PROFILE
FINANCIAL SERVICES

PROFILE'S CORNER

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FACTUAL INFORMATION AND GENERAL ADVICE WARNING

*Asset class returns referred to in this publication are based on the following indices: Australian shares: S&P/ASX 300 Accumulation Index. International shares: MSCI World (AUD) TR Index. Fixed interest: Bloomberg Composite All Maturities Index. Cash: Bloomberg Ausbond bank bill Index. Gold: Spot Gold Bullion (USD).

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Profile Update

Welcome to Volume 31 of our quarterly client newsletter. In this section, I provide an update on what's happening at Profile.

By Sarah Abood, CEO

Investments in technology and process efficiencies

Longstanding clients will be aware that we have significantly increased our focus on technology in recent times. We believe that if used well, IT offers great opportunities for us to deliver a better and faster service to our clients as well as more satisfying jobs for our staff. No-one wins when data is being re-keyed manually between paper and computers and information is only available to clients 9-5 on weekdays!

Last year we launched an automated appointment booking service for clients, and in more recent months we've been focusing on 'behind the scenes' technology. These are systems that help us to be quicker and more efficient at processing tasks, and generating advice and reviews for clients. This is a very high priority for us, as the amount of paperwork we must generate for you by law can take a long time to produce manually.

A group of clients are currently involved in a pilot program where we are testing a new Client Relationship Management system. We are also working on an updated information collection system ("Fact find wizard"), and updated Statement of Advice technology that taps into industry-wide databases of product and price information and should reduce the time it takes to deliver advice.

I want to emphasise that these systems should never get in the way of your personal relationship with your advice team, or lead to a 'cookie cutter' or one size fits all approach. Quite the opposite, by automating routine tasks your team can focus more on what's unique about you.

People news

In our Mudgee office we've recently welcomed **Jessica Walker** and **Stephen Alcorn** as Associate Advisers.

Jessica joins Profile having worked as a tax accountant for individuals and small entities in local Mudgee firms, as well as on a larger scale when she worked for KPMG in Canberra on Government tax advisory projects.

Stephen has over 30 years' experience in Financial Services and was most recently Head of Australia Institutional for J.P. Morgan Asset Management. He has also held prior senior roles at BNY Mellon Asset Management and Barclays Global Investors (now BlackRock). Stephen has relocated to Mudgee for the role.

Jessica and Stephen are working with Senior Adviser Louise Scifleet and Client Support Officer Karen Denyer as part of our growing central west presence.

Royal commission report

In early February the final report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was released.

We are strong supporters of the work of the Royal Commission and resolving conduct issues that have dogged our industry for decades.

We sent a note to all clients at the time but in case you missed it, I wanted to share our thoughts on the report and what will happen next.

There were 76 recommendations made in total, and if implemented successfully we believe these should result in better outcomes for consumers, and restored trust in the financial industry.

Many of the proposals affect the way large financial institutions engage with clients and will be positive for consumers (for example, changes to make insurance contracts and the claims process fairer). From our first review of the report, the recommendations are unlikely to mean any major changes for our business (although it's quite likely there may be more changes to the reporting and invoicing of fees for clients of all industry participants).

We've proudly been putting clients' interests first for over 30 years now, and we feel our decision to remain a firm where we control our own destiny (with no ownership or licensing ties to other financial institutions) has been vindicated by the findings!

That said, no firm can afford to be complacent. Big firms now, were smaller once - and it's very important to all of us at Profile that we don't lose our focus on ethics, transparency and professionalism as we grow.

Of course, much will depend on the way the government interprets and implements the recommendations. With a Federal election likely to be held in May (or possibly earlier!) we will be paying close attention to the policies both parties announce. Like the Federal Budget each year, policies are announced but then legislation must be drafted, which may change many times before it wins assent and is implemented. So it could be some time before we have clarity on what changes will actually be made.

In the meantime if you have any questions about the report, please don't hesitate to call myself or your Financial Adviser on (02) 9683 6422 (or 02 6372 0716 for the Mudgee and Dubbo team).

Investment Update

2018 in review – and what's coming up?

By Jerome Bodisco, Head of Investments

2018 saw a moderate slowing in economic growth around the world, along with heightened volatility. Although equity markets reached multi-year highs in January and September, steep market corrections in February and the final quarter reversed these gains, with global equities ending the year well into the red. This was driven by consistent themes throughout the year – rising China and US trade tensions, monetary tightening and reduction of liquidity by central banks and increased fragility within political environments (UK and Europe).

Interest rates

The US Federal Reserve raised rates four times during 2018, and the Bank of England raised rates for just the second time since the global financial crisis (2007/2008). Yields in the US, and to a lesser degree in the UK, have increased at the shorter-end of the curve in response to an increase in the Federal Reserve's cash rate and the Bank of England rate. However, longer-term yields have not increased as much as shorter-term yields, resulting in a flattening of the yield curve and inversion towards the end of the year.

United States

Global growth was led by the US economy, which was underpinned by tax cuts, strong corporate earnings and low unemployment. However more recently, in the US mid-term elections the Democrats gained control of the House of Representatives (the Republicans maintained their majority within the Senate). A split congress will likely create more obstacles for Trump in achieving his legislative agenda through his term. To end the year, the US Federal Government went into partial shutdown over funding demands for the US/Mexican border wall affecting over 800,000 workers. The shutdown extended into 2019, ending on 25th January as the longest-ever shutdown in US history

US economic growth for the 1-year period to September 2018 increased to 3.0%, up from 2.3% in September 2017. The unemployment rate improved over the year from 4.1% in January to 3.9% in December. Annual core inflation increased marginally from 2.1% in January 2018 to 2.2% in November 2018. Although the US experienced relatively strong economic growth and reduced unemployment, sharp falls in the December quarter meant that the US share market fell 4.9% for the year (in local currency terms).

Europe

After a year of negotiations with the European Union (EU), Theresa May brought her Brexit deal to be voted on. However, opposition and resignations from MPs caused May to delay the vote and recommence negotiations with the EU as we approach the "Brexit date" of 29 March 2019. The ongoing uncertainty over Brexit negotiations has inhibited returns in the UK, with the FTSE 100 Index returning - 12.5% (in local currency terms) over the 2018 year.

In Italy, Giuseppe Conte was sworn in as Prime Minister, heading Western Europe's first anti-establishment government set on overhauling EU rules on budgets and immigration. The coalition government includes the populist Five Star Movement and the conservative Lega - both 'euro-sceptic' parties – reigniting fears of an EU-breakup and dragging the Euro stock market down -14.3% (in local currency terms) over the year.

China

During the year, Trump introduced import tariffs which resulted in retaliatory measures from China. China and the US have resumed trade talks to resolve the escalating trade disputes, however significant uncertainty remains. The Shanghai Composite index fell heavily by 24.6% over the year. Annual Chinese GDP growth has also slowed, to 6.5% in September 2018 from 6.8% one year prior. As a result, China's central bank is easing monetary policy to support domestic growth, whereas almost all major developed world central banks are lifting rates. The possibility of a China slowdown and its sizable debt problem are keeping markets on edge.

Australia

Australia experienced its share of political chaos this year as Scott Morrison was sworn in as the 30th Prime Minister of Australia and the country's sixth PM in just over a decade. Morrison succeeded Malcolm Turnbull, following a three-way contest between Morrison, Peter Dutton and Julie Bishop. The next Federal election is expected in May when (if the current polls are correct) we could be looking at our seventh PM in the decade!

GDP grew at an annual rate of 2.8%, consistent with the previous year's September quarter. The Reserve Bank of Australia, in its statement from the December 2018 Board meeting, noted that positive business conditions, increased non-mining business investment and higher levels of public infrastructure investment have supported the economy. Australia's terms of trade have also increased over recent years, which has helped boost national income. However, residential property prices in Australia fell 1.5% quarter-on-quarter in September 2018, with the housing sector likely to be a key downside risk for the economy over coming years as growth in housing credit has weakened, reflecting both tighter lending conditions and some softening in demand. Overall Australian shares were down just over 3% for the year.

The year ahead

In the words of the Queen, 2018 was indeed an ‘annus horribilis’ for investors. While 2019 has started well with equity markets recovering around the world, the year ahead could have its challenges too, if maturing economic and business cycles start their downturns taking the markets with them. This potential scenario certainly warrants a cautious approach and demands portfolios are positioned defensively. Profile sees merit in reducing exposure to equities and increasing exposure to cash, fixed interest and real assets in the short term to minimize the potential downside and also to be positioned to take advantage of more attractive valuations once some of the risks markets are facing become priced in.

Returns to 31 January 2019 (%)

Asset class	1 mth	3 mths	1 year
Australian shares	+3.9	+1.4	+1.1
International Shares($A)	+4.1	-2.0	+4.4
Fixed Interest	+0.6	+2.4	+5.5
Cash	+0.2	+0.5	+2.0
Gold($US)	+3.0	+8.8	-1.8

Financial literacy for kids

This is an important topic for many of our clients! Our technical partner The Knowledge Centre has put some useful tips together to help parents looking to improve their childrens’ finance skills.

Your financial plan may already include helping your children with education costs and perhaps their first home, but teaching them financial literacy at a young age is also a great life skill and will help protect them from many of life’s financial challenges.

Like any life skill, financial literacy takes time and effort to master. However, a strong foundation from which to build upon, a willingness to learn and a supportive environment can help. Financial literacy needs to be nurtured from a young age through the teaching of personal finance concepts and the instilling of healthy financial attitudes and behaviours.

I’ve listed a few tips below that you may find helpful to get the ball rolling with your younger children/grandchildren/nieces or nephews.

Explain the concept of money (showing them cash notes, coins and debit/credit cards in the process). This will teach your children that money provides a common base to value and exchange goods and services and it can also be used as a store of value (to save and use for later).

Establish a daily/weekly age-appropriate chore routine that is linked to pocket money (using low-value cash notes and coins). This will teach your children about the source and destination of cashflow (the way money moves), with emphasis on the fact that ‘money doesn’t grow on trees’; rather it needs to be earnt.

Explain the difference between needs and wants and ask them to write a list of things they need and want. This will teach your children that there is a difference between needs/necessities and wants/luxuries, whilst also helping them to identify their own (and subsequently better inform their upcoming purchasing decisions). Knowing how different adults’ views are on this, it might be fun to discuss from your child’s perspective!

Take them shopping and ask them to write down the cost of the things they need and want (preferably from at least two different retailers). This will teach your children the importance of comparing the price of things between different retailers.

After their first pocket money is received, provide them with three piggy banks/jars, labelled ‘Needs’, ‘Wants’, and ‘Savings’, and ask them to deposit the following percentage amounts into each, 50%, 30%, and 20% respectively. This will teach your children the importance of budgeting and managing their money in a responsible and disciplined way. Some parents also include a ‘giving’ category to start the conversation about helping others (see overleaf for another method).

Ask them to decide the needs and wants from their list that they would like, and can afford, to purchase now. Importantly, don’t allow them to bolster their purchasing power with the ‘Savings’ part just yet. This will teach your children about money limits and prioritising their purchases – namely, they can’t have everything now, a certain level of compromise has to occur.

Take them shopping and assist them with purchasing the above things that they have

decided upon with their pocket money. This will teach your children about being aware of money leaving their possession. A cash-based payment is tangible – the cash that they hold in their hand has value attached to it. This awareness is often lost when using 'tap and pay'. Alternatively, if they are a little older you can show them their money being transferred out of their bank accounts online.

Ask them to donate a small portion from their 'Wants' piggy bank/jar to a charity of their choosing. This will teach your children about taking the time to reflect on not only their life, but also the lives of those less fortunate. In a nutshell, being thankful for what they have and helping those in need where they can – even a small gesture can make a big difference in someone's life.

Ask them to review their list of remaining needs and wants and help them to work out how long it will take them to save for these things given their incoming cashflow and 50/30/20 budgeting split. You can now take into account the 'Savings' piggy bank/jar, but a portion should remain at *all times*. This will teach your children about the benefits of goal setting (and savings plans) and delayed gratification, as well as keeping an emergency buffer at hand.

It's important to be mindful that children also learn a lot by watching how we approach our own earning, spending, saving, investing and giving away of money. Kids love to learn, by seeing and doing as well as by listening.

Behind the scenes of Aged Care

By Scott Ungaro, Financial Adviser

In our Spring 2017 newsletter I discussed Aged Care and what you need to consider from the financial and planning aspect. I recently met with Kerry Mann (CEO, Cranbrook Care) when presenting a financial education seminar to her staff, and we got chatting about how Aged Care can often be looked at negatively by those considering it as an option.

Most of us have heard the horror stories about the sector - the Royal Commission into the Aged Care Sector is inquiring into several matters including things the industry needs to improve and what Australian families and the wider community can do to help. It is also worth noting that there are many great services, staff and Aged Care homes out there which are doing a great job of looking after their residents and families.

There is a very emotional side to Aged Care. Some consider it as a final step and think it's all 'downhill' from there. As CEO of an Aged Care provider, Kerry is very passionate about getting the message out that Aged Care should be considered as another chapter in the book of life and that it's very important that the elderly are treated with respect and dignity, while ensuring they are leading fun, active, social lives where physically possible. "It's not all doom and gloom!" Kerry says.

There are many ways to make retirement and Aged Care living a fun and rewarding lifestyle and I thought I'd share a few observations on the behind the scenes of Aged Care.

Services: Getting older doesn't mean losing interest in yourself or your family. Many Aged Care providers (including Cranbrook) offer hairdressing, physiotherapy, and a gym amongst other services. Kerry stresses the importance of residents staying mobile and keeping up morale by helping them maintain an interest and pride in themselves.

Lifestyle: Loneliness can be a big problem as people get older, which has been known to lead to depression. One of the most important areas is socialisation and having a residence that helps facilitate that.

This can range from offering a range of activities to having a nice environment in which to relax, eat and mingle with family and friends rather than staying in bed, not eating or spending too much time in isolation.

A couple of activities the Cranbrook Leisure and Lifestyle team have run recently are taking residents out fishing just outside their Abbotsford home, and a pool party held in one of Cranbrook's hydrotherapy pools, both were fun days for all, enhancing mobility and socialisation.

Families: A lot of families are time poor. Often they want to care for their loved ones themselves, but they may also have jobs, children and various other commitments that can make this a practical impossibility. It can often be a difficult conversation to have with a parent as to whether staying at home, receiving help at home or moving into residential care is the right option.

Discussing this earlier rather than later allows everyone to have input in choice and flexibility for the type of care they want to have or have recognised that they need. Kerry observes that many people who are initially resistant to the change adapt well, and families can often find themselves having better relationships in a relaxed environment where being with your loved one is no longer a 'chore'.

Community: Our elderly have a vast amount of knowledge and have lived through experiences that some of us will never have. A lot of those experiences will be lost over time and one of the things that Cranbrook organises is for Mums and bubs to visit and sometimes 'adopt a grandparent'! This works very well for both the residents and for those who may not have parents or grandparents in the country. Schools often help out by organising class visits to their local Aged care home, and visiting children can learn a lot from the elderly by asking what their childhood was like.

The elderly living alone without family nearby can often be invisible and socially isolated. If you have an interest in this area there are many organisations looking for volunteers to keep aged people company.

Types of care: When looking for the right type of care, some key things to consider are - what is available and most appropriate for you and your family's situation, and whether it's home care, independent/retirement living or Aged Care. The provider you choose should be a partner with the whole family. Some providers can offer the full suite of services from home care, to retirement living to Aged Care, and this can help ease the transition between stages - for example having home care services that can facilitate visits to Aged Care homes with access to their pool, gym, hairdresser or beautician. This gets everyone used to the environment and helps them decide if the home is for them.

Respite care: Respite care is helpful in so many ways, from short term help after an illness to help during a period where it's not always easy to get short term care. Cranbrook ran a "Christmas at home" service offering in-home care combined with activities and entertainment at one of their residences during Christmas day. This provided care and companionship for older people over the festive season while giving their families peace of mind during their holidays away.

Aged Care is a subject families often avoid, sometimes out of guilt for not being able to be with their loved ones as often as desired or because the elders can't see the need for or don't want a change. Whatever the reason, planning ahead is vital to achieve the best outcome for all involved. Being prepared gives everyone more choice and a greater chance of finding the best solution for your family.

Client Profile – Amanda Simpson

By Aine Love, Marketing Manager

Profile is a very family orientated company and in a recent meeting our clients Judith and Graham Robinson mentioned their daughter in New Zealand and how proud they are of her success in setting up her own business. We love to hear of these 'family' successes and hope you enjoy Amanda's story.

Amanda was born in Perth, and shortly afterwards they all moved to Sydney to be with family. She grew up an only child and spent most of her life in Sydney and was blessed with a very close relationship with her parents.

Amanda married and she and her husband Richard now have two girls Amy (12) and Mia (14).

When Richard was made redundant, they saw an opportunity to do something different in their lives. Richard had been back and forth to New Zealand in his previous role and loved the country. After a visit Amanda also fell in love, and they moved to Christchurch in 2011 when Amy and Mia were just four and six. Unfortunately for the family they arrived just before the earthquakes in Christchurch. While it was a traumatic and difficult experience, they loved the way the people rallied around to help each other, and rather than deter them it cemented that they wanted Christchurch to be their home!

Once the kids started school Amanda got a job as a library manager at her childrens' school. It was a fairly rundown unloved library and Amanda decided to make some changes to bring the kids back. She created a STE(A)M (Science, Technology, Engineering, (Arts) and Maths) makerspace and ran it one day a week in the library. "The kids absolutely loved it!" Amanda says. It was such a success it ended up being 4 days a week - and on the 5th day the kids would come in and spend time researching why and how things worked. For Amanda to see the kids willingly reading, writing and researching was a wonderful experience.

Amanda then had a back injury and had to make the hard decision to leave her job. In wondering what to do next she thought of the discussions she had with teachers from other schools. They all wanted to have the STEAM program running in their schools but didn't know where to start. Amanda researched online and found that a lot of the programs at the time were American based and a bit too high tech, so she came up with the idea of making it easier for schools on a tight budget to be able to run the programs, giving more children access to the fascinating and exciting things her children had enjoyed.

And so Creokit was born, and Amanda's idea is going from strength to strength, having come at a great time as the government is changing the school curriculum in 2020 to be more centred around STEAM. Creokit encourages kids into design thinking, collaboration and problem solving.

Creokit has been such a big success with teachers in NZ that OfficeMax have partnered with them, and Amanda will be launching her range with them this month.

This changed the structure of her business as she had to mass order, produce and stock her kits. Amanda is very grateful to her parents who recognised her success and decided to invest in the business. Amanda says "I couldn't have done this without them, they have always been supportive but this is going above and beyond". Amanda says her parents have always worked very hard and been cautious with money, but they had the attitude that they wanted to help, and see Amanda succeed while they are still here to enjoy her success with her.

Amanda started the kit originally by researching what the kids enjoyed and was very led by their feedback. She then adapted it to the school curriculum.

Amanda strongly believes that kids should be listened to and allowed to explore their imagination so that they enjoy learning. Creokits don't have a pre-determined outcome. While they teach skills in areas including circuits, engineering, solar power and e-textiles - the kids themselves decide what the outcome will be.

She has faced challenges along the way. Amanda says that she wasn't a "book smart" kid at school and hadn't been a businesswoman. Everything she has done from creating the kits, building a website, approaching Officemax - she has had to learn along the way. She also had to get her own kids used to the fact that they had to share Mum a bit more! Her advice to anyone setting up a business is to do a lot of research beforehand.

While Creokit started for the NZ school curriculum, Amanda is hoping to have them available in Australia soon, and currently ships her home kits worldwide. You can find out more about Amanda and Creokit via her website https://www.creokit.co.nz/.

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