Robertson deRooy
associates
FINANCIAL SERVICES

October 2014

Client Briefing Invitation

Friday, 24 October 2014
9.45am for 10am start
Wallis Lake Room
CLUB FORSTER

The world is full of investment risks and investment opportunities. To help us find the next "Investment Tailwind" we are pleased that Emma Heffernan from Magellan Asset Management has accepted our invitation to join us at our client briefing.

Directors of Magellan Financial Group currently sit or have sat on the boards of some of the Australian Government's most important policy bodies including the Foreign Investment Review Board (FIRB), the Financial Literacy Board, the Takeovers Panel, and the Australian British Chamber of Commerce.

We believe Magellan not only understands world events but also their impact on Australia, and we are confident that you will be entertained and informed by Emma's presentation.

In addition, we will provide a Centrelink Update including **<u>important changes</u>** to the income test treatment of new superannuation pensions from 1 January 2015, as well as cover some of the real issues currently facing investors including:

- **The impact of continuing low interest rates on your income**
- **Alternative investment opportunities and risks**
- **How to find the right balance for you**

The briefing will run for 2 hours and will include a break for light refreshments. As always please feel free to bring a friend along.

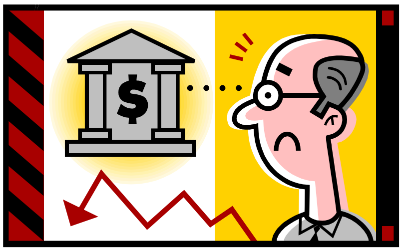
To assist us in our planning please advise of your intention to attend by phoning the office on 6555 6433 or emailing us at adviser@robertsonderooy.com.au by **5pm Tuesday 21 October 2014**.

We hope you can join us

Economic Snapshot October 2014

In summary

Another challenging month for financial markets with mixed data from the major economies and further tensions in Ukraine, the Middle East as well as in Hong Kong. Scotland's independence vote came down firmly on the side of the No camp, but not before it too had exacerbated uncertainty in the markets. The latest economic data around the world support the theme of a strengthening US economy, but weakness in both Europe and Japan. Sentiment about Australia is mixed, with some commentators suggesting the local economy is set for a protracted slowdown. The Australian share market had its worst month since May 2012 with bank and resource stocks under particular pressure following sustained periods of outperformance. The Australian dollar finally fell through US$0.90 in the face of weak commodity prices and improved sentiment about the US currency. At its meeting on 8 October, the Board of the Reserve Bank decided to leave the cash rate unchanged at 2.5%.



Australia

The latest national accounts figures showed real GDP grew by 0.5% in the second quarter and by 3.1% over the same period a year ago, showing some improvement in non-mining growth as well as a significant improvement in labour productivity. Household incomes grew by little more than inflation, but dwelling investment continued to contribute to overall growth. Business investment fell as did company profits, partly driven by the impact of falling commodity prices on resource sector profits, which in turn contributed to the subdued pace of nominal GDP growth which rose only 3.3% in year to the June quarter 2014.

Lower commodity prices, particularly for iron ore, contributed to declines in both resource stocks and the $AUD. The currency had been stubbornly refusing to fall below US$0.90 but renewed concerns about China combined with further signs of improvement in the US economy finally helped deliver a sharp fall in the $AUD. By the end of September the $AUD was sitting at US$0.875 before falling below US$0.87 in early October. This is having a beneficial impact on diversified portfolios that are not currency protected. Other beneficiaries include exporters and domestic tourism, whilst imports will be more expensive.

The housing market continued to attract headlines and debate with further reports of significant price rises in Sydney and Melbourne and speculation about a bubble. The role of foreign buyers in the market generated some controversy, as did comments from the Reserve Bank suggesting that macro-prudential policy measures (which may include higher interest rates for investors rather than owner occupied) may be considered to temper both household and bank exposure to the housing market. The potential impact of this on bank profitability contributed to the weakness of that sector of the equity market in September. Building approvals rose 3% in August and 14.5% over the same period a year ago, led by activity in the apartment sector. Non-residential approvals fell 0.5% in August.

China

In China the People's Bank said that it would supply 500 billion yuan to the banking system in order to boost liquidity. House prices fell an average 1.1% in August. The latest official PMI was a bit stronger than expected and suggest the economy will continue to grow at the pace seen in recent years. However, some other partial indicators suggested the economy may be slowing at the moment. The pro-democracy protesters in Hong Kong have attracted significant international attention and so far a relatively muted response from the authorities in Beijing. However, there are fears that the authorities' patience is running out.

United States

September saw some mixed data from the US economy. Indicators of manufacturing activity fell by more had been expected. Nevertheless, the key indicator is still sitting at a very respectable reading. Other recent data included:

- house starts fell 14.4% in August, more than was expected by the market;
- CPI fell 0.2% in August to be 1.7% higher than a year earlier;
- payroll employment rose by 248,000 in September and the unemployment rate fell to 5.9%;

The Federal Reserve confirmed that its Quantitative Easing program will end in October but reiterated that interest rates will stay low for a "considerable time". The Fed's Beige Book report on economic conditions across the 12 Federal Reserve districts reported "modest to moderate" expansion of economic activity in ten districts and improving activity in the remaining two. The report described wage and price pressures as "modest" and "benign" which suggest a controlled economy.

Europe

The news out of Europe was generally bearish with further signs of slowing activity in the major economies. The ECB lowered its key interest rate by 0.1% and pushed the rate it offers on deposits further below zero. It also said it would start purchasing asset-backed securities and covered bonds in October as part of its program to fend off deflation in the Eurozone. The unemployment rate in Germany is hovering around 6.7%, while in Italy it is around 12.5%. The latest PMI's showed further declines and suggest that Germany and France are facing contractions in manufacturing activity.

Scotland's "No" vote on independence help boost the pound which had fallen to its lowest levels against the US dollar in nearly a year. The Governor of the Bank of England said the central bank expects to lift interest rates in the Spring.

Centrelink "Work Bonus Scheme"

There are times where as a retiree you may have the opportunity to return to the workforce for a short period of time or on a permanent part time basis, such as electoral work, exam marking or helping a family member in their business. The **Centrelink Work Bonus Scheme** allows you to earn some income without it impacting on your normal level of pension benefit.

- **If you don't work**— your Work Bonus balance accumulates at $250/ft up to a maximum of $6,500.
- **Earn less than $250/ft**—your assessable employment income is zero and the difference between your earnings and $250 accumulates into your Work Bonus balance.
- **Earn exactly $250/ft**—your assessable employment income is zero and your Work Bonus balance will not change.
- **Earn more than $250/ft**—your assessable employment income reduced by $250. Then, any Work Bonus balance you have built up is used to reduce the remaining employment income.

The benefits of this scheme are largely dependent on how you would be assessed for Centrelink purposes, i.e. asset or income tested. Taxation issues should also be considered on a case by case basis.

The work bonus scheme balance appears on your Centrelink Assets and Income summary and will show a maximum balance of $6,500 if you have not worked. This balance remains and does not restart at any point in the year.

Centrelink Thresholds

Asset Test Thresholds

Family situation	Non-homeowners		Homeowners	
Single	Full Pension Cut-off at	$348,500 $918,250	Full Pension Cut-off at	$202,000 $771,750
Couple combined	Full Pension Cut-off at	$433,000 $1,292,000	Full Pension Cut-off at	$286,500 $1,145,500
Separated (through Illness)	Full Pension Cut-off at	$433,000 $1,572,500	Full Pension Cut-off at	$286,500 $1,426,000

Income Test Thresholds

Family situation	
Single	$160/fortnight Cut-off at $1,868.60/ft ($48,583/yr)
Couple (Combined)	$284/fortnight Cut-off at $2,860/ft ($74,360/yr) Reduces at $0.50/$1
Separated (through Illness)	$284/fortnight Cut-off at $3,701.20/ft ($96,231/yr) Reduces at $0.40/$1

Entitlement is calculated under *both* the Asset Test *and* the Income Test - with the rate payable being the LOWER of the two.

For further information about our team as well as the latest news, market updates, financial calculators and previous newsletters visit our website at ***www.robertsonderooy.com.au***

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