



# Spinell Financial Services Pty Ltd

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Dear Client

This is another update on the state of the investment markets and major economies. As always there is ongoing uncertainty.

## INVESTMENT & ECONOMIC NEWS

### Stock Markets

No-one would be surprised to learn that the stock-markets worldwide have performed extremely poorly in the last 7 months. After gaining over 9% in 2017-18 the Australian All Ordinaries Index lost 5.6% for the 7 months ended 31 January, 2019. This would have been much worse if not for the reasonably strong gain of almost 4% in January, 2019. Similar results were achieved in the rest of the world and you can see from Tables 1 and 2 below.

Table 1 shows the index figures and Table 2 the calculated performance.

**Table 1 Stock Market Indices**

Period	AUST All Ord	CHINA SSE Comp	USA S&P 500	GB FTSE	GERMAN DAX	JAPAN Nikkei
31/01/2019	5,937.30	2,584.57	2,704.10	6,968.90	11,173.10	20,773.49
30/06/2018	6,289.70	2,847.42	2,718.37	7,636.90	12,306.00	22,304.51
30/06/2017	5,764.00	3,192.43	2,423.41	7,312.72	12,325.12	20,033.43
30/06/2016	5,310.40	2,929.61	2,098.86	6,504.30	9,680.09	15,794.09
30/06/2015	5,653.10	4,277.22	2,063.11	6,521.00	10,944.97	20,235.73
30/06/2014	5,382.00	2,048.33	1,960.23	6,743.90	9,833.07	15,162.10
30/06/2013	4,775.40	1,979.21	1,606.28	6,215.50	7,959.22	13,677.32
30/06/2012	4,135.50	2,225.43	1,362.16	5,571.10	6,416.28	9,006.78



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**Table 2 Performance**

Period	AUST All Ord	CHINA SSE Comp	USA S&P 500	GB FTSE	GERMAN DAX	JAPAN Nikkei
7 mths to 31/01/2019	-5.60%	-9.23%	-0.52%	-8.75%	-9.21%	-6.86%
2017-18	9.12%	-10.81%	12.17%	4.43%	-0.16%	11.34%
2016-17	8.54%	8.97%	15.46%	12.43%	27.32%	26.84%
2015-16	-6.06%	-31.51%	1.73%	-0.26%	-11.56%	-21.95%
2014-15	5.04%	108.81%	5.25%	-3.31%	11.31%	33.46%
2013-14	12.70%	3.49%	22.04%	8.50%	23.54%	10.86%
2012-13	15.47%	-11.06%	17.92%	11.57%	24.05%	51.86%

China, the growth engine of the world economy since the global financial crisis has had economic growth concerns as a result of the potential trade war with the United States and lacklustre domestic demand. This has shown in stock-market returns. While the rest of the world stock-markets performed well in 2017-18 the Chinese market lost almost 11%. During the last 7 months it is also the worst performing market among those covered above. Some of the factors affecting the markets are:

### Australia

- Banking Royal Commission due to be released today could recommend measures that will affect bank profits and potentially stifle lending and growth;
- Forthcoming Federal Election. The election is due in May and the uncertainty associated with it has affected economic activity.
- The polls indicate a Labor party win in the forthcoming Federal Election but there are fears that their policies have the potential to push the Australian economy into recession (see further comments below);
- Falling property prices have an effect on growth and confidence. However, after many years of rising prices property values have grown to unsustainable levels and some correction was inevitable and necessary. The extent of the correction will determine whether it has a profound effect on our economy.

### Rest of the World

- Rising interest rates in the United States. Rising rates have caused concern for US economic growth and, as a result, affected the financial markets. Although the Federal Reserve Chairman announced a pause to the increases they may have no choice but to raise rates further in the near future. Increasing borrowing needs of the US Government as a result of the fiscal deficit and rising inflation associated with wage pressures associated with the exceptional strength in the US labor market could force further rate increases;
- Brexit is a continuing problem for the United Kingdom and it increasingly looks like a deal with the European Union is unlikely to be reached. No deal Brexit is an unknown factor and causes uncertainty. Financial markets hate uncertainty;
- Italy's new government's expansionary budget policies are defying the European Union's rules that limit government debt and budget deficits. Italy's debt at \$2.6 trillion is the world's 4<sup>th</sup> largest. This has the potential to spook investors and cause sharp rises in the governments cost of borrowing which could cause debt to spiral out of control. In this instance the worst possible, and quite likely, scenario is Italian default, affecting banks holding Italian sovereign bonds and possibly another financial crisis. Italy is too large to be bailed;
- Growth worldwide is starting to ease as can be seen in Table 3 below;
- There have developed significant divisions among countries in Europe and in other parts of the world that could make it much more likely to develop a coordinated policy approach to handle another financial and economic crisis.

While the above factors are a concern there are other possibilities that may mitigate the negative forces. They include:

- United States and China could reach reasonable agreement and avoid the worst outcome of a trade war. If the US, Chinese and world economies are facing difficulties it could lead to a more reasonable approach by both sides;
- The Chinese government has many levers that they are able to pull to keep the economy going. They are showing signs of doing so;
- Reforms of the Chinese pension system could see much more investment going into the Chinese stock market and provide the necessary funds for economic activity in China;
- Italy's government is realizing the seriousness of their position and have toned down their rhetoric. Now they are seeking dialogue with the EU in relation to the matter;
- Perhaps the US will be able to defer further interest rate increases until the economy is in a far better position to absorb them;
- Brexit, even without a deal, could turn out to be less of a difficulty for United Kingdom than many commentators have suggested;
- Falling property prices in Australia may be just a correction rather than a cause of economic turmoil. However, if Labor is elected to government their negative gearing and capital gains tax policies could cause further harm.

**Table 3 Economic Indicators**

Country	GDP Growth	Unemployment Rate		Govt Debt to GDP
		All	Youth	
Australia	2.80%	5.00%	11.20%	41.90%
United States	3.00%	3.90%	8.70%	105.00%
China	6.40%	3.80%		47.60%
India	7.10%	3.52%	12.90%	68.70%
Japan	0.00%	2.50%	3.50%	253.00%
United Kingdom	1.50%	4.00%	11.50%	85.30%
Euro Area	1.60%	7.90%	16.90%	86.70%
- Germany	1.10%	3.30%	6.10%	63.90%
- France	1.40%	9.10%	21.80%	97.00%
- Italy	0.70%	10.50%	31.60%	132.00%
- Spain	2.40%	14.55%	34.10%	98.30%

Comparing the above table with that in our last newsletter you will notice growth slowing down worldwide. Governments need to be extremely careful with their policies because it may not take much to tip any of the economies into recession.

### **Forthcoming Federal Election in Australia**

A Federal Election is due to be held in 2019 which will probably take place in May. Official campaigning hasn't yet commenced but the Labor party has released some policy details. Some of the more controversial and, we believe, dangerous are:

- Abolishing negative gearing. This will have the effect of reducing demand for property just when property prices are tumbling. It will affect mostly middle income earners and does not bode well for the property market or for the economy. It is possible that it could tip Australia into recession for the first time in almost 30 years;

- A 50% reduction in capital gains tax exemption (from the current 50% to 25%) and, we believe, this is the first step to abolishing the exemption altogether. Like the negative gearing issue it will affect middle income earners, the property and other asset markets, and the economy;
- Abolishing franking credit tax refunds. This will have a severe effect on pensioners and low income people who have some share investments. It will also hasten the decline in superannuation balances of those in self-managed superannuation funds. When pensioners and lower income earners receive the franking credit refunds they are usually spent. Denying the refunds will reduce overall spending in the economy and, among other things mentioned, potentially lead to recession;
- Reducing the tax free income payment from superannuation. The existing law is a maximum amount supporting a tax-free pension of \$1.6 million regardless of the amount of income earned. However, Labor want to restrict the amount of tax-free income to \$75,000;
- Discretionary trust distributions are to be taxed at 30% regardless of the amount of income and tax rate of the recipient. In some instances this will tantamount to charging 30% tax to someone who is now under the tax-free threshold and pays no tax or increasing the tax rate for those now on the 19% rate. Labor will sell it as a tax on the rich who have trusts but it will affect many more people than that. Superannuation could also be affected;
- Maximum \$3,000 tax deduction for tax advice. The idea here is that limiting the deduction will cause people to not seek advice, or seek limited advice, and, as a result, pay a higher amount of tax than necessary.

We understand that the current government haven't been the best performers and have taken the Australian people for granted. Change of prime minister, confusing policy positions, internal bickering and backstabbing etc have left all of exasperated at the stupidity of politicians. However, we believe that Labor policies are quite dangerous policies and will affect everyone in some way and, therefore, caution you to think before you vote.

Generally we would not consider advocating for one political party over another but we believe that the abovementioned policies are so concerning to ask you to seriously consider the implications before you cast your vote. They may affect you and everyone else much more than you think.

If you wish to discuss with Joe or Partick how these policies may affect you please don't hesitate to contact us.

## **Frauds & Scams**

There are many types of fraud and scamming schemes and you should be continuously vigilant. If in doubt please contact us for any information that we may be able to provide. Many scams come via emails, in particular, links within those emails.

Aggressive calls which purport to be from the Australian Taxation Office are a scam. Don't worry, just refer them to us. Also, if you are unsure of something please let us know so we can help.

## **Beneficiaries of Superannuation Pension Accounts**

There are essentially 4 types of beneficiary nominations for superannuation type pensions (allocated and account-based). They are:

- 1) No nomination. In the instance where a beneficiary has not been nominated the Trustee of the Superannuation Fund (Fund) will determine to whom the benefit is paid;
- 2) Non-binding nomination. The Trustee of the Fund determines to whom the benefit is paid but takes into account your preference;
- 3) Binding Nomination. The Trustee of the Fund is bound to pay the benefit to the nominated beneficiary; and
- 4) Reversionary. In this case any superannuation pensions being paid will revert to the reversionary beneficiary upon the death of the pensioner.

Please consult us before you sign any form of nomination so that we can together determine the most appropriate form for you. Furthermore, this should be a part of a wider estate planning review to ensure that your wishes are fulfilled.

## **OFFICE NEWS**

### **Range of Services**

We are happy to advise that we are able to provide you with a full range of financial services including:

- Accounting and taxation;
- Full financial planning and investment service;
- Mortgage loans and equipment and car finance;
- Life insurance, total & permanent disablement, income protection insurance; and
- Much more.

If you have any requirements please do not hesitate to talk to us about them.

### **Client Input**

We are always grateful for your input. If you have any particular requirements which you would like to discuss with us please do not hesitate to do so.

If you have any queries or further requirements please do not hesitate to call.

Regards

**Joseph Dancevic, Patrick Klemke, Heleana Harvey, Joanne Klemke, Sarah Moore & Melissa Donaldson.**