DECEMBER 2022

Goldsborough

Quarterly financial planning news and views

Will Australia avoid a Recession in 2023/24?

A recession can be defined as a sustained period of weak or negative growth in Gross Domestic Product (GDP), that is accompanied by a significant rise in the unemployment rate.

However, the most common definition of recession used in the media is a "technical recession," during which, there have been **two consecutive quarters of negative GDP growth.**

Recent economic and financial commentary has been particularly gloomy, with talk of a grim, bleak and confronting economic outlook in the calendar years 2023/2024. The combination of cost-of-living pressures, interest rate increases, geopolitical risks and a global downturn, all point to a sharp slowing in the Australian economy next year, with consumer confidence at recessionary levels.

However, there are several reasons why Australia should be able to avoid a recession, including:

- the business investment outlook is solid – The Australian Bureau of Statistics (ABS) capital spending intentions survey is up about 15% on a year ago.
- there is a large pipeline of homebuilding work still to be completed – due to the surge in home building and renovation approvals through the COVID pandemic.
- immigration is rebounding - the Budget is projecting net immigration of 235,000 this financial year, consistent with pre-pandemic levels. This follows negative net immigration recently, due to the COVID pandemic. This surge in immigration will help ease the labour shortage and tight jobs market, which in turn will help head off a surge in wages growth and therefore inflation.
- high energy prices boost national income - while the surge in energy prices is a huge hit to household budgets, it is providing a big boost to national income via the earnings/tax on energy companies. This contributed $48bn towards the Government's budget coffers last financial year FY 21/22 and is projected to add $42bn this FY 22/23.
- Inflation is "easing" in the USA and should follow here. Also, the Reserve Bank of Australia (RBA) has recently adopted a more cautious stance on rate increases. Whilst the RBA stated that it "will do whatever is necessary" to return inflation to its target band (2% - 3%), it also noted that it's seeking to do this **"while keeping the economy on an even keel."**

In summary, whilst many economic commentators are tipping that Australian GDP is likely to slow sharply from 3.9 % during FY 21/22, to around 1.5% in FY 22/23 and 23/24, **Australia should be able to avoid a "technical recession."**

However, for many people, 2023/24 will be challenging, as household disposable income will fall and place pressure on family budgets. ■

Source: Dr Shane Oliver - Head of Investment Strategy and Chief Economist, AMP.

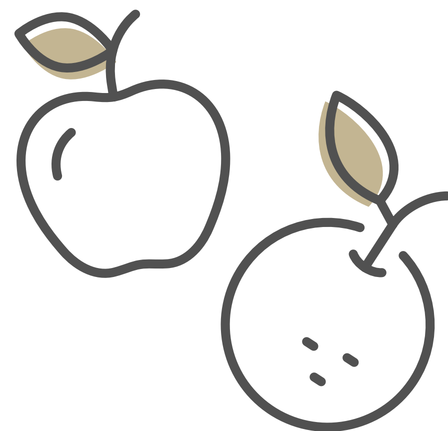
Goldsborough Financial Services
AFSL 225330
ABN 89 064 640 142

160 Greenhill Road, Parkside SA 5063
T 08 8378 4000 **F** 08 8373 4544
E mail@goldsborough.com.au
W goldsborough.com.au

BORIS PEDISIC CFP®
Authorised Representative (301739)

MICHELLE SANCHEZ
Authorised Representative (325471)

Comparing apples with oranges



In Financial Planning, we often talk about the importance of comparing apples with apples in terms of the returns of super funds based on the level of investment risk.

For example, a conservative investment approach is unlikely to achieve the same long-term returns as a higher risk investment strategy, which is important to consider when comparing past returns. What is often ignored though, is the hidden risk of unlisted assets inside of some industry super funds, which oftentimes makes comparing funds more like apples with oranges. By admission, HostPlus recently put out a statement that nearly 50% of their default balanced (MySuper) option is invested in unlisted assets.

What many people don't realise is that the Australian industry super sector tends to have a heavy weighting towards unlisted assets in things like property, infrastructure, private equity and venture capital. These high levels of unlisted assets have helped to hold up returns at a time where there haven't been many places to hide. Listed bonds and equities have all seen negative returns as they've taken the full brunt of rising interest rates and falling asset prices.

But are unlisted assets more risky than super trustees let on? In an actively traded market, such as the ASX, people are buying and selling companies every second. This allows super funds to put a value on a stock at any given time, which can fluctuate quite significantly depending on market sentiment. A super fund can use this information to update the value of your superannuation balance to accurately reflect what you would receive for it if you were to cash it in now. By contrast, unlisted assets might be bought and held for years or even decades. This means a super fund needs to place a value on the asset, so the fund can keep track of how much you own. If a super fund undertakes a quarterly valuation of the unlisted assets they hold, this creates a lag in this vital information. As fund members can buy or sell on a daily basis, this can create a mismatch between the price paid and the value of the asset – this is known as a 'liquidity mismatch'.

The information lag of unlisted assets might smooth the ups and downs of investment cycles because they are not subject to these daily revaluations. But if a fund needs to quickly liquidate an unlisted asset in a time of high stress, they may receive far less for that asset than what is expected. They run a liquidity risk if they need to meet high unexpected withdrawal requests, such as was the case during COVID when the Government allowed people to access lump sums from their super. When a fund pays out some members at what turns out to be an inflated price for their share of the unlisted assets, the losses fall with the members who stayed put.

Listed property funds are currently trading at a significant discount to net asset value, but the unlisted equivalents haven't moved much, so it's important to consider this reality when comparing super fund returns. ■

LACHLAN HARVEY CFP®
Authorised Representative (227293)

Conservative investors hardest hit

For retirees looking to preserve their wealth and accept a modest return, super funds provide options like "conservative," "capital stable" or "defensive." These funds might hold around 30% shares and property and the remaining 70% in cash and fixed interest.

Investors in these conservative options have had one of the worst 12-month periods on record, wiping out any positive return achieved over the two years prior. Compare the average "Balanced" fund versus the average "Conservative" fund over the past 3 years. The table below represents the returns of a representative sample of funds in each category.

Fixed interest investments don't go backwards often. Over the last twenty years, the probability of receiving a negative 3-year return on Australian fixed interest investments is about 1 in 30 (Bloomberg AusBond Composite 0+ Yr TR AUD).

In 2022 rising interest rates globally have led to a spike in bond yields and a dramatic fall in the price of government bonds. It's a one-off event that's unlikely to be repeated any time soon.

There is a positive aspect to this. The market pricing mechanism that has caused these negative returns also means bonds are now providing a far more attractive yield. This is quite different to a term deposit which does not fluctuate in price or yield.

Rest assured; bonds still have their place in a diversified portfolio. Government bonds are less volatile than shares and tend to, on average, move in the opposite direction. We refer to this as negative correlation. It is these key defensive characteristics will prove useful again in the future. ■

Fund category	1 year	2 year	3 year
Australia Fund Multisector Balanced (70% shares/property)	-5.07	4.21	2.07
Australia Fund Multisector Conservative (30% shares/property)	-6.09	-1.58	-0.89

Source: Morningstar data 31 October 2022

10-year Australian Government Bond Yield

Sources: RBA; Yieldbroker

WILL CHAPMAN Dip FS(FP)
Authorised Representative (311745)

Super SA significant event

It might well feel like freedom for the state's government workforce as the biggest changes in recent memory at Super SA take effect from the end of this month.

Unlike private sector employees (who have the choice of which super fund they contribute to), SA Gov employees have previously been required to have their employer super contributions go to Super SA, plus have had restrictions on being able to access their super. From November 30, Super SA will no longer be the only fund for those employees plus they will allow better access and ability to rollover funds, even for those still working for the state government.

It's a double-edged sword for Super SA and employees alike.

For Super SA, they risk losing a lot of current members who choose to roll out of the fund (for any number of reasons) which would put pressure on their systems, further increase costs, make managing investments harder and risk causing a run on the fund. Conversely, they will also allow non-government employees to contribute to the Super SA products, hoping to attract a broader demographic.

For SA government employees, having this newfound freedom comes with a lot of new options to consider. However, that means big choices to make and there are plenty of pitfalls, including regarding insurance. There are also slight differences for Police Officers and SA Ambulance members regarding the rule changes.

The rule changes bring them more into line with the broader superannuation industry, so I applaud Super SA for taking this direction.

We have been told there may be some longer lead times for processing requests (such as contributions, rollovers and withdrawals) as Super SA transitions through this significant event.

I would add that Super SA's Triple S is now competing with a much deeper pool of super funds so their increase in fee (from November 1, 2022) does not help their appeal.

There is a factsheet available: on their website **www.supersa.gov.au**

If you and/or someone you know are a Super SA member, and you wish to get some guidance about your newfound options, give us a call to discuss. ■

CRAIG KIRKWOOD AFP®
Authorised Representative (401525)

Cheaper medicines and doctor visits, but not for everyone

Forty four thousand more seniors are now eligible for cheaper medicines and doctor visits. This follows the changes to the income test for the Commonwealth Seniors Card (CSHC) that came into effect on Friday 4 November after delays passing through parliament. The increased test allows singles of aged pension age earning up to $90,000 and couples earning up to $144,000 combined, to apply for the card. This is estimated to cost the Government $70 million over the next four years. As with most Government benefits, it is not automatic and has a bit of red tape to navigate.

The application is best completed through your MyGov account – please refer to the Goldsborough website under our resources “news and views” for some tips on setting up a MyGov account, obtaining a CRN, and confirming your identity.

These changes are good news for retirees struggling with rising living costs. Many Australians will be unaware of the new thresholds, so please let your family and friends know of the changes.

If you have retired but have not yet reached age pension age you could be eligible for the Low-Income Health Card (LIHC). This card provides similar benefits to the CSHC and is also subject to an income test (this has not changed). The income test will depend on your situation and if you have dependents. The income test measures your income over an eight-week period and has a threshold for those without dependents of $5,440 for a single person, and $9,328 for a couple. ■

MATTHEW KELLY CFP®
Authorised Representative (314983)

Aged care and blended families – issues to consider

Many people re-marry later in life, and it is important to be aware of some issues that can arise if one or both spouses need to enter permanent residential care in the future.

Regarding aged care fees, Centrelink will consider all assessable income and assets of both spouses when calculating the aged care fees. If there is a situation where one spouse brought most of the assets and/or income into the marriage, Centrelink will total these and then apply the value on a 50/50 split between the spouses, regardless of whose name those assets and/or income are in.

This can mean that the spouse who may have brought minimal income and/or assets into the marriage will then have half of their spouse's income and/or assets assessed against them. Depending on the amounts, this can then result in the remaining spouse having to liquidate their own assets to fund the care of their spouse who has little or no income and/or assets to their name.

Also, in most cases, a Refundable Accommodation Deposit (RAD) is refunded to the estate of the resident who was in care and passes away. Reversing the example above, if the spouse who was in care was the one who had assets liquidated to fund the RAD, then their surviving spouse who did not bring any assets into the marriage may end up with the proceeds.

If there are children of the parent who was in care, it may result in them not receiving the funds from their parent, with the funds instead go to their step-family. It is important that each parent's estate planning is up to date to reflect where the assets are intended to be directed. ■

SAM MARTIN CFP®
Authorised Representative (252676)

Asset classes & returns – spin the bottle

Asset class performance

Rank	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1	39.6	8.6	11.4	33	53.6	32.1	14.3	13.2	13.4	6.2	31.7	7.9	37.2
2	7.9	8.3	10.8	21.2	48	27	14	12.5	12.8	4.9	28	5.7	36.6
3	4	6	5	18.8	19.9	24.3	13.6	11.6	12.5	4.5	24.1	5	29.6
4	3.5	4.7	2.1	14.6	19.7	15	11.8	7.9	5.7	2.9	23.6	4.5	26.1
5	3.1	3.3	-0.7	14.1	7.1	11	3.8	5.2	3.7	2.7	19.4	3.6	17.7
6	1.7	1	-1.5	8.4	2.9	9.8	3.8	4.9	2.8	1.9	7.3	0.4	0
7	-0.3	-0.4	-5.3	7.7	2.5	5	2.6	2.9	1.7	1.5	6.2	-4.6	-2.3
8	-2	-2	-11.4	4	2	2.7	2.3	2.1	0.2	-3.5	1.5	-16.9	-2.9

Asset class	Avg	Min	Max
Australian Shares	8.5	-40.4	39.6
International Shares	5.2	-27.4	48
US Shares (S&P500)	7	-29.2	53.6
Australian Property	8	-54	34
International Property	9.6	-29.2	44
Australian Bonds	5.6	-2.9	14.9
Intl. Bonds (A$ hedged)	6.4	-2.3	13.4
Cash	3.9	0	7.6

Please refer to the table above which ranks the performance of each asset class from highest to lowest returning in each of the last 13 years. I would like to use this chart to illustrate the following points.

1. The brown square of International Property was the best performing in 2021 with a return of 37.2% but the year before it was the worst performing with -16.9%. This is a prime example of the volatility that can occur from year to year. It is the reason we do not try and time the market and move money from one asset class to another based on the previous year's performance.
2. Another interesting pattern is that when shares and property are at the top, bonds and cash are at the bottom of the table and vice versa. It is typical of a diversified portfolio to be made up of a mixture of these types of asset classes (being growth and defensive assets). This mixture provides stability in a portfolio over time.
3. However so far in 2022 (not yet represented in the table) we have experienced a year when there is nowhere to hide and all asset classes (except cash) have turned negative. The last year this occurred was 28 years ago in 1994! ■

Cash has only topped the performance charts three times in 50 years (1973, 1974 and 1994) and it is looking like 2022 could be another year cash is best but will it be the best performer again next year?

BRENTON MIEGEL CFP®
Authorised Representative (227297)

Understanding different investment styles

When it comes to investing, there's no one-size-fits-all strategy that can assure success.

Here at Goldsborough we look to utilise a range of different investment styles to help our clients achieve their goals. We do this with our model portfolio investment strategy, where you are investing a broad range of fund options for a single asset class. For example, you may have 4 different Australian Share managers as part of your overall Australian share asset allocation. Each manager offers a different investment style with the intention being to have them blend well as a collective.

The two main investment styles are called growth and value, and I thought I would give you an overview of each:

Growth Investing

A growth investment can be defined as an often younger company that has the potential to meaningfully disrupt or transform a rapidly evolving industry (for example, technology or services). A growth investment is appealing due to its significant future growth prospects and ability to demonstrate an upward trend in earnings and revenue at an above-average rate compared to industry peers. Growth companies may prefer to reinvest their earnings back into the business to continue expanding rather than pay a dividend to investors. This means investors tend to make gains largely through capital appreciation if or when the company's share price rises in future.

By using a growth strategy, investors are looking to the future – investing in companies they believe will significantly exceed market expectations as the "next big thing". While there is no specific formula for determining a company's potential, investors may undertake individual research to consider factors such as historical earnings and future earnings potential, cash flow, and whether there is sufficient future demand for a company's products and services. Note that in exchange for a potentially higher investment return, there is often higher risk associated with growth investments (for example, share prices fluctuate regularly, which can make them volatile) as many of these companies are relatively small or new and found in often rapidly evolving industries.

Value investing

A value investment is generally defined as a company that is undervalued or under-priced by the market – often due to market overreactions to bad news regarding a company setback, management change or disruptions to the company's operating environment. This investment may trade on the share market with a lower share price compared to its intrinsic value – meaning, the company's share price appears cheaper compared to key financial metrics such as the company's earnings, debt, performance and cash flow, as well as key fundamental factors such as the company's brand, business model, target market and competitive advantages.

By adopting a value strategy, investors purchase (and often hold for the long term) shares in what they believe are quality companies at bargain prices with the hope that in time, markets will come to appreciate their intrinsic value – making them more appealing to other investors and, in turn, leading to a rise in share price. However, one of the risks of this strategy is timing. That's because it can take time for markets to either recognise a company's value (meaning, some investors later buy shares at a higher price, therefore missing out on the 'bargain') or learn that it actually has little value at all (meaning, some investors may have made a loss by having invested in that company). ■

Seminars for 2023

We are looking forward to hosting our quarterly seminars again in 2023.

If you would like to register for any of our seminars, please contact our office on **08 8378 4000** or via email at **mail@goldsborough.com.au**. Please also keep an eye on our Facebook page or website for the most up-to-date details.

Retirement Living and Aged Care

If you or a loved one will need Retirement Living support and/or Aged Care in the coming years, then this seminar will explain the different options that are available.

Dates for next year on Wednesdays at 6pm:

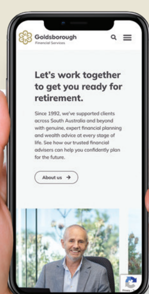
- 1 February
- 3 May
- 2 August
- 1 November

Retirement Planning Talk

There's never a better time to plan for tomorrow than today! We'd love to help you start planning your financial future, and it's as simple as attending one of our free Retirement Planning Talks.

Dates for next year on Tuesdays at 6pm:

- 7 February
- 9 May
- 8 August
- 14 November



Other exciting news..

Have you seen our **NEW WEBSITE?** We'd love for you to have a look – please visit **goldsborough.com.au** – and don't forget to subscribe to our ***"Blog alerts"*** to ensure you receive all the articles that are of interest to you!

Referral award

Goldsborough is a referral-based business. **The biggest compliment any client can give us at Goldsborough is the referral of a friend, relative or business associate who could benefit from our services.** To show our appreciation for the wonderful referrals that we receive from our clients each we are now drawing a winner for **each month**, to receive a $100 gift voucher!

We have pleasure in announcing the winners of our 'Referrers Awards' for September, October and November 2022 are:

- Alan Hickey
- Rob and Sue Reeves
- Hilary Ashworth

Congratulations and thank you again, your vouchers are on the way.

The winner of the draw receives a $100 gift voucher!

If you do not wish to receive future editions of this newsletter please phone Freecall **1800 633 630** or email **mail@goldsborough.com.au** and request that your name be deleted from the distribution list.

Disclaimer Statement: This newsletter contains general advice only and should not be relied upon as a substitute for financial product advice. None of the information takes into account the investment objectives, financial circumstances or investment needs of any particular investor. You must therefore assess whether it is appropriate, in the light of your own individual circumstances, to act upon the relevant information. It is advisable that you obtain professional independent financial advice before making any investment decision based on the information provided.