Gut instinct is no match for expert advice

By Paul Clitheroe

One of the marvellous aspects of living in the digital age is the ready availability of information. It's a far cry from the days when we often made decisions based on a hunch, and that's just as well. Research by broking group Mortgage Choice confirms that one in three Australians have regretted a financial decision based on gut instinct.

When it comes to money matters, the way we make choices is extremely important as there can be a lot riding on the outcome. Our financial lives have grown more complex and we are constantly called on to make key decisions, anything from "Should I pay more off my mortgage or put more into super?" through to "Which blend of investments is ideal for my portfolio?"

It's a complicated world, and behavioural science sheds a fascinating light on the way we approach financial decisions. Unfortunately, research shows there is often a disconnect between what we know is the right thing to do, and the action we actually take.

The thing is, financial decisions are a part of everyday life – whether it's looking for ways to save, deciding which credit card offers the best value, choosing a home loan, or planning for retirement.

Whatever the decision, being confident and informed can make a difference to your financial wellbeing and peace of mind. Research by the Australian Investments and Securities Commission (ASIC) found one in three Australians find dealing with money stressful and overwhelming. Yet the study also found one in ten people don't consult any source of information at all when making money-based choices.

So, what's the solution? An obvious step is to skip gut instinct and do some research.

There is a surprisingly large range of advice options available. A wealth of comparison sites show the latest deals for a vast range of financial products, and the MoneySmart website is an excellent source of education on basic money management.

The downside of these sites is that the information they offer isn't tailored to your needs. And that's where forming a long-term relationship with a professional financial adviser, who understands your circumstances and goals, can make a valuable difference.

Interestingly, the Mortgage Choice study mentioned earlier found less than 10% of Australians have regretted a decision made after seeking financial assistance.

The bottom line is that going with your gut instinct may be fine when it comes to selecting golf clubs for the back nine, but it's no basis on which to build financial security.

Paul Clitheroe is a founding director of financial planning firm ipac, Chairman of the Australian Government Financial Literacy Board and chief commentator for Money Magazine.

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We hope you enjoy reading our latest newsletter.

Warm regards

Renato, Michelle, Tom, Anna, Amie, Simon, Sue, Suzanne, Caitlin, Jaclyn and Rose

The property market outlook for 2017

Could apartments be the next big thing in Australian property?

In this article, we speak to Dr Shane Oliver, AMP Capital's Chief Economist and Head of Investment Strategy, to seek his insights on how the Australian property market has performed over the last year and what opportunities lay ahead for 2017.

REVIEW OF 2016

Q: It's been a rollercoaster of a year for global investors with events like Brexit, Italy saying 'No' to Senate reforms and the unexpected US election outcome. How have these events impacted on the Australian property market in 2016? And what local factors have affected the housing market?

A: Globally, events such as Brexit, have had a positive effect on the Australian property market to the extent that interest rates remained lower than may otherwise have been the case, but the impact has been marginal. However, recently, fixed rates, some home loan interest-only rates and investor loan rates have risen – partly due to optimism that Donald Trump's election as President of the US will ultimately lead to a stronger US, and global growth.

At a local level, the property market was affected in early 2016 by APRA's (Australian Prudential Regulatory Authority) 2015 tightening of lending standards for banks, which resulted in the number of loans to property investors being reduced.

That was offset by the interest rate cuts in May and August that saw the property markets in Sydney and Melbourne heat up again supported by relative economic strength in those two cities. People felt they could buy property because they had confidence that they would still have a job due to lower unemployment figures.

However, in Perth and Darwin, the end of the mining investment boom continued to have an impact, weighing heavily on property investment. Other cities were generally in between these extremes.

OUTLOOK FOR 2017

Q: You've recently stated there will be an oversupply of apartments in 2017–18 in certain areas, given apartment building approvals are running at more than double normal rates. Could the next couple of years provide a good opportunity for savvy investors to scoop up a bargain-priced apartment?

A: The potential is certainly there when those apartments do come onto the market. We're currently seeing price weakness in apartments in Melbourne, which I expect will extend to Sydney, Brisbane and Perth over the next year or so. So there will be bargains to be had as the cranes come down and the apartments come onto the market, especially in the inner city areas of Sydney and Melbourne.

Q: The housing market in Sydney and Melbourne has soared over the last few years with Sydney house prices now averaging over $1 million. How long do you think these spiralling prices will continue and how will the other capital cities and regions fare in the property stakes this year?

A: Sydney and Melbourne are at the greatest risk, once they start to come off the boil. Apartments in areas of high supply are most at risk and could fall by around 15–20% into 2018. Price gains in houses are likely to slow in 2017 with falls of around 5–10% likely into 2018 in Sydney and Melbourne.

These price drops need to be seen in the context of average price gains of around 60% in Sydney and 40% in Melbourne over the past four years or so. Home prices in Perth and Darwin may start to bottom in 2017 and moderate house price gains are likely in other capital cities, although apartment prices are also vulnerable in Perth and Brisbane.

Q: Home loan interest rates have been low for some time. If the property market starts to slow down in 2017, how do you think the Reserve Bank of Australia (RBA) will respond?

A: I think it's too early for the RBA to start thinking about increasing interest rates just yet, as growth is sub-par and inflation is way below target. As such, it's more likely that the RBA will cut the cash rate in the first half of 2017 rather than hike interest rates.

But given rising funding costs faced by the banks (owing to higher global bond yields) and if the RBA moves the cash rate down in the first half, the banks may not reduce owner-occupier variable rates by the full amount. Any fall in investor rates may just offset recent increases.

In short, we don't expect much change in the rates borrowers pay in 2017. By contrast, rates could start to rise more generally in 2018 as global growth improves and inflationary pressures pick up and this flows through to Australia.

Q: What opportunities are there for home buyers and property investors in 2017?

A: Have patience – as prices start to slow and in some cases fall, you're more likely to get a bargain. But this will also depend on whether, and when, general interest rates increase. You'll need to weigh up all of these factors before you decide to buy into property – whether you're an owner-occupier or an investor.

People put too much stock in whether interest rates are going up or coming down. You are better off assuming some sort of average over the term of the home loan and try to time your purchase when prices are low rather than high. Often the best opportunities are found when interest rates are higher and rising.

By AMP Life Limited, originally published on 13 January 2017 on amp.com.au/insights

What financial records do I need to keep?

Ever feel like you're drowning in a sea of paper? Tame the paperwork today and reap the rewards tomorrow.

Life can be complicated enough without all the administrative paperwork that often accompanies it. This is particularly true when it comes to your personal finances.

If stacks of old bank statements, utility bills, receipts, insurance and superannuation documents mean you can't see the trees for the paper, de-clutter, simplify your finances and improve your quality of life today.

WHY SIMPLIFY?

There are many good reasons to pare back on your financial record-keeping, including:

- Living in smaller dwellings means we have less space to store documents
- Saves time by making it easier to find what you need
- Helps your loved ones find relevant documents easily should something happen to you
- In the event of a home emergency, you can quickly find important documents you may want to take
- Makes your life easier at tax time.

WHAT YOU NEED TO KEEP

When it comes to identifying the documents you need to keep, considering your legal obligations is a good place to start.

The first of these is your annual tax return. In order to complete your tax return you'll need documentary evidence of:

- all payments you've received, such as wages, interest, dividends and rental income
- any expenses related to income received, such as work-related expenses or rental repairs
- the sale or purchase of assets, such as property or shares
- donations, contributions or gifts to charities
- private health insurance cover
- medical expenses, both your own and those of any dependants[1]

You need to keep these documents for five years after you lodge your tax return in case you're asked to substantiate your claims[2], and it's also a good idea to keep your notice of tax assessments for five years. However, if you run a small business, the document requirements and timeframes differ[3] – find out more at the Australian Tax Office (ATO).

The second category of documents are those related to property such as:

- property deeds
- home loan documents
- renovation approvals
- warranties relating to work undertaken.

Other documents to keep include[4]:

- wills
- tax file numbers
- powers of attorney
- birth certificates
- death certificates
- marriage certificates
- immunisation records
- passports
- current insurance policies, such as your life, home and contents, and motor insurance
- your most recent superannuation statement
- any personal loan documents
- vehicle registration
- vehicle service history
- business registrations
- qualifications documents.

WHAT YOU CAN THROW AWAY

There are some documents you can toss, and as a rule, once a document has been replaced by a newer version, it's safe to dispose of the older copy.

There's also no need to hang onto credit card receipts once you've reconciled them against your bank statements, unless they're needed for warranties.

Credit card and bank statements should be retained for a year, while other household paperwork, such as utility bills, can be thrown away once paid, unless you need a copy for rental applications or you want to keep them to compare your usage over time.

The exception to these rules is if the documents are required for tax purposes.

1 https://www.finder.com.au/tax-returns/record-keeping

2 https://www.ato.gov.au/Individuals/Income-and-deductions/In-detail/Keeping-your-tax-records/

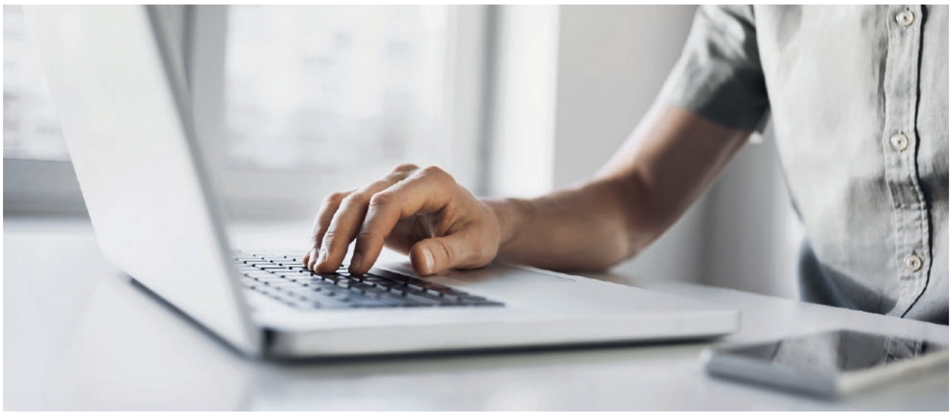
3 https://www.ato.gov.au/General/Other-languages/In-detail/Information-in-other-languages/Record-keeping-for-small-businesses/

4 http://www.lifehacker.com.au/2013/01/ask-lh-what-documents-should-i-shred-and-what-should-i-keep/

By AMP Life Limited, originally published on 11 January 2017 on amp.com.au/insights

Thinking about managing your own super?

If you're wondering what's involved in self managed super and whether it's a good option for you, here are some things to consider.



There's a lot to consider when it comes to managing a self managed super fund (SMSF). Setting up a compliant fund and managing your investments takes time and can give you the freedom to have more control over your future.

Of course acting as a trustee of an SMSF comes with specific responsibilities. Your SMSF must remain compliant with the rules governing self managed super. There are administrative and reporting obligations, and stringent guidelines about what you can buy through your super fund, and how the assets can be used.

THE PRACTICALITIES

Some of the practical details you need to take care of when setting up your SMSF include:

1. Registering your fund—every SMSF must be registered with the tax office. You can do it yourself or we can do it for you.

2. Rolling over your super—we can help you set up a bank account for your SMSF so your accumulated super money can rollover.

3. Administering and reporting—there are a range of administration, compliance and reporting obligations your fund is required to meet. We can run through these with you.

4. Setting up a trust deed—every SMSF must have a trust deed which sets out rules for the way the fund must operate.

Structuring an SMSF

There are two ways you can set up the structure of your SMSF. You can choose an individual trustee or a corporate trustee structure. Deciding on the type of trustee structure for your fund is an important decision that will affect the way the fund is managed and its costs.

Following the rules

There are several laws governing self-managed superannuation funds (SMSFs) in Australia—and strict penalties for trustees of funds in breach of them. We can help you understand the obligations your fund has and the responsibilities that would sit with you as a trustee.

Investing your super

Your SMSF's investment strategy must be documented and will determine how your fund invests its money. The investments of an SMSF generally include a mix of cash, term deposits, shares, managed funds and direct property. We can help you establish your fund's investment strategy.

There are stringent guidelines that determine how SMSF assets are used. From 1 July 2016, all assets considered as personal assets need to be compliant with new legislation. We can help you understand how assets like artwork, jewellery, wine and motor vehicles need to be managed.

As part of your investment strategy, you'll also need to consider the insurance needs of each member of your fund. We can help you consider life insurance, total and permanent disablement cover and income protection for each of your fund members.

Find out more

An SMSF isn't for everyone so come and chat with us and we will help you work out whether an SMSF is right for you.

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