Autumn 2020 Newsletter

Much has changed since last month as COVID-19 continues to impact more and more Australians. If you are experiencing any hardship or have concerns, your adviser is here to help you understand your options.

Economic Update - April 2020

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

The new economy

- COVID-19 causes markets to tumble
- Governments act swiftly with relief packages
- Central banks co-ordinate significant monetary policy stimulus

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 our team.

The Big Picture

The world is very different from when we last filed this monthly update. What was then seemingly largely a Chinese health problem that was largely under control has blown out to a full-scale pandemic.

It is important for all investors to realise the broad manner in which viruses are transmitted if we are to understand how to invest during such a health crisis.

At one extreme, governments could have let the virus run free and contaminate most people with consequent poor health cases – and worse. At the other extreme, all people could have been quarantined – as they did in China – so that the spread would be controlled and slowed down.

South Korea took a different route with lots of success. They had testing ready by early February and monitored the movement of infected people using credit card activity, CCTV cameras, and mobile phone tracking. That really worked but most countries might struggle with such a 'big brother' approach.

Without a rigorous approach to quarantining, most people who are not immune might get the virus. But, by taking a partial approach to quarantining, the speed with which the virus spreads can be controlled.

The reason to slow down the spread is to help hospitals cope with the maximum number of cases needing treatment at any one time. All countries will have experienced an increase in the number of cases to be followed by a fall in this rate. The timing of these peaks depends on the health policy among other personal factors.

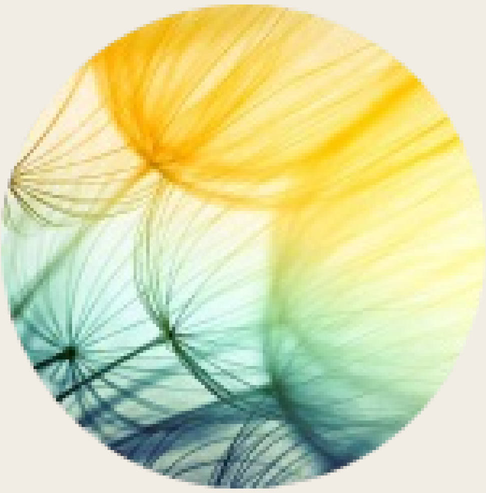
Slowing down the spread is the so-called 'flattening the curve' approach. Britain started off by allowing the virus to take its own course and then very much implemented a 'flattening' policy. The US, to some extent, upped its game after a slow start.

The biggest danger in the flattening policy is to lift restrictions too early that then allows a second round of contagion. As long as there are 'carriers' in the community, a new pandemic could always start – that is, until there is a vaccine or cure.

It is impossible for any group of people to accurately predict the length of this crisis because different regions are taking different approaches and, importantly, changing those approaches over time.

To continue reading please visit www.infocus.com.au/news/economic-update-april-2020/

Help for retirees and pensioners



There are a number of measures in place designed to support pensioners and retirees through the COVID-19 crisis.

Social security deeming rates reduced

On top of the deeming rate changes made at the time of the first package, the Government will reduce the deeming rates by a further 0.25% to reflect the latest rate reductions by the RBA. As of 1 May 2020, the lower deeming rate will be 0.25% and the upper deeming rate will be 2.25%.

Pension minimum drawdown rate reduced by 50%

The minimum annual payment for account-based and similar pensions is calculated as a percentage of the account balance as at 1 July each year. The government has announced that the minimum annual payment will be reduced by 50% for 2019-20 and 2020-21. This measure will benefit retirees by providing them with more flexibility as to how they manage their superannuation assets. If you have sufficient cash resources this would mean that fewer assets would need to be sold in your superannuation account now during this time of stock market volatility. Please make sure you contact your financial adviser if you have questions about this option.

Further $750 payment for pensioners

In addition to the $750 stimulus payment for pensioners announced on 12 March 2020, the Government will provide a further $750 payment to social security and veteran income support recipients and eligible concession card holders, except for those who are receiving an income support payment that is eligible to receive the Coronavirus supplement.

This second $750 payment will be made automatically from 13 July 2020 to around 5 million income support recipients and eligible concession card holders. Around half of those that benefit are pensioners. Payment of the first $750 payment commenced on the 31 March 2020 to people who will have been on one of the eligible payments any time between 12 March 2020 and 13 April 2020.

Option to apply for a part pension

If you are over Age Pension age and have not been eligible for a Pension due to your asset value being too high, with the current market correction you may find you are eligible to apply for a Part Pension. This may also entitle you to other Government Payments announced in the Stimulus. Please contact your financial adviser to discuss your circumstances.

Managing your super fund and investment performance

Market volatility is nothing new and the temptation to sell out during significant market corrections is always there. Each person's circumstances will be unique so if you have questions regarding what action you should or shouldn't take regarding your investment portfolio, this is definitely a conversation to have with your adviser. However, it is our overall investment philosophy that during times of volatility it's more important than ever to refer to your investment strategy and your stick with your plan.

If you have any questions please don't hesitate to contact the office.

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Government Assistance Options

The Australian Government has introduced a number of initiatives to support for individuals and households. A brief summary is provided below but please get in touch with your financial adviser or tax adviser if you have questions.

JobKeeper payment

This payment was part of the Government's third stimulus package announced on March 30, 2020. Employers and sole traders can apply to the Australian Tax Office to receive $1,500 per fortnight (before tax) to help cover the cost of their employees' wages, for a maximum of 6 months.

Businesses must meet eligibility requirements and your employer will notify you if they intend to claim the fortnightly payment of $1,500 on your behalf.

The payment is available to full-time workers, part-time workers and sole traders, and those who have been stood down by their employer since March 1,2020.

Only casuals who have been with their employer for 12 months or more will be eligible for the payment.

The relevant Government agencies will contact you if your JobSeeker claim needs to be stopped in favour of the new JobKeeper allowance from your employer.

For more information please refer to the Australian Government Fact Sheet.

JobSeeker supplement of $550 per fortnight

If you have lost your job, been stood down or your income has fallen below a certain level, you may be eligible for support from the Government via the JobSeeker support package.

The Government will implement a new temporary Coronavirus supplement of $550 per fortnight, effectively doubling the current payment for job seekers. This Coronavirus supplement will be paid for the next 6 months to both existing and new recipients of the JobSeeker Payment, Youth Allowance jobseeker, Parenting Payment, Farm Household Allowance and Special Benefit. Eligible income support recipients will receive the full amount of the $550 Coronavirus supplement on top of their payment each fortnight.

If your partner's income exceeded $48,000 per year, you were previously ineligible to apply for the JobSeeker payment, which is $550 per fortnight. As announced on 30 March 2020, the partner income threshold will be extended to $79,762 per annum. This has not yet been passed as legislation and we will continue to update this page as details are confirmed.

For more information please refer to the Australian Government Fact Sheet.

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Superannuation early release up to $20,000 over 2 years

The Government will allow individuals in financial stress as a result of the Coronavirus to access a tax-free payment up to $10,000 from their superannuation in 2019-20, and a further $10,000 in 2020-21. Eligible individuals will be able to apply online to the ATO through myGov for access of up to $10,000 of their superannuation before 1 July 2020. You will also be able to access up to a further $10,000 from 1 July 2020 for another 3 months. You will not need to pay tax on amounts released and the money you withdraw will not affect Centrelink or Veterans' Affairs payments. In terms of timing, members will be able to apply for early release of superannuation from mid-April 2020.

We urge you to contact your financial adviser if this is an option you are considering due to the possible implications on your financial position and strategy.

Pension minimum drawdown rate reduced by 50%

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Your investment questions

With so many people concerned about their investments and wondering what they should be doing, we've put together some responses to your most frequently asked questions.

Please remember, if you have any immediate questions or concerns about your investment portfolio, please get in touch with your financial adviser.

What should I be doing with my investments?

If your risk profile is correct (and this may be a time to check in with your advisers if you have real concerns) then at this point a rebalance may increase your equities exposure. We are still at an early stage in the COVID-19 experience and at this point increasing equity exposure may not be optimal. In which case, and assuming you are comfortable with your risk profile and the recommended asset allocation, continuing to allow your portfolio managers and asset allocation to operate as they always have may be the better option. It may help to remember that this volatility, as unpleasant as if feels, has been incorporated into the selection of your respective risk profile. Share markets have already fallen circa 30% and many have staged a rally from these lows. This doesn't mean the sell down is over - volatility, both up and down, will continue while COVID-19 is present.

Should I take action or should I ride it out?

Again, as above, if your risk profile and the resulting portfolio is correct for you then staying the course in the absence of perfect foresight is the proven path. This doesn't mean that it will necessarily be the most comfortable but over the longer term staying the course has proven to be the appropriate course. We do not know what will happen from here - government stimulus and central bank intervention have steadied financial markets, the world is well and truly focused on the task at hand and while it may get worse before it gets better, there is little doubt that globally we are fighting COVID-19 with everything we have. We will win this war but we may not win all the battles from here on out and there will be setbacks.

Is it better to sell my investments so they don't go down to $0?

The short answer is no, and that assumes you own good quality assets and/or have employed skilled folks to look after this on your behalf. Good quality investments will not go to zero - they may fall in price and the earnings and consequently dividend and distribution payments may fall a bit but they will survive. Good businesses and assets going into this will be good business and assets coming out of this. Some will fare better than others and COVID-19 will change the investing landscape and opportunity set. Skilled managers recognise this and take action to avoid those business that will struggle and seek exposure to those that will thrive.

What's the latest on the markets?

Every month we provide a full economic update and market outlook. Below is a summary of the market outlook but please refer to the April Economic Update for the full article.

So, what of the markets? Wall Street achieved an all-time record as recently as February 19th and we followed suit the next day. Both markets then sank the quickest into bear-market territory since 1987 and bottomed (for the first time?) on March 23rd. Wall Street made one of its quickest ever recoveries – gaining 17% in three days before flattening out and drifting a little lower this week

It seems too late in our opinion to start selling unless forced. It is equally too soon to recommit capital back to equities. Depending on risk tolerance, it might be the time for the brave to start dipping their toes in the water. Again, the big lesson to be learnt from this crisis is that these things keep happening so it is always important to try and stay on top of keeping our portfolios in shape when times are good! It is always too late when markets have crashed!

We will start to know it's over when the volatility indexes return to normal levels. All of the standard volatility measures were higher in March than they were in the GFC! In 2009, it wasn't until the beginning of March 2009 that the market started to build in a base in stable fashion – and that's when volatility returned to normal.

We highlight this scenario because a volatile market shows heightened uncertainty and so all news – particularly negative news – can cause another run down.

When we think of the fundamental value of companies and market indexes, we usually try to take a long-run view of earnings

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Supporting you through the uncertainty

We know that many of you are being faced with extreme uncertainty and an overwhelm of information and possible scenarios. Please know that we are here for you in your time of need and that it's more important than ever to reach out to our team as your own circumstances change.

If you are unsure how to process the ever-changing circumstances and what it means for you, we've put together some questions for you to consider.

- Consider your personal risks first. Do you or someone in your family have a health issue that puts you at increased risk? Make sure you protect yourself and your loved ones as a priority.
- Take care of the important things that you can control now. For example, make the sure the binding death nomination on your super is up to date. It's certainly not a comfortable topic to think about but for your own peace of mind it's important to have this in order.
- Do you have any loans that may be difficult to service now or in the coming weeks?
- What is your employment situation? Do you need to consider the reality of losing your job or being made redundant?
- Do you have an investment property? Is it possible your tenant will struggle to meet their rent payments?
- Has or will your cashflow/household budget be impacted?

If you are faced with any or all of these circumstances, please talk to our team so we can help you navigate this uncertain and challenging time. We'll work through your individual needs and discuss all the options available to support you.

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