PROFILE
FINANCIAL SERVICES

PROFILE'S CORNER

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FACTUAL INFORMATION AND GENERAL ADVICE WARNING

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*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 32 of our quarterly client newsletter. In this section, I provide an update on what's happening at Profile.

By Sarah Abood, CEO

End of the financial year is always busy, but I don't think I can remember one that's been quite this busy for many years! Our advisers have been working hard with clients to ensure any last-minute matters are dealt with.

A reminder regarding super changes to inactive accounts

We recently emailed clients regarding important impending changes to "inactive" superannuation accounts. This is recent legislation, and we're concerned many people haven't had enough time to deal with the implications.

Essentially any accounts which have not had any contributions for 16 months or more will shortly be deemed to be inactive. Any insurance associated with these accounts will be cancelled from 1 July, and if the balance is also below $6,000, the account will be transferred to the ATO.

If you've received any communications from your super fund recently, please read and act on these as soon as possible! And if you have any questions or concerns at all, please contact your adviser ASAP.

Improvements to our implemented portfolios - PPS

We've made several changes to PPS recently: lowering fees for investors, moderating the performance objectives to better reflect expectations of more subdued market growth in future, and replacing the Responsible Entity with Perpetual (The Trust Company). In combination with our appointment of Willis Towers Watson as asset consultant last year, these changes reflect the increasing scale of these products, giving us access to the top providers in the market at attractive rates for investors as FUM grows. A new PDS is available dated 1st July reflecting the changes; all current investors should have already received the link. You can check it out at:

https://www.profileinvesting.com.au/wp-content/uploads/2019/06/Profile_PDS_Final_2019.pdf

Federal budget and election seminar

At our recent client event, we covered both the Federal Budget recommendations and the election result implications – given that the one was somewhat dependant on the other this time! It was a relief to many investors that Labor's proposed changes to franking credits, the taxation of trusts and negative gearing, in particular, will not occur – for the next few years, at least. Jerome's article covers some of the economic implications, but if you missed the event and are keen to find out more about the likely upcoming changes based on the Coalition's policies, check out our Federal Budget paper on our website, or contact your financial adviser for a discussion and/or a copy of the slides.

Investment Update

Federal Election roundup – Can the "miracles" continue?

By Jerome Bodisco, Head of Investments

Returns to 31 May 2019 (%)

Asset class	1 mth	3 mths	1 year
Australian shares	+1.8	+5.0	+10.9
International Shares($A)	-4.2	+1.7	+9.5
Fixed Interest	+1.7	+3.9	+9.0
Cash	+0.2	+0.5	+2.0
Gold($US)	+1.7	-0.6	+0.5

Scott Morrison summed up the Coalition's pitch best during the election campaign when he said: "you cannot put $200bn of higher and new taxes on an economy that is facing stiff headwinds, and global uncertainty". Well, 77 seats agreed with him, handing Scott Morrison and the Coalition a majority and 3 more years in Government.

Morrison points the finger

The election result wasn't quite the miracle that the Prime Minister described it as, but it surprised many. Nearly all polls predicted Bill Shorten would win comfortably over Scott Morrison on a two-party preferred basis. In fact, the polls have been picking the Opposition to form Government for the past two years.

It is difficult to put a finger on the root cause of Labor's failure to win the hearts and minds of the voting public. However, there is no doubt that the triple threat of a 50% increase in capital gains tax, the removal of negative gearing and the end of franking credit refunds (collectively known as the 'retiree tax') played a decisive role.

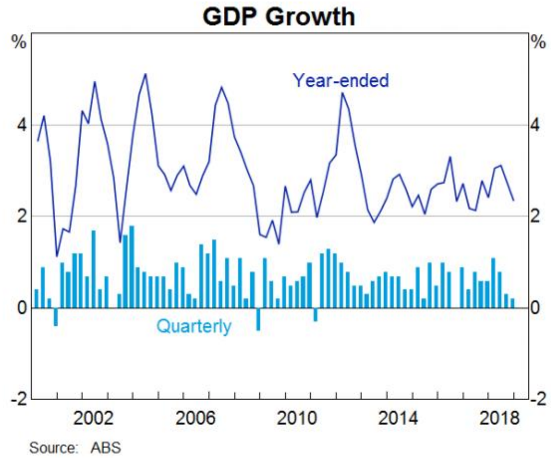
Markets point in the right direction

Financial markets certainly thought so. Following the election result, the All Ordinaries jumped to an 11-year high. Banks climbed 10% in the first 3 trading days after the election. Small and big business celebrated. The property industry jumped with joy as did self-funded retirees.

Now that the election honeymoon is over, the big question on everyone's lips is whether ScoMo can lead us all to salvation! The reality is that behind the election curtain lurks a particularly challenging economic and market environment right now.

The domestic and global economy are both languishing. US and China relations are stretched with no trade deal in sight. US interest rates are on hold and global trade is going backwards. In Australia, we have record household debt, falling house prices, and weak growth in household income. Household disposable income averaged just 2.75% over the past 3 years versus 6% over the decade. This has made it harder to pay down debt for the average highly indebted Aussie (who might have paid too much for housing during the recent boom). To top it off, the Reserve Bank of Australia has just cut interest rates to 1.25%, the first cut since 2016. You don't cut interest rates if an economy is going well!

Economic growth is weak. Inflation is too low. Wage growth is non-existent and unemployment is starting to drift in the wrong direction. Perhaps this election was a good one to lose for Bill Shorten after all?!



A picture tells a thousand words. Are these charts pointing at something else?

The Federal Budget claim that we are 'back in the black and back on track' could be over quicker than it takes to deliver a Budget speech. Promised tax cuts will help, as will the election promise of further infrastructure investment. The cut in interest rates may support employment growth and arrest the decline of the property market - but the RBA doesn't have much firepower left now. Will all of this be enough to insulate the Australian economy from external forces beyond our control?

Our expectation continues to be that a recession in one or more of the major economic regions is likely over the next three years. The fact of the matter is that markets have had a solid run since the Global Financial Crisis a decade ago. One look at the US sharemarket is all the evidence you need. US equities have appreciated 20% in the past year alone. What goes up must come down.

The prospect of a majority Government has done wonders to restore investor confidence in the weeks following the election result. However, we expect a material slowdown in growth in most of the major economies in 2019, with downside risks rising as we move into 2020. Our view hasn't changed much in light of the domestic situation. Australia is not immune to global risks.

The next couple of years could be a much bigger test for the Government than the recent election campaign. If this is the case, Scott "I believe in miracles" Morrison may need to pull another one out of his hat.

Travel Hotspots - Switzerland

By Rachael Arnold, Financial Adviser

So many of our clients love to travel and we get great feedback on our 'travel hotspots' series. I thought I'd share some of my Swiss experiences in case you are looking for inspiration for your next holiday destination.

I was fortunate enough to go to Switzerland twice last year so I was able to experience the best of winter and summer. Some would say that you can't visit in winter without skiing, but being a very poor skier I have to disagree, and I have avoided this activity!

Switzerland is known for being very expensive and being a Financial Adviser I like to keep costs down where I can. Hence I have outlined some activities I enjoyed that don't break the bank. The outdoors shouldn't cost a thing and having all the beautiful lakes and mountains on your doorstep means that you don't have to travel very far to find a picturesque moment.

Stoos

Stoos is a fantastic place to visit, whether it is for winter sports or summer hiking. I was there in summer and needed to get to the top to do the Ridgeline Hike from Klingenstock to Fronalpstock. To achieve this, we had to take the world's steepest funicular, followed by a further chairlift from the village. The funicular (which opened in December 2017) is unusual in its design - the carriages rotate to maintain a level floor surface throughout the climb. The walk is a challenging 2-hour (4.4km) hike with many steep inclines. However, it is worth it for the spectacular views of more than 10 lakes and many alpine peaks. This particular hike is open from mid-June to October.

Grindelwald

Although many people go to Interlaken when they travel to Switzerland, I would recommend a visit to the small village of Grindelwald in the Bernese Alps in the Jungfrau Region.

Like most mountainous areas, it is popular for hiking in summer and skiing in winter. If you are fortunate enough to be in Switzerland in late January like I was, it is worth taking the drive to this little village to check out the World Snow Festival - where international artists design figures and sculptures out of meter high blocks of snow.

These are then judged by a jury of experts and left on display for people to come to visit. While in Grindelwald we took the opportunity to warm up with cheese fondue and rösti at one of the traditional Swiss restaurants.

Luzern

Probably one of the most famous cities in Switzerland is Luzern - situated on Lake Luzern and surrounded by snowcapped mountains. Famous for its preserved medieval architecture, there are a number of other structures to see including the Lion monument, Spreuer Bridge, Chapel Bridge and the old town. Of course, a boat trip on the lake is a must, to really take in all the beautiful surroundings.

Gruyere

Gruyere is a charming medieval town in the Canton of Fribourg. It's located at the top of an 82 meter- a high hill overlooking the Saane Valley and the lake of Gruyère (yes you can see a lake from almost every town).

The nearby Gruyère cheese factory has an exhibition and viewing area where you can watch the cheese making process while listening to an audio guide. When you go to an Australian supermarket they only sell the one type of Gruyere cheese, so do take the opportunity to visit their cheese shop to stock up on all the different types that take your fancy. It is best to check the cheese making timetable to be present for key parts of the production process. Also, if you cannot get enough of cheese there is also a cheese factory in Emmental worth trying.

Aeschbach Chocolate

(ChocoDromo1, Hochschwerzlen, 6037 Root-Luzern)

Finally, for the chocolate lovers, there is an interactive chocolate exhibition with information on the history and production of chocolate. You are able to watch the chocolatiers at work and try the many samples as you walk through the exhibition. Prepare to be full of chocolate by the time you leave, as it is self-service for the taste testing! If you're anything like me, your self-control will go out the window when you get the opportunity to sample multiple types of chocolate on offer. If you would like a souvenir there is the option to create your own 200g chocolate bar and decorate it as you please.

Switzerland is a beautiful place to visit at any time of year. It is so central in Europe, I would highly encourage that you include it in your itinerary for your next European getaway!

Investing in property

By Laura Donovan, Financial Adviser

Anthony Landahl of Equilibria Finance and I recently discussed property and access to credit in the current environment - topics that our clients at Profile often ask about! Below I share some of his insights to the current market.

What impact will the election result and proposed policy changes have on the property market?

With the coalition getting back in, essentially, we see no macro intervention in the market. There will be no change to negative gearing, no change to CGT (capital gains tax), and no change to limited recourse borrowing arrangements. This is already improving market certainty, and we have seen a bounce in consumer sentiment and activity in the market. Where sellers were delaying listings and investors sitting on their hands, we are seeing them starting to come back into the market.

With the backdrop of a slowing market and the banking royal commission, how are the providers reacting in the context of access to credit?

In terms of the housing market, the March quarter saw the pace of decline easing – mainly due to an easing in the downturn in Sydney and Melbourne. We are also seeing the downturn more geographically spread across six of our eight cities now.

In broader terms, the market has fallen 7.9% since its September 2017 peak, albeit the National Index is still 15.9% higher than five years ago. In terms of the credit environment, there has been a dampening in access to credit - not only due to the slowing market, but also the Banking Royal Commission. There is a lot more focus on income and what income can be used, as well as the forensics around household living expenses, with assessors asking for more historical information on credit card data, living expenses and ongoing liabilities.

While this is making credit harder to access, on the other side we are seeing APRA recommendations to reduce the assessment rate, which will assist access to credit. We are also seeing some very competitive interest rates for both owner/occupiers and investors to try and attract new business.

Housing affordability is a big issue, what first home buyer activity are you seeing in the market and what can be done to improve this?

The big challenges for first home buyers are usually saving for a deposit, and the ability to service the loan itself. Despite this, we are seeing increased first home buyer activity with fewer investors in the slowing market.

The Morrison government has also stepped in with some initiatives. The first home loan deposit scheme was announced in the recent budget, where the government will offer loan guarantees for first home buyers so they can borrow with deposits of just 5% and avoid lenders mortgage insurance. The other initiative is the first home Super-saver scheme, where buyers can use the superannuation system (which generally has a better tax treatment) for their savings. They can make additional contributions to Super to help save and then access these funds for their deposit. Some providers also offer higher LVRs and incentives for First Home Buyers.

What are the top tips for those seeking credit in this environment?

Understanding what the credit assessors are looking at is key. To ensure clients are finance-ready, assessors will look at your credit history, that you have a guaranteed and stable income, and at your living expenses and assets and ongoing liabilities. Essentially, they are assessing overall debt levels relative to income and expenses.

Additionally, for buyers, they will want to see that you have an ability to save and that your income exceeds your living expenses. For those re-financing, our approach is to review clients' existing debt structure to ensure it is still suitable, we will review the interest rates to see if they are competitive in the market as well as any costs involved with re-financing. In the current environment, property valuations are key in this to ensure there is the ability to refinance.

In summary, all lenders like to see stability. As a broker we ensure we discuss with our clients early on what is required for us to package up and present the strongest application in getting them finance-ready.

What are the biggest mistakes you see from investors?

Investors need to view a property as an investment – in essence treat it like a business, managing the income such as rent from tenants and the expenses such as the mortgage and the property management costs. We suggest setting up a separate account for the investment property to easily monitor the income and outgoing costs.

For those looking to enter the market, it is advisable to get a finance pre-approval in place to understand their borrowing capacity.

The main mistakes we see from investors are:

- Not doing enough homework. Not all properties make good investments and it is important to do your research to ensure it will give the return on investment needed, and that it aligns with your capital growth and yield needs.
- Not factoring in all of the on-going costs such as looking for tenants, managing of the property, repairs and maintenance, and insurances such as landlord insurance.
- Not getting good tax advice. Whether positively or negatively gearing, you need to understand the cashflow of the property, the holding costs and the tax implications of whichever strategy you use.
- Making emotional decisions on a property without considering factors like can they get tenants, the sort of rental income can they expect, the growth potential in the area, is there new infrastructure coming in, is it close to services, is it going to attract the right kind of tenant and is it the right price.
- Shortcutting property management.

Equilibria Finance focuses on helping clients understand their needs and objectives and work with whatever strategy their Financial Adviser has recommended so that it reflects the clients' overall goals.

Client Profile – Renato Foenander

By Aine Love, Marketing Manager

Renato lives in the Blue Mountains - but hails from further afield. In 1970 his parents moved from Sri Lanka when he and his brother were one and two respectively. Their main aim of the move was to give their children better opportunities. It was a huge move for the family and while Renato was too young to remember, he tells of how his parents landed on a Monday and both found jobs on Tuesday!

He grew up in the Western Suburbs and recalls it being a modest upbringing. His family had progressively migrated over the years with his mothers' siblings moving to Melbourne and his father's siblings moving to Sydney. Renato is respectful of his heritage and has strong ties (particularly to the Sri Lankan food!)

Renato is married to Shae and has three children, Jai (18), Joel (16) and Holly (13).

Renato and family in Diamond Head Hawaii

Renato worked in the US for five years after graduating from Uni. As a contract physiotherapist, he travelled around quite a bit, getting plenty of academic practice with each state requiring him to sit the State board exams!

When Renato moved back to Australia he continued his career as a physiotherapist, working in a private practice in Sydney for some years before deciding he just wasn't enjoying it. His medical background made a move into workers compensation insurance a natural progression, and he has now been working in the insurance industry for over 20 years covering Travel Insurance, Income Protection and Expatriate Health Insurance.

I asked Renato about travel insurance, as so many of our clients love to travel. He particularly warns against credit card insurance - "It's cheap, but there is nothing worse than having to find out how little it pays", says Renato. While it does provide some cover, it is very limited. Having experienced many claims in his career, Renato strongly advises having suitable cover when travelling. On our "travel hotspot" Switzerland, he comments that the Swiss live a very high lifestyle, they pay for it and so do tourists. It is one of the most expensive countries in Europe to get sick in! "Those hospital rooms overlooking beautiful Lake Geneva and the Alps come with a very hefty price tag." he comments.

Renato works in the area of people risk. He has seen claims that are extremely unfortunate - and also claims where the situations people find themselves in are quite funny. These can involve unfortunate incidents such as getting calls from Vegas asking that a husband or wife not be informed!

Renato has been quietly involved in settling and paying claims resulting from some of the country's most widely publicized news events - such as the World Trade Centre bombing, the Asian Tsunami, the Bali bombing as well as deaths and injuries to high profile athletes and celebrities. "When you work in my field of insurance you watch the news in a different way to the public," he says. He mentions that 7 of the 268 passengers on the Malaysian Airline's plane that was bombed were involved in claims with AHI – that involved paying out death benefits. Some of these passengers didn't have policies that covered the claims but the company made a business decision to pay the families nevertheless.

Renato came to Profile though Phillip Win (MD and Senior Financial Adviser at Profile). He had weighed up keeping on doing his finances himself but felt that coming to a professional for a financial plan was a good decision. "I realised I was wandering with my finances," says Renato, "as long as there was money in the bank I was happy, and although I had plans they would never have been acted on without the help of a Financial Planner."

Renato enjoys mountain bike riding and says he vigorously defends his position at the back of the pack in every group in which he rides! He also finds himself in the very familiar position of being a 'weekend taxi' for those of his children who don't drive. He has tried to instil good financial habits with his children - his eldest Jai is at Uni and both he and his younger brother Joel have part-time jobs and savings accounts.

They are all are interested in giving back to the community and are regular charity supporters, rotating their donations with the following mantra:

- Something for the old – as I will one day be old.
- Something for the young – as all children deserve to have a start in life.
- Something for the community – to make sure where I live is a happier place.
- Something for the animals – who do not have a voice.

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