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GOLDSBOROUGH news

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ECONOMIC UPDATE

In the last Goldsborough Newsletter *Economic Update* Lachlan made mention of "post truth", referencing the recent election of Donald Trump. Now it seems Australia's economy is experiencing its own "post truth", or maybe it's just "fake news", with not having had a technical recession for 26 years and supposedly overtaking the Netherlands for this achievement.

It is important to note that technically a recession is two consecutive quarters of negative GDP.

What needs to be considered is Australia's high immigration intake compared to the Netherlands as immigration adds to the GDP figures. Perhaps a better comparison with the Netherlands would be GDP per capita which would then show that we have had technical recessions in both 2000 and 2006. Even if using the questionable quarterly GDP figure as a measure of economic success it turns out that Japan holds the record with 38 years, so Australia will have to wait until 2030 for bragging rights.

The Reserve Bank of Australia (RBA) Board met 6 June, and as widely expected left the official cash rate on hold at 1.5%. There has been no change in the official cash rate since August 2016. The RBA has a difficult job of trying to stimulate the economy while keeping a lid on spiralling housing debt (Australia can claim a world silver medal here), especially as it is outpacing the almost zero growth in household income.

One thing on the RBA's side is the inflation data for quarter one of 2017 being 0.5% bringing the annual rate of inflation up to 2.1% for the year, which sits in the RBA's 2% to 3% target range. This is the first time since quarter three of 2014.

As at 8 June the CoreLogic Australian house price index shows that for 2017 values have risen by 2.63%, with the increases being driven by the Sydney, Melbourne and Adelaide markets, the Perth market falling (-1.13%). Over the last 12 months home values have risen by 8.85%, again with Perth being the only market showing falls. Since the previous peak in the property market (2010) values are now up 37.7%, being driven predominantly by Sydney and Melbourne. The Adelaide market has risen 9.3% since the previous peak so has shown little movement when you take into account inflation.

All eyes are still on the US with President Trump, his irrational behaviour and inability to pass any of his proposed bills through Congress. Even with these headwinds the American markets have rallied near 20% since the election and all confidence indicators remain high. In fact, most asset classes in the US are elevated largely due to the aggressive stimulus policies since the GFC, with the Federal reserve's balance sheet expanding from $800 billion to now being $4.5 trillion in deficit. We will be watching to see if Trump's pro-business election tax cuts and other stimulus measures pass through Congress.

We have also seen some unsettling geopolitical events involving North Korea, China, Russia and Syria et cetera. Even during these events the world markets continue to rise but it would be prudent to acknowledge that a major escalation in one of these regions could cause volatility.

It is important if you are unsure about any world market factors and their potential to impact on your portfolio to have an open dialogue with your Goldsborough adviser, and be disciplined in your investment strategy – remembering that a strategic approach to investing and maintaining a long term outlook can prevent some of the pitfalls that unsuccessful investors suffer when letting emotions guide their investment decisions.

SAM MARTIN
CFP®
Authorised Representative (252676)

Mind the behaviour

About 40 years ago psychologists discovered that our human minds are imperfect at making rational decisions.

Whenever we make a decision our minds subconsciously process vast amounts of information. For the sake of expediency our minds take shortcuts. These shortcuts lead to biases, and we all have them, it's a trait of being human.

These discoveries became the basis for a new field of economics called **behavioural economics** (and behavioural finance). Behavioural economics poked holes in the established economic thinking of the day, being that markets were efficient and participants in markets were rational decision makers. How can humans be rational decision makers if our minds are so easily tricked into making irrational decisions?

Recognising some of these common biases may help us become better decision makers and investors (and financial planners).

- **Anchoring** describes the common human tendency to rely too heavily on the first piece of information offered (the "anchor") when making decisions, even when subsequent information contradicts this.
- **Loss aversion** refers to people's tendency to prefer avoiding losses to acquiring equivalent gains: it's better to not lose $5 than to find $5. Some studies have suggested that losses are twice as powerful, psychologically, as gains.
- **Overconfidence effect** is where a person's subjective confidence in their judgments is greater than the accuracy of those judgements. A famous example of this is Svenson's (1981) finding that 93% of American drivers rate themselves as better than the median.
- **Hindsight bias**, also known as the "I knew-it-all-along effect" is the inclination, after an event has occurred, to see the event as having been predictable, despite there having been little or no objective basis for predicting it.
- The **bias blind spot**. Recognising the impact of biases on others, while failing to see the impact of biases on one's own judgment. Most people appear to exhibit the bias blind spot. In a sample of more than 600 residents of the United States, more than 85% believed they were less biased than the average American. Only one participant believed that he or she was more biased than the average American. Furthermore, if your first thought when reading this was, "typical Americans" then you may have proven the theory correct!

"we can be blind to the obvious, and we are also blind to our blindness."
Daniel Kahneman

LACHLAN HARVEY
CFP®
Authorised Representative (227293)

Centrelink's *granny flat* provisions

A granny flat right is established when accommodation is provided in exchange for a payment or a transfer of assets.

It is important that Centrelink has provisions for people to transfer assets or make payments to live with another person so that the transfer is not counted as a gift under the deprivation of asset rules.

The following conditions must be satisfied so that a genuine granny flat right is established:

- A right of occupancy for life in a residential property.
- A payment is made for the right of occupancy.
- The granny flat resident cannot own the property in which they reside.

So long as these conditions are met there are a number of ways a granny flat right can be established, with the main methods being:

- By transferring the title of your house to another person.
- To provide the funds to build accommodation on another person's property.
- By purchasing a house and then register it in another person's name.
- Or to pay a 'reasonable' amount of money to a relative.

In all of these cases the granny flat resident must be guaranteed the right to permanently reside in the property for life.

A granny flat is classified in the same manner as a retirement village so that the homeowner status of the person living in the granny flat is determined by the amount transferred or paid for the accommodation. This amount is referred to as the entry contribution and is measured against an amount called the **'extra allowable amount'** which is currently $200,000.

For example if you paid $250,000 to have accommodation built in the form of an extension on a relative's property this amount is not assets tested, you would be a homeowner and you would be ineligible for rent assistance.

Alternatively if the entry contribution was $100,000 then this amount is assets tested (but not deemed), you would be classified as a non-homeowner and rent assistance may be claimed if rent is paid.

Other areas needing consideration when preparing a granny flat right are stamp duty estate planning, the test of reasonableness and the legal agreement.

We recommend you have the agreement formalised by having a solicitor prepare it, although this is not a Centrelink requirement. It is also recommended that any potential granny flat agreement be vetted by the local Centrelink Financial Information Service officer (FIS Officer) — this so that you are aware of the financial and social security impacts.

JOHN OLIVER
CFP®
Director
Authorised Representative (No 227298)

The Organised **Executor**

For anyone who has been an executor of an estate, you will know there are challenges, delays, paperwork and processes that can defy logic and common sense; not to mention the legal and financial lingo…

One aspect of being the executor which can take up a very significant proportion of time is identifying all of the assets that a person actually has. The fact that the Will may have very simple and clear instructions, i.e. all assets are to go the kids evenly, does not mean the estate is easy to manage for the executor. Whilst the outcome may be clear, identifying which assets a person has, which ones they had but may have since sold, what has had tax paid on it (or hasn't!), and who looked after the asset (Financial planner/Accountant/Stockbroker), can all lead to confusion that is hard to piece together.

Today's technology is only making that process even harder; some assets such as online bank accounts don't have paper statements but rather emails. Technically, an executor shouldn't log in to the deceased person's emails or accounts online (even if they have the passwords) as they are essentially declaring they are a person who no longer exists and therefore breaking the law.

It literally is a legal minefield. There are some steps that will make your future executor's role much easier and they will thank you for it:

1. Create a '***lifepage***' and attach it to the Will: This can be a spreadsheet, a book or a paper that lists all of your details as at a certain date. You don't need to include the dollar values (as they can change) but include a list of the assets and liabilities and who the executor should see if they need further info. For example:
   - NAB Bank, Account number 123456, Unley Branch Manager.
   - Telstra shares, Bought 01/07/2015, speak with Jane Smith at XYZ Stockbrokers.
   - ABC Super, Account number 987654, Will Chapman at Goldsborough.
   - Holden Commodore, bought 01/05/2010, serviced by Jack Jones at City Holden.

   Don't forget to date it as even if your assets change after, it'll be much easier to work back through records if they know what they are looking for.
2. Box up old, obsolete info and clearly mark it as such. We're all required to hold onto tax records for 5 years, but some people just keep a 'shares' or 'super' folder and pile everything in there whether they own it still or not. Split those files up into '***Sold shares***' and '***Current shares***'. The executor may still need to see the old tax records but at least they have a separation of what is and is not current.
3. Attach our business card to the Will. I have many records of client's circumstances, even for financial assets we don't look after. When we do reviews, we record details for Centrelink or CGT Tax calculations etc, so we may not have a full picture but we may be able to cut through a lot of confusion and paperwork.

There are many more tips we can provide, but doing a few basic steps can make the role of your executor infinitely easier, and they'll thank you for helping them and your beneficiaries have a much smoother estate process.

WILL CHAPMAN DipFS(FP)
Authorised Representative (311745)

Planning the move into *Aged Care*

Quite often, putting off decisions regarding Aged Care means you will end up overwhelmed and confused, and the stress can be compounded when insufficient plans are made. Planning ahead and seeking financial advice will go a long way toward helping you understand the options you have, along with reducing stress levels for you and your family.

The following steps can help you make sense of the Aged Care system and the decisions you will be faced with.

• Plan Ahead

A family meeting can be useful to discuss preferred options and also address concerns that may arise. This can also help decide who should be involved in any planning.

• Assess the Options

Aged care services can be accessed either in your own home or in a residential service. You would first need to determine your eligibility, which is done by a member of an Aged Care Assessment Team (ACAT). This assessment will determine if you are eligible for entry into residential aged care or can access home care to help you continue living at home.

• Finding a Service

If you require residential care, you should think about what is important to you. This could include things such as location to family/friends, health care requirements, services and activities on offer etc. The best way to do this is to visit a few different facilities to see what they are like.

• Understanding what you need to pay

The government pays for the majority of your aged care costs, but it is expected you will also contribute to the costs if you can afford to do so. How much you pay will depend on the service you choose and your assessable assets and income.

• Covering the Costs

Before moving into an aged care home, you will negotiate an agreement which will set out the fees and charges you will be asked to pay. This will be a good time to conduct a complete review of your financial situation so you can ensure you have enough cash flow to cover the costs.

• Estate Planning

When your circumstances change (including a move into aged care), it is important to consider the effect this has on your estate plans. Therefore, a review of your estate plan should ensure it is up to date with any changes.

• Making the Move

You can apply for as many homes as you like, and when you accept a place, you will be asked to sign a residential agreement which details the fees payable and services provided. Fees may start once you have accepted a place, but you have 28 days to decide whether to pay your accommodation payment as a lump sum or a daily fee. This will give you time to determine the best way to make the payments.

There are a number of strategies that can be implemented to reduce care costs and/or increase social security benefits. Working with a financial planner and planning ahead will go a long way toward to ensuring the best outcome for you and your family.

RETIREMENT *quote*

"If I could provide one tip on preparing for a comfortable retirement it is to plan early and set a financial roadmap. They say failing to plan, is a plan to fail."

MICHELLE SANCHEZ-MCCALLUM
Authorised Representative
(325471)

MATT KELLY CFP®
Authorised Representative
(314983)

The key to understanding SA & Federal *Concession Cards*

Concession cards are as valuable as any income support payment you will receive. The discounts involved which are offered by governments, local councils, utility companies and private businesses can amount to considerable savings over the year.

Unfortunately, the government does not issue concession cards automatically, and dealing with Centrelink is often described to me as being clunky and stressful. This article seeks to provide a brief overview of the concession cards available, and the benefits and obligations that are retained by card-holders.

- Pensioner Concession Card (PCC) Issued by Centrelink to people that have qualified for Disability Support Pension, Age Pension, DVA Pension, Carer Payment and people over age 60 who have received Newstart allowance for more than 9 months. The card is reissued on the card-holder's birthday each year. Pensioners who lost their Pensioner Concession Card (PCC) due to the asset test changes on 1st January 2017, will have their card reinstated as per the relevant recent budget announcement with an issue and postal date of 9 October 2017. Pensioners will be able to retain the PCC and Commonwealth Seniors Card (CSHC) with an ongoing income and assets exemption, and their Low Income Health Card (LIHC) will be deactivated.
- Commonwealth Seniors Health Card (CSHC) Issued by Centrelink to people over pension age who do not qualify for age pension, but have an income that is below the required threshold. The card is reissued in August each year.
- Health Care Card (HCC) Issued by Centrelink to all recipients who receive Newstart and other allowances, a Low Income Healthcare Card is available for people with an income below the required threshold. The card is issued every 3–12 months depending on a person's circumstances.
- Seniors Card Issued by state Governments to people over age 60 and not working full-time.

Summary

The table below provides an overview of some of the benefits provided by the cards listed above.

	PCC	HCC	CSHC	Seniors Card
PBS	✓	✓	✓	
Bulk billing — discretion of GP	✓	✓	✓	
Concessional Extended Medicare Safety Net [1]	✓	✓	✓	
Cost Of Living (COL)2	✓	✓	✓	
Water/Sewerage [2]	✓	✓		
Energy [2]	✓	✓	✓	
ESL2	✓	✓	✓	
Mail Redirection D iscount	✓	✓	✓	
Hearing Discount	✓			
Transport Discount	✓	✓		✓
Registration Discount	✓			
Energy Supplement [3]	✓	✓	✓	

1. Threshold is $656.30 for concession holders and $2,056.30 for all other individuals and families as at 1 January 2017.

2. Claimed through sa.gov.au. Energy and Water/Sewerage can be backdated to the issue date of your card up to a maximum of 2 years. COL needs to be initially applied for between 1 July–31 October and is paid if you held a concession card as of 1 July.

3. CSHC holders may only receive a quarterly supplement if they claimed for the card before 19 September 2016.

Unless you have an exemption for your concession card you will be subject to means testing. You will be required to inform Centrelink within 14 days of any changes to your income, or a change to your asset values of $1,000 or more. Centrelink generally receives an automated price only update for your shares, superannuation, and managed investments, so it's important to let them know of any buy/sell transactions that take place within your accounts. Centrelink does not receive an automatic update of bank balances and will require updates as necessary via phone, online or letter.

Goldsborough advisers are well versed in Centrelink benefits and obligations, so please contact your adviser if you have any questions or to assist with the application process.

CRAIG KIRKWOOD
ADFP
Authorised Representative (401525)

It's *what* you know…

A lifetime of sensible investment experience could mean you have the opportunity to change a younger person's life for the better.

Helping to positively influence a younger person financially could be the gift that keeps on giving, as long as the advice you are offering is welcome and correct. We can't help with making sure the advice is welcome, but we can suggest a few useful topics:

1. What not to do

Investment advice and strategies are always best left to the professionals. The performance of asset classes and industries changes as time goes on. New regulations, tax laws and other legislation can drastically alter the performance of a financial instrument.

2. Be penny-wise from day one

Teaching younger people to be wise with their pay packets is a good start. Time is on their side in terms of compound interest. If they can truly understand this then they will benefit throughout their lives.

3. Don't leak dollars

In ages past the big expenses were the ones to be wary of, but these days marketers and retailers are far more savvy at removing money from our accounts in a much less noticeable fashion. Teach younger generations to budget, and to look out for their funds being eaten away by subscription providers such as digital music services, pay TV providers, mobile phone deals and pay-as-you-go software services etc.

4. Use technology

Younger people live in a world saturated by technology and this can be a good thing. A seemingly endless list of apps is available to help save, invest, seek loans, figure out retirement savings plans, and calculate superannuation payments – all of which may assist in making sound financial decisions.

5. Gender specifics

It is always worth having a conversation with young women around the gender-specific challenges they could face when it comes to superannuation, and discussing how they might prepare financially, well in advance, for periods out of the workforce raising the family, if they choose to do so.

6. Do something

Empower young people to make choices and start something for their financial futures. Doing something is infinitely better than doing nothing. Even if they make mistakes, the lessons they learn early on will offer powerful insight and knowledge later in their lives.

BRENTON MIEGEL CFP®
Authorised Representative (227297)

UPCOMING seminars 2017

TUE 11 JUL
TUE 8 AUG
TUE 12 SEP

2.30pm and 6.00pm

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Goldsborough is a referral based business

The biggest compliment any client can give us at Goldsborough is the referral of a friend, relative or business associate who could benefit from our services.

As an indication of our appreciation for the referrals that we receive from our clients, we have instituted a quarterly draw where the names of the referring clients for that quarter are put in a box and one is drawn out.

The winner of the draw receives a $100 shopping voucher!

We have pleasure in announcing the winner of our 'Referrers Award' for the July quarter is* Wendy Adams *— congratulations Wendy, your voucher is on its way.

Peacock DESIGN & PRINT

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