Parkside Newsletter July 2023

Welcome to our July newsletter and, with a new financial year underway, it might be a good opportunity to review some of the recent changes to business and investment rules to make sure you're on the right track.

As the inflation rate begins to ease, with consumer inflation slowing to a 13 month low in May, many commentators expressed hope that further interest rate rises may be kept in check. That led to a slight improvement in investor outlook for stocks at the end of June The S&P/ASX 200 closed the month at about the same level as in May but, over the financial year, it's risen more than 10%.

The CPI was up by 5.6% last month in the lowest increase since April 2022. Meanwhile the unemployment rate fell slightly to 3.6%, continuing the downward trend seen over the past 12 months. That's led to an improvement in consumer sentiment and a 0.7% jump in retail sales in May, supported by a rise in spending on food and eating out as well as a boost in spending on discretionary goods.

The Australian dollar lost gains made during the month to close at just over US66 cents as traders speculated at the end of the month that the Reserve Bank may put a hold on interest rate rises and the US economy boomed.

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Setting yourself up for *success* in the new financial year

The start of a new financial year is the perfect time to get your financial affairs in order. Whether it's tidying up your paperwork, assessing your portfolio or dealing with outstanding issues, there are plenty of practical actions you can take.

Here are some strategies for starting the new financial year on the right foot.

Tidy up your paperwork

Dealing with the paperwork is the task most of us love to hate. But taking a day to trawl through the 'To Do' pile and the growing mountain of filing could be a good investment in yourself. What's more, you might identify some savings.

Set your budget

A lot can happen in a year, so it makes sense to review your budget to ensure it still works towards your goals in the new year. This will help you track your changing expenses and ensure you're not overspending. And if you haven't got a working budget, now's a great time to start. There are plenty of budgeting apps and tools available online that can help you get started.

Assess your portfolio

Another important step to take as you start the new financial year is to assess your investment portfolio.

Some important questions include:

- Why did you start investing and have your circumstances changed? For example, you may have started investing to receive a better return than your term deposits but now that term deposits rates have increased and share markets are challenged, should you revisit that goal?
- What is the investment performance? Is it in line with your expectation and the benchmark?
- Should you consider diversifying into different asset classes?
- Is dividend reinvestment the best option for you or should you take the dividend income into cash?
- Is your risk appetite still the same, or should you be aggressive or more conservative?

Check your insurance

Now is a good time to examine your insurances closely and to consider whether they match your needs and risks. It is also a good reminder to take note of policy renewal dates so that you can shop around to make sure you get the best price.

Understand Federal Budget changes

Keeping up to date with the commentary about Federal Budget initiatives may be useful.

The measures aimed at easing the cost of living will provide a boost to some. They include energy bill relief for concession card holders and energy saving incentives. Meanwhile those with chronic health conditions will benefit from a number of changes announced in the budget.

The Budget also included support for families with cheaper childcare and a more flexible Paid Parental Leave scheme, and incentives for some types of new home building projects.

Review your superannuation

A review – at least annually – of your super account is vital to make sure that:

- Your investments and risk strategy are still right for you
- The fees are reasonable
- Any insurance policies held in your super account are appropriate
- Your employer contributions are being made
- Your death benefit nomination is relevant
- You don't have multiple accounts incurring unnecessary fees

You might also consider a salary sacrifice strategy, where you ask your employer to make extra super contributions from your pre-tax salary. These additional contributions are taxed at 15 per cent within the super fund, plus an additional 15% if Division 293 tax applies to you (income over $250,000).

Meanwhile, it is not too late to top up your super balance for this financial year using either concessional contributions (from your pre-tax income) or non-concessional contributions (after-tax income). Don't forget the caps on payments, which are $27,500 for concessional contributions and $110,000 for non-concessional.

It is a good idea to get some expert advice regarding your super contributions, we can assist with the best ways to manage your contributions.

So, set yourself up for a fresh start to the year with some simple strategies to help you achieve your financial goals.

Who needs a testamentary trust?

The rising cost of living is grabbing all the attention right now as people struggle to pay the increasing prices. But in the meantime, our collective wealth has been growing steadily and is being transferred to the next generation at increasing rates.

In fact, the value of inheritances as well as gifts to family and friends has doubled over the past two decades.[i]

A 2021 Productivity Commission report found that $120 billion was passed on in 2018 and that amount is expected to grow fourfold between now and 2050. In 2018, the value of the average inheritance was $125,000 while gifts averaged $8000 each.

So, there is a lot at stake and it means that estate planning – a strategy for dealing with your assets after you die – is vital to help fulfil your wishes and protect the interests of the people you care about.

One powerful tool in planning your estate is a testamentary trust, which only comes into effect after your death. It operates in a similar way to a discretionary family trust and your Will acts as the trust deed, providing instructions for the trust.

It allows you to control the distribution of your assets and provides a way of managing any tax implications for your beneficiaries. Testamentary trusts are often used to protect assets from unforeseen circumstances such as lawsuits, creditors and divorces and they can help to preserve a family's wealth.

A testamentary trust can be useful for those with blended family relationships and children with complex needs. For example, a child with a disability who is unable to manage their own investments can be supported by the use of a trust. Testamentary trusts may also help to provide some certainty for parents that their young children will be provided for. They are also often used by philanthropists as a way of providing a legacy for a cause they support.

Choosing a trustee

If you are setting up a testamentary trust, you will need to appoint one or more trustees who will manage administration and distributions.

The trustee could be a family member (who may also be a beneficiary) or the role could be handed to an independent person or organisation.

Trustees should understand the tax situation of each of the beneficiaries to ensure that the timing and amount of distributions don't inadvertently cause difficulties for them. Trustees must also lodge a tax return every year and maintain trust accounts and records.

As the ATO points out, for the trust to operate effectively, a high level of co-operation between family members may be important so that tax, financial and other information is shared.

The pros and cons

Whether or not you should set up a testamentary trust in your will depends on your own circumstances.

The positives include:

- The ability to control the distribution of income
- The possibility of some tax advantages for your beneficiaries
- A level of protection for your assets from lawsuits, family breakdowns and business difficulties
- A way of keep a family's wealth intact into the future
- Support for vulnerable beneficiaries such as those with special needs or lacking financial experience and minors
- Can be used by anyone with assets to distribute, whatever the size of their estate

On the other hand, there are a number of considerations to be aware of such as:

- The complex paperwork and reporting required
- The cost to establish the trust and keep it running
- The possibility of disputes among beneficiaries or with the trustee over the future of the trust, distributions, and its administration

Testamentary trusts are a valuable strategy to help ensure your wishes are followed. They can shape your legacy, provide fairly for your loved ones and protect assets.

Call us if you would like to know more about establishing a testamentary trust and to see whether it is suitable for you.

i https://apo.org.au/node/315436

Making conscious the unconscious *for better decisions*

When you're faced with a decision, do you trust your feelings or do you look at the situation objectively, making a careful list of pros and cons? Emotions exert a strong influence on our decisions, so it's important to have a bit of balance between reason and emotion – particularly when it comes to the big decisions in life.

The decisions we make have the potential to steer our lives in vastly different directions. Good decisions can profoundly improve our situation in life, while a poor decision can have unpleasant consequences. Examining how emotions influence your thoughts and actions can equip you to make well-grounded decisions, including those relating to your financial affairs.

The influence of emotion

Even if you think your decisions are based on logic and common sense, the reality is they are often steered by emotion.

A study performed by Nobel Prize-winning psychologist Daniel Kahneman showed that emotions contribute around 90% to our decisions, while logic only factors in for around 10%.[i] Kahneman's position was that human reason left to its own devices is subject to emotional biases, so if we want to make better decisions in our personal lives, we need to be aware of these biases.

Awareness is key

Given that emotions and unconscious bias can cloud our judgement, some self-examination can help ensure that you are making the best decisions.

It's been shown that people who could identify the emotions they were feeling were able to make better decisions, in part due to a greater ability to control any biases caused by those feelings.[ii]

This is known as "making conscious the unconscious" and it involves examining your emotions and beliefs to so you can better understand their influence on you.

The goal isn't to be emotionless - it's important to 'feel'. The key is to understand how your feelings are impacting your choices. A good example might be how feeling particularly confident may cause you to take on more risk associated with an investment than you would ordinarily be comfortable with.

Hit 'pause' on reacting

Once you've identified how you are feeling, it's time to hit 'pause' for a moment. Decisions driven by the unconscious mind generally happen faster than those we think about. Not reacting immediately gives you a chance to observe any biases without being controlled by them, allowing for improved and more objective decision-making.

Even taking a couple of deep breaths before responding to that email that's made you angry will help you respond in a more rational way. Just think about how scammers use people's tendency to react to fear, without thinking too much about what they are being asked to do.

Recognise patterns

Taking time to think also allows you to reflect on past decisions and the result of those decisions. For example, reflecting on past investment choices that were unduly influenced by a fear of missing out, can help individuals better manage future decisions.

Your subconscious can cause you to cling to outdated views you hold of yourself - and these can drive poor decisions. A good example is people managing their wealth according to how they did things when they first started out, rather than adapting their behaviours to their changed financial circumstances.

Get rational

Once you have acknowledged the part that your subconscious and past patterns of behaviour play in decision making, it's time to get rational. Rational decision-making involves taking emotion and any unconscious biases out of making decisions and applying logical steps to work towards a solution.
The process involves a series of steps that generally encompass: identifying a problem or opportunity then gathering the relevant information, developing options, evaluating alternatives, then finally selecting a preferred alternative on the basis of the research you've done.

It's also a good idea to run important decisions by a third party who is not so emotionally involved. For your financial decisions that's where we come in. While we respect and acknowledge how you feel in relation to your financial life, we can provide factual information and challenge any notions that no longer serve you, to help you make the best possible decisions regarding your finances.

i https://www.jstor.org/stable/1914185
ii https://www.ncbi.nlm.nih.gov/pmc/articles/PMC2361392/