

September 2024 Newsletter

Volatility has continued into the new financial year, as equity markets respond to economic data and speculate on the timing of potential rate cuts. Volatility was supported by the unwinding of the yen carry trade in early August, causing the All-Ords (ASX500) to fall 5.80% over 2 days. Investors rushed to reduce exposure to one of the most lucrative investment strategies in recent years: borrowing the Japanese Yen at near-zero interest rates to buy prospective assets in other markets. The All-Ords recovered quickly as investors bought the dip. Australian equities are now trading around all time highs.

In the US, the Federal Reserve cut rates by 50 basis points (bps), lowering the federal funds target rate to 4.75-5.00%. The 50bp cut was cause for debate as market pundits speculated the future health of the economy – traditionally, 50bp cuts have preceded or been in response to an economic downturn. Fed Chairman Jerome Powell cautioned that further cuts of this size look unlikely, and noted that “upside risks to inflation have diminished and downside risks to unemployment have increased”.

Locally, inflation continues to trend down, with headline CPI now within the RBA’s target 2-3% band. Despite this, the RBA is taking a cautious approach to rate cuts, noting the impact of energy rebates. Prior to the print, RBA Governor Michelle Bullock warned the decline in inflation may be short-lived, ruling out a near-term rate cut. The RBA will be aware that if they delay rate cuts for too long, it risks tipping the economy into a technical recession.

Corporate margins are stable overall, supported by strong balance sheets and resilient revenue growth in sectors with structural tailwinds. In Australia, consumer spending is being supported by immigration, with prospective rate cuts serving as a catalyst for further growth.

Within the All-Ords index, we are cautious of large cap companies trading at historically high valuations. If we do see an economic downturn, and associated analyst downgrades, large cap stocks trading at large valuations may begin to underperform. We are also paying close attention to the relative performance disparity between ASX Banks and Materials – a relationship that may revert if we see more economic stimulus out of China.

Returns for the 2025 Financial Year (3 months):

All Ordinaries: 8,538.40, up 524.60 points, or 6.55%;
Listed Property Accumulation Index: 82,830.30, up 9,738 points or 13.32%;
90 Day Bank Bills: 4.43%, down 0.45%;
AUD vs US Dollar: 69.19c, up 2.45c or 3.67%;
UK FTSE 100, 8,237.00 points, up 72.90 points or 0.89%;
Dow Jones Industrial Avg: 42,330.15 points, up 3,143.95 or 8.02%.

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UNLOCKING SUCCESS:

LEARNINGS FROM THE WORLD'S BEST INVESTORS



While effective investing is crucial for wealth creation, there is a lot to know and many pitfalls to avoid, as many of the world's most successful investors have learned over their respective investment journeys.

Those who have achieved success have often spent a considerable amount of time developing the requisite knowledge and skills to achieve solid and reliable returns, learning from their failures as much as their triumphs.

There is a lot to be gained by looking at the methods and philosophies of those who have mastered the art of sustainable wealth creation, and their learnings can serve to inspire you on your own investing journey.

Emphasise long-term value

One of the most enduring lessons from legendary investors such as Warren Buffett is the importance of focusing on long-term value rather than short-term gains. Buffett, known for his role as the chairman and CEO of Berkshire Hathaway, advocates for investing in companies with strong fundamentals that can generate consistent returns over time. His approach emphasises patience and the belief in the intrinsic value of a company, which requires thorough research and understanding of the business.

Diversify your portfolio

Diversification is a cornerstone of successful investing, a principle espoused by investors like Ray Dalio, the founder of Bridgewater Associates. Dalio's strategy involves spreading investments across various asset classes to manage risk and improve potential returns. His approach, known as "risk parity," aims to balance risk across different investments rather than concentrating it in a few.

A diversified portfolio includes a mix of asset classes such as stocks, bonds, real estate, and cash. Diversification helps mitigate the impact of any single investment's poor performance on your overall portfolio.

Manage risk wisely

Managing risk is crucial to preserving capital and ensuring long-term success. Investors like George Soros, known for his successful currency speculation and macroeconomic trades, emphasize the importance of risk management. Soros's investment philosophy includes a strong focus on assessing and mitigating potential risks, as well as having a clear plan for when to cut losses.

Soros was quoted as stating, "It's not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong."

Stay disciplined and patient

Discipline and patience are critical traits of many successful investors. For instance, John Bogle, the founder of Vanguard Group and a proponent of index investing, encourages investors to stay disciplined with their investment strategies and avoid being swayed by market volatility. Bogle's emphasis on low-cost investing and long-term holding reflects his belief in the benefits of staying the course.

One way to emulate Bogle's discipline is to create an investment plan with specific goals and stick to it, even when market

conditions are volatile. Avoid making impulsive decisions based on short-term market movements or hype. Regularly review your investment strategy to ensure it aligns with your long-term objectives.

Learn from mistakes and adapt

Even the best investors make mistakes, and learning from them is essential for growth. Howard Marks, co-chairman of Oaktree Capital Management, is known for his insightful memos on market cycles and risk. Marks emphasizes the importance of understanding market dynamics and adapting strategies based on past experiences and current conditions.

Reflect on your investment decisions and outcomes and be open to learning from both successes and failures. Stay adaptable and be willing to adjust your strategies as you gain more experience and as market conditions evolve.

Enlisting expert help

Finally, successful investors often leverage expert help to enhance their investment strategies and achieve better outcomes.

We can work with you to create tailored investment plans based on individual financial goals, risk tolerance, and time horizons, as well as assist in navigating complex financial products and avoiding common pitfalls. By providing ongoing analysis and adjustments, we can help ensure that investment portfolios remain aligned with evolving market conditions and personal objectives. Our expertise helps investors make informed decisions, manage risks effectively, and optimise long-term returns.

If you would like a hand with any aspect of wealth creation, please give us a call.



Estate planning *gives you a final say*

Planning for what happens when you die or become incapacitated is an important way of protecting those who care about you, saving them from dealing with a financial and administrative mess when they're grieving.

At the heart of your estate planning is a valid and up-to-date Will that has been signed by two witnesses. Just one witness may mean your Will is invalid.

Obviously, the Will should itemise how you want your possessions and investments to be distributed. But, importantly, it should also include enduring powers of attorney and guardianship as well as an advance healthcare directive in case you are unable to handle your own affairs towards the end of your life.

You must nominate an executor who carries out your wishes. This can be a family member, a friend, a solicitor or the state trustee or guardian.

Keep in mind that an executor's role can be a laborious one particularly if the Will is contested, so that might affect who you choose.

Around 50 per cent of Wills are now contested in Australia and some three-quarters of contested Wills result in a settlement.ⁱ

The role of the executor also includes locating the Will, organising the funeral, providing death notifications to relevant parties and applying for probate.

Intestate issues

Writing a Will can be a difficult task for many to organise. It is estimated that around 60 per cent of Australians do not have a valid Will.ⁱⁱ

It is thought that some don't believe they have enough assets to warrant writing a Will, or they simply don't want to think about it but, not having one may cause other issues.

If you don't have a valid Will, then you are deemed to have died intestate, and the proceeds of your life will be distributed according to a statutory order which varies slightly between states.

The standard distribution format for the proceeds of an estate is firstly to the surviving spouse. If, however, you have children from an earlier marriage, then the proceeds may be split with the children.

Is probate necessary?

Assuming there is a valid Will in place, then in certain circumstances probate needs to be granted by the Supreme Court. Probate rules differ from state to state although, generally, if there are assets solely in the name of the deceased that amount to more than \$50,000, then probate is often necessary.

Probate is a court order that confirms the Will is valid and that the executors mentioned in the Will have the right to administer the estate.

When it comes to the family home, if it's owned as 'joint tenants' between spouses then on death your share automatically transfers to your

surviving spouse. It does not form part of the estate.

However, if the house is only in your name or owned as 'tenants in common', then probate will probably need to be granted. This is a process which generally takes about four weeks.

Unless you have specific reasons for choosing tenants in common for ownership, it may be worth investigating a switch to joint tenants to avoid any issues with probate.

You will also definitely need probate if there is a refund on an accommodation bond from an aged care facility.

Rights of beneficiaries

Bear in mind that beneficiaries of Wills have certain rights. These include the right to be informed of the Will when they are a beneficiary. They can also expect to hear about any potential delays.

You are also entitled to contest or challenge the Will and to know if other parties have contested the Will.

If you want to have a final say in how your estate is dealt with, then give us a call.

ⁱ <https://willandstatelawyers.com.au/success-rate-of-contesting-a-will>

ⁱⁱ <https://www.finder.com.au/news/australians-have-no-estate-plans>

Releasing the value in your home



Rising property prices have led many people to look for ways to unlock the increased equity in their homes so they enjoy a comfortable lifestyle in their golden years.

For most of us, our homes represent the biggest or most significant portion of our wealth. But it's an asset that can't necessarily be realised quickly. It might take some time to sell your home and, in any case, you still need somewhere to live. And, if you're selling in a rising market, you're also buying in a rising market.

There are a number of ways to access the equity in your home, although be mindful of the consequences for your particular circumstances. With such a big decision and the complex financial products available, it's best to get independent financial advice, we can help clarify how you might be affected now and in the future.

Reverse mortgages

Reverse mortgages are more popular than ever, allowing you to borrow money using the equity in your home as security.

Following the introduction of tougher regulatory requirements, today, reverse mortgages are provided by a number of small bank and non-bank lenders.

The highest amount you can borrow, using your home as security, varies according to your age. At age 60, it's likely you will be able to borrow around 20 per cent of the value of your home. This amount usually increases as you get older so by 65, you may be able to borrow about 20-25 per cent.ⁱ

The advantage of a reverse mortgage is that, while you're living in your home, you don't make any repayments on the

loan. The loan, including interest and fees, is repaid when you move out or sell your home. Interest charged on the loan is usually higher than for standard mortgages. Currently, rates average just over 8 per cent to just under 10 per cent.ⁱⁱ

The Australian Securities and Investments Commission MoneySmart website provides a reverse mortgage calculator to help you decide if it's the right course of action for you.

A Government scheme

The Federal Government's Home Equity Access Scheme is a popular alternative to private reverse mortgages products, with the scheme growing by about 60 per cent a year.ⁱⁱⁱ

The Scheme provides loans to eligible older people, secured against your home. You can choose to receive a lump sum or a fortnightly tax-free payment.^{iv}

The loan and any costs must be repaid to the government but you can make repayments or stop them at any time. If you sell the property you can repay the loan on settlement or transfer the loan to another property.

If there's an outstanding loan after your death, the government will seek repayment from your estate.

The current interest rate is 3.95 per cent.

Home reversion

Slightly different to a reverse mortgage, home reversion is another way of accessing the equity in your home while still living in the property.

You don't pay interest because it's not a loan but there are transaction fees. The provider pays you a discounted amount for the percentage of the property you sell based on today's value. Then, when the property is sold, the provider receives the same percentage of the sale price, meaning that the more your home increases in value, the more the provider receives.

Other options

Another way of taking advantage of the equity in your home is to sell it and buy a smaller one. Downsizing could allow you to clear the mortgage and invest or spend anything left over.

Those aged 55 or older can contribute up to \$300,000 (for each spouse) from the sale into your superannuation fund. It's considered a non-concessional contribution, but it doesn't count towards the contribution cap.^v

You could also consider converting your home to a dual occupancy or, if you're on a large block, subdividing.

Get in touch with us for a review of the options available to you, so you can look forward to enjoying your golden years with confidence.

i <https://moneysmart.gov.au/retirement-income/reverse-mortgage-and-home-equity-release>

ii <https://www.finder.com.au/home-loans/reverse-mortgages>

iii https://www.dss.gov.au/sites/default/files/documents/10_2023/dss-annual-report-published-version.pdf

iv <https://www.servicesaustralia.gov.au/home-equity-access-scheme>

v <https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/super/growing-and-keeping-track-of-your-super/how-to-save-more-in-your-super/downsizer-super-contributions>