem to generate the same enthusiasm.

Nevertheless, these are the discussions that need to take place as they can impact everything from where you live, to children, schools and lifestyle.

For example, what if you tended to use credit to buy the things you wanted, while your partner was debt-averse and preferred to save up? How would conversations around buying household items go?

Additionally, existing debt has the potential to cause considerable problems in relationships; nobody likes financial surprises.

When Chris a restauranteur, and Noelene a marketing manager, decided to buy a home together, they were so compatible that they agreed on location, style and even budget without the need for any serious discussion.

Imagine their surprise when their joint application for a mortgage was declined.

Turns out, that several years ago Chris had taken a business loan to buy the restaurant. The business had undergone some teething problems and as a result Chris's credit score had been impacted.

Noelene's income alone was not sufficient to cover the mortgage so the couple was unable to buy their dream home.

The resulting disappointment and arguments could have been avoided had they discussed their debts and financial arrangements.

Similarly, consider other financial discussions around:

- Credit card debt;
- Car and investment loans;
- Child support and other prior-relationship obligations.
- According to the government's MoneySmart website, when your relationship is getting serious, it's a good idea to start having those chats. You know, the ones about:
- Bank accounts: Joint, separate or a combination,
- Children and schools, private, public, university etc.;
- Life and Health Insurance;
- Investment risk tolerance;
- Lifestyle: House, holidays, entertainment;
- Retirement planning: Will you spend now and save later or vice-versa;
- Borrowing to invest: Property, share portfolios etc.

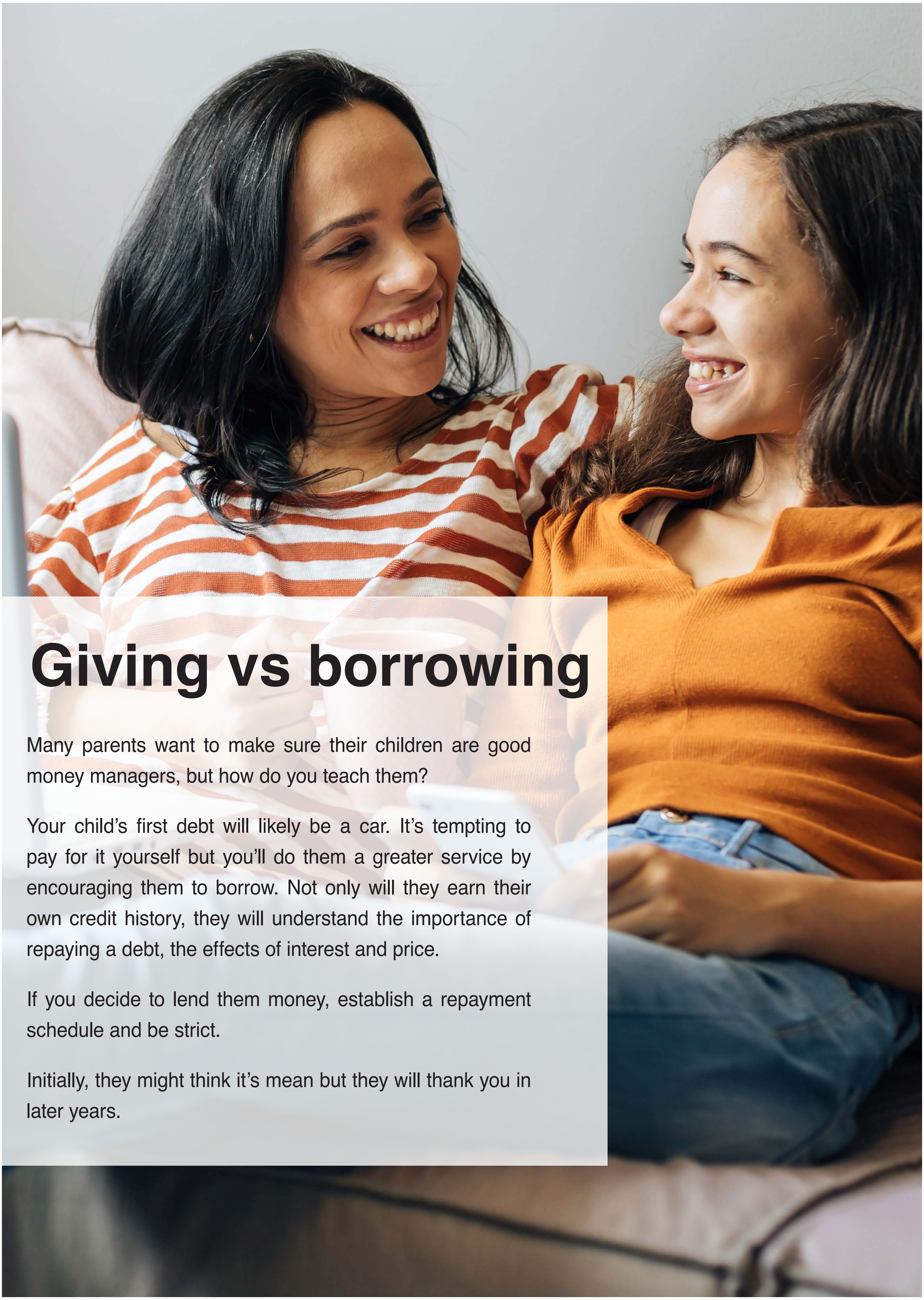
Establishing agreed goals around these subjects early can set expectation and facilitate strategic financial planning.

But what if you have different goals?

Couples unable to agree, or misunderstanding one another's goals, may encounter difficulties down the track when decisions need to be made. Communication is key in relationships but if talking about money is difficult, start by setting a budget based on income and expenses – and honesty.

If these discussions feel too uncomfortable, the Australian government offers an assistance service. Contact the National Debt Helpline on 1800 007 007 to speak with a financial counsellor. Additional services are available for small business owners, farmers or people in regional areas.

Alternatively, kick off those discussions by introducing your partner to your financial adviser. You don't have to have the same goals, but by creating a plan that suits everyone's needs, you're off to a good start.



Giving vs borrowing

Many parents want to make sure their children are good money managers, but how do you teach them?

Your child's first debt will likely be a car. It's tempting to pay for it yourself but you'll do them a greater service by encouraging them to borrow. Not only will they earn their own credit history, they will understand the importance of repaying a debt, the effects of interest and price.

If you decide to lend them money, establish a repayment schedule and be strict.

Initially, they might think it's mean but they will thank you in later years.

A different way to help the grandkids

Many grandparents want to give their grandchildren a head start in life, and a common way to do so is to help by paying some (or all) of their school fees. This can, of course, simply be done by making a contribution at the time the fees are payable. However, it's not unusual for grandparents to plan ahead by setting funds aside in a specific account. That is one option, but there might be a better one.

Plan A

Donna and Simon are a typical example. They decide to put $50,000 into a term deposit to help pay the school fees of their granddaughter Ellie when she starts secondary school in 10 years' time. With an interest rate of 2.6% per annum (pa) and interest paid annually, their initial deposit will grow to $64,631 – a nice boost to Ellie's future education.

But is there a better way to use that $50,000?

While it's nice to have a specific account with its special status and easy to see growth, the important thing is the overall pool of money available to the family when the time comes to stump up the school fees.

Plan B

Ellie's parents, Sara and Shane, are five years into paying off their mortgage. Their interest rate is 5% pa, the remaining balance is $530,000, and their monthly repayments are $3,500. If interest rates and payments remain steady, in 10 years' time their mortgage balance will be down to around $329,427.

What if, instead of setting up the term deposit, Donna and Simon gift the $50,000 to Sara and Shane who then deposit it in their mortgage account? This sees them effectively servicing a smaller loan. Maintaining their usual monthly repayments will now reduce the amount they owe on their mortgage in 10 years to approximately $247,077, giving them more equity in their home to draw on for school fees.

Difference

Plan A turned $50,000 into $64,631, a net benefit of $14,631. But plan B more than doubled that benefit to $32,350!

Of course, Donna and Simon will need to feel confident that they can trust Sara and Shane to use the gift in the way they intend, and not to redraw it for holidays or other purposes. And if they are receiving any age pension, or intending to apply for one in the next five years, Donna and Simon will also need to be aware of the gifting rules and how this gift could impact their pension payments.

Get advice first

This is just one example of how intergenerational planning can significantly grow the wealth of the extended family unit.

If you're seeking the most effective way to assist your children and grandchildren financially, talk to your financial planner first

The role of estate planning in super

If you are planning to join the hundreds of thousands of Australians who have Self-Managed Super Funds, one of the critical areas to address in the set-up phase is how your super will be handled when you're no longer here. We have outlined below some points that must be part of your estate planning and managing your SMSF.

1. Binding Death Nomination

This is a written direction to the trustee of your fund instructing the trustee to pay your benefits to your nominated beneficiaries. These directions are binding on the trustee and override their discretionary power to distribute the assets normally contained within the superannuation trust deed. The most appropriate beneficiary will depend on your personal circumstances. As there may be tax implications, it is advisable to seek professional advice.

2. Appointor share

If you are the only member of your SMSF with a corporate trustee, you may also consider issuing an appointor share in the company. This share becomes active when you die and gives the holder the right to appoint another director, who can then act to wind up the fund and pay the death benefits as required.

3. Wills

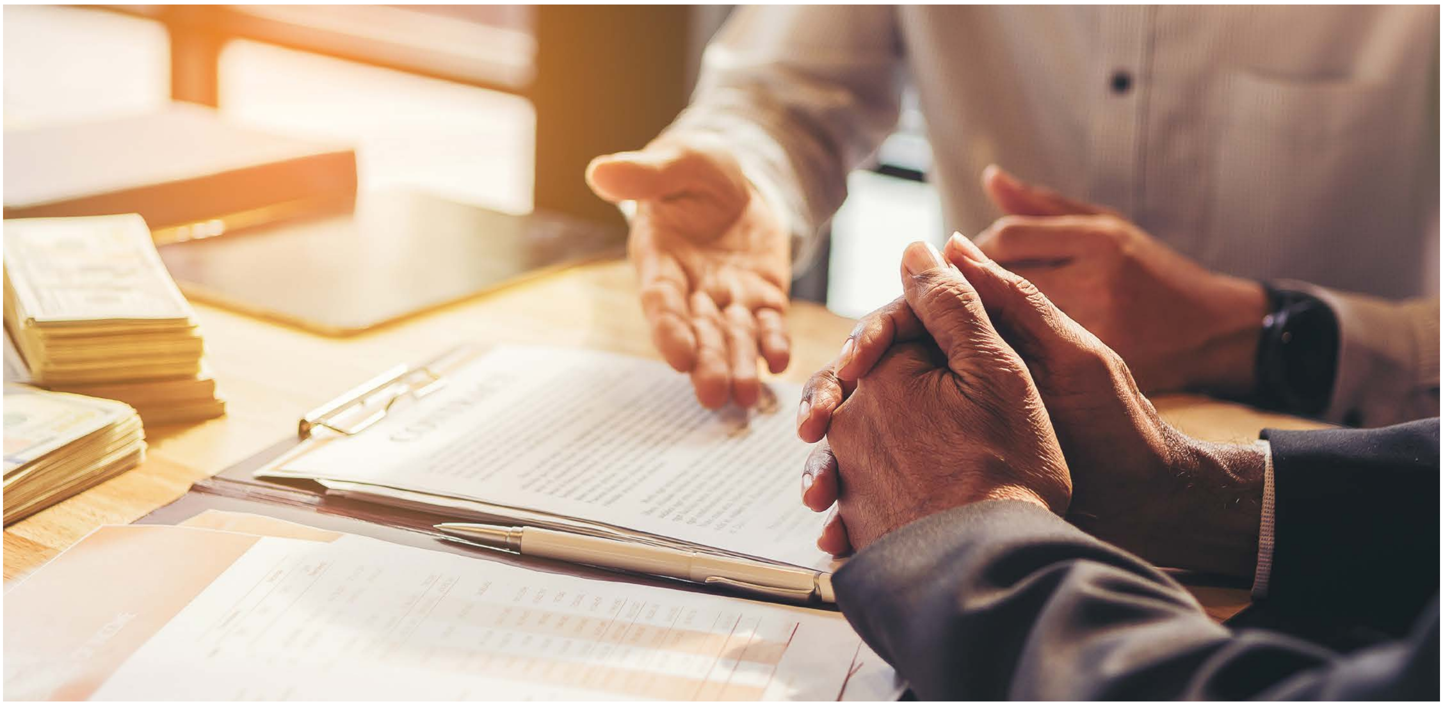
You should be aware that super benefits are not automatically paid to your estate but you can arrange for this to happen. This must be clearly set out in the trust deed. Upon your death the Executor of your will becomes your Legal Personal Representative (LPR) and manages the handling of your estate. Your LPR usually becomes a trustee of your SMSF until the death benefits are paid. It is important to choose an Executor who is capable of fulfilling this role.

4. Super pensions

If your super fund is paying you a pension which will continue being paid to your dependant/s, you should consider setting it up as a Reversionary Pension. This means that when you die, the pension reverts automatically to the nominated dependant (who must also be a member of the fund), without the need to go through the process of the fund selling assets to pay a death benefit. Regulations ensure that pension funds continue to be exempt from tax until the death benefit is paid in full.

Establishing a Self-Managed Super Fund requires a lot of attention to make sure you meet the stringent regulations governing them and, just as importantly, it is congruent with your estate planning instructions. Always consult with an experienced professional in this area to get it right the first time.

Why financial advice may be your best investment



It is commonly assumed that seeking financial advice is for the wealthy, and it only helps the rich become richer, yet financial advice can prove useful to anyone who wishes to better their financial future.

Financial advice is like getting a health check-up for your financial situation. Your financial adviser is like your personal trainer, assisting you in achieving your best possible financial health.

Seeking professional financial advice provides you with a clear path to achieve your financial goals, and that is an investment worth making.

Why invest in financial advice?

Imagine a couple in their early 30s who started investing in the share market in 2019 to save for their children's private school fees over the next 10 years. Their shares dropped by 35% during the March 2020 market crash caused by the COVID-19 global pandemic. They panic and sell their shares, incurring a loss. However, a good financial adviser would explain the risks, provide examples from their experience and probably would have advised them to hold the course because theirs was a 10-year long term plan. Within a year, the share markets recovered and are now higher than ever.

Financial advice isn't only about investing your money in the share market. Want to save to buy your first home? Want to protect your children in case of your death? Want to enjoy a comfortable retirement? Don't understand what to do with your super or how to invest in the share market? Think of a financial adviser as a one-stop shop for the majority of your financial issues in life.

Come to think of it, be it your parents telling you to save money from your first job or an Instagram 'finfluencer' explaining the benefits of compound interest while dancing to a trendy song, these are all informal pieces of financial advice you receive throughout your lifetime.

However, a professional adviser can legally provide holistic advice by reviewing your entire financial situation and your risk-taking capacity to recommend an appropriate investment portfolio. Also, an adviser's investment recommendations are based on research which can give you comfort over your decisions rather than constantly worrying about the investment you made based on your work colleague's stock 'tip'.

Is financial advice cost effective?

The financial advice industry has undergone a monumental transformation following the Financial Services Royal Commission of 2017-2019. As a result, new education and compliance requirements have been legislated to further protect the client's best interests.

This has led to a drop in the number of financial advisers Australia-wide – from approximately 28,000 in 2018 to just 15,872 in 2023.

The silver lining here is that while there are fewer advisers to choose from, the quality of advice is deemed to improve exponentially.

As per Russell Investments "Value of an Adviser" report, advisers added a value of approximately 5.2 per cent to their client's portfolios in the 2020 COVID-19 pandemic.

Still, the true value of financial advice is much more than comparing the fees you pay against the performance of your investments, or the tax saved on your income.

A financial adviser can be a sounding board for your financial ideas, a resource to answer the simplest or most complex of queries, provide research-backed recommendations, and guide you over the long term based on their experience.

Ready to make the investment?

Your day to day job may not allow you to focus on the financial aspect of your life. In contrast, your financial adviser's primary daily responsibility is to help you handle your finances efficiently.

So, are you ready for your financial check-up? Take the first step and book an appointment with a financial adviser today.