PATRON
Financial Advice

Money Matters February 2017

Welcome to the latest edition of our newsletter. We hope that you find the following articles to be informative - as we aim to help you make better financial decisions.

Economic Update February 2017

Within this month's update, we share with you a snapshot of economic occurrences both nationally and from around the globe.

- Trump has hit the ground running
- Australian economy is struggling
- China may again save us!

We hope you find this month's Economic Update as informative as always. If you have any feedback or would like to discuss any aspect of this report, please contact your Financial Adviser.

The Big Picture

A fascinating economic experiment is taking place. The only major economy that can reasonably be described as performing strongly is China. The US, UK and a few others are growing modestly. We are certainly in the 'could do better' basket for our report card.

After nine years of being stuck in a groove, it didn't look likely that western economies were going to spring into action anytime soon. But then along came Trump – a non-politician. His promise in simplistic terms was to do something different. He has certainly started off the way he said he would – signing executive order after executive order.

The markets have certainly been inspired in the last three months by Trump's confidence. Wall Street has repeatedly hit new all-time highs. Even the ASX 200 has witnessed strong growth since the presidential election.

Plenty of people have jobs here and in the US. It's just that they're not as well-paying jobs as they used to have – and many more are now part-time. As a result, there is little demand pressure to raise wages or consumer prices.

What are we missing? The business confidence to invest! There are two major factors that determine investment decisions: the potential demand for the output; and the cost of the investments.

There have been no flags waving for potential demand for nine years. So Trump aims to cut corporate taxes to make investing cheaper, and kick start potential demand by flagging big infrastructure projects jointly funded by the public and private sectors. The plan seems to have legs but nothing is certain in this world.

The US economy is starting from a low GDP economic growth number of +1.9%. Not bad but it is the slowest growth since 2011. That's actually good because it is easier for the next few numbers to show an improvement which, rightly or wrongly, might be attributed to Trump. And if that scenario eventuates, the snowball could gain momentum on business confidence.

The downside is that the snowball could get out of control in a year or two and lead to uncomfortable levels of inflation.

The US Federal Reserve must become fleet of foot to raise rates at the right time. Too soon and the impetus might fizzle; too late and they create a big problem in trying to control an overheated economy.

So why is the media and public backlash to Trump so great? Could it be that there are many vocal sore losers than normal? In every election, the opposition person or party also get a lot of votes – just not quite as many as the winner. In Trump's case, he appealed to the less well-off groups. The educated and/or left leaning media and other disenchanted groups have better access to platforms for debate.

The blue collar workers in the US never had much of a voice – until they put up with an extended period of being worse off – and Trump is their knight in shining armour.

There is a very reasonable chance that the US economy will start to grow strongly again and take the world with it. The UK just posted the best current growth figure of 2.0% in western economies.

Australia should benefit from a strong China and US. Commodity prices might be supported, or even grow, but we can't live off resources forever. At some point we have to restructure our economy. We need tax cuts and infrastructure programmes like Trump. All we seem to have on offer from either side of politics are promises of tax hikes. Of course, in the short run, the deficit would increase but from good (infrastructure) debt – not bad (recurrent) debt.
To continue reading please visit:
http://www.infocus.com.au/news/economic-update-february-2017

Understanding Your Risk Profile

One of the crucial elements of successful investing is understanding your risk profile. How willing are you to accept fluctuations in the value of your investments?

The problem with risk profiling is that an investor's risk tolerance is dynamic. Interestingly, in a bull market, when asset valuations tend to be higher, investors are often more willing to take on a higher level of risk. In a bear market, however, when valuations tend to be lower and therefore asset prices less expensive, investors tend to be more risk averse. In essence, our risk tolerance tends to increase at the exact time we should be scrutinising our portfolios the most!

So, how do we get away from this way of thinking? One way is to set a savings goal and only take as much risk as is needed to reach your target. Even as markets move up and down, the overall level of risk will remain the same. That way, you are not tempted to stretch your risk tolerance just because markets are strong.

Another way to look at your risk profile is to look at age-based risk profiling.

If you are a younger investor, you might be more willing to take on a higher degree of risk because you have a longer investment time horizon, greater earnings capacity and more time to ride out the volatility in markets.

As you get closer to retirement and start looking at pensions and how much you need in retirement, your risk profile is likely to become a little more conservative. This is simply because losses at this later stage of life are harder to recoup as there is less time available.

Once you reach retirement, your savings need to serve two purposes. You still need to earn a return from your investments to ensure they'll last the distance. But at the same time, you need to be able to make regular withdrawals in order to fund your lifestyle since you no longer have an income. Finding the right balance between investing for the long term and retaining short-term access to your money can be difficult.

With an ageing population and people living longer, you need to manage your pool of savings by targeting a certain level of earnings. What does this mean? If you are a risk-averse investor, who avoids shares and other more volatile investments, you potentially run the risk of outliving your savings. You might want to consider holding a portion of higher risk investments in order to meet your overall retirement needs; being mindful, however, to limit that exposure to manage any market volatility.

Whatever your stage of life, it's important to discuss these issues with us to make sure your investment strategy reflects a risk profile that's appropriate for your situation.

Source: IOOF

Should you have any queries in relation to this newsletter, please feel free to contact our office or your adviser.

PATRON Financial Advice

Suite 2, Level 6
93 George Street
Parramatta
NSW 2150
Australia

Phone: 1300 784 448
Phone: 02 9687 0311
Fax: 02 9687 6133
Email: advice@patronfa.com.au

PATRON Head Office

financial-advice.com.au/

Gaining an understanding of Aged Care

If you are considering moving yourself, or a loved one, into aged care, you will undoubtedly have many questions. There are a number of aspects to take into account when considering aged care and early planning can help take away a lot of the stress and uncertainty.

Explore the different options available

Residential aged care is the first option that comes to mind for most people. These facilities provide accommodation and ongoing care. The level of care provided depends on the circumstances of the individual going into care. As well as residential care there are also a number of Home Care Packages available that provide support and services while you are still living at home. These services include cleaning, meal preparation, transport, etc. and can help you stay living at home as long as possible.

Visit local facilities as early as possible

In many cases the need to move into residential aged care can be sudden. There are often significant waitlists for residential care, especially at the more popular facilities. Therefore, ideally you should plan to visit a range of facilities in your chosen area before you require residential aged care. You may prefer to do this with family members so they are aware of your wishes if you do need to go into residential aged care in the future.

Assess affordability

There are a range of fees that may be payable when moving into an aged care facility.

Initial Fees: these fees are the 'accommodation costs' and can be paid via a lump sum, a daily payment, or a combination of both. This fee is set by the aged care facility, subject to certain limits, and the fee can vary between facilities. You may be eligible for some government support depending on your level of income and assets.
Ongoing Fees: these comprise of a basic daily care fee that each resident has to pay, as well as an income and asset tested fee. The income and asset fee is means tested, meaning you will have to pay this fee if your income and assets are above certain thresholds.

It is important to ensure you have sufficient funds to pay the upfront costs, as well as to cover the ongoing costs and your ongoing living expenses. Seeking advice to assess your cash flow requirements is essential before moving into an aged care facility. Your ongoing income requirements will help determine how much you can afford to pay as a lump sum initial payment.

Consider your Age Pension entitlements

Your age pension entitlements may change when you enter into aged care. Therefore, it is important to seek advice to determine how much age pension you will be entitled to and determine if there are any strategies available to maximise your age pension entitlements or reduce your ongoing aged care costs.

Author: Kelsea Pipe

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PATRON Financial Advice

Suite 2, Level 6
93 George Street
Parramatta
NSW 2150
Australia

Phone: 1300 784 448
Fax: 02 9687 6133
Email: advice@patronfa.com.au

PATRON Head Office

financial-advice.com.au/