Parkside Newsletter December 2022

It's December, summer is here and holidays are just around the corner. We take this opportunity to wish you and your family a happy festive season!

The big story on the global economic front continues to be inflation, and how high interest rates will go to tame it. November began with the US Federal Reserve hiking its federal funds target range by another 75 basis points to 3.75-4.00%. There are signs the tough approach is working, with the annual rate of inflation falling from 9.1% in June to 7.7% in October.

In Australia, the Reserve Bank lifted the cash rate another 25 basis points to a decade high of 2.85%. Inflation fell to 6.9% in the year to October, down from 7.3% in September, but remains high and economic signals are mixed. Reserve Bank governor Philip Lowe is keeping a close eye on consumer spending, where higher interest rates are having an impact. Retail trade fell 0.1% in October for the first time this year. And while the ANZ-Roy Morgan consumer sentiment index was up 5.6% to 83.1 points in the last three weeks of November, it remains 22.9 points below the same week last year. But rate hikes are not yet affecting the labour market, with unemployment falling to a 48-year low of 3.4% in October, while annual wages growth rose 1% to 3.13% in the September quarter, the fastest growth in a decade.

The Aussie dollar lifted 3c to around US67c over the month, crude oil prices fell 10% while iron ore lifted 0.5%. Shares remain skittish but positive overall. The ASX200 index rose more than 5% in November while the US S&P500 index was up more than 2%.

From the Team at Parkside InvestorPlus, we would like to wish you and your family a very Merry Christmas and a Happy New Year. Our office will be closed from 5pm Wednesday 21st December 2022 and will re-open on Monday 9th January 2023.

Investors and recessions

Despite much talk of rising interest rates and possible recession, here are a few reasons to stay the course and stick to your long-term investment strategy.

There has been much discussion of rising interest rates, recent inflation spikes and ongoing market volatility impacting investment and super balances. Add to that the increased chatter about the possibility of Australia falling into a recession and things certainly aren't looking too hopeful for investors at present.

But before you start panicking and thinking about whether you should adjust your portfolio to weather a possible recession, here are a few reasons to stay the course and stick to your long-term investment strategy.

1. A recession is often defined as two consecutive quarters of GDP contraction, and while there is indeed a more meaningful risk of recession emerging, particularly in Europe, modelling has estimated the chances of this happening at around 35% over the next 12 months in Australia, and 45% over the next 24 months, which is to say, it is not our base case scenario.

The Australian economy continues to grow, supported by low unemployment and robust household spending. Australia is also benefiting from high global energy prices, given our status as a net exporter of energy-related commodities such as coal. As interest rates rise at home and abroad, we expect economic growth to soften, however, it should not be sufficient to trigger a recession.

2. Thanks to the contraction in both fixed income and equity markets earlier this year, equities previously perceived to be overvalued are now at a fairer price. In addition, current market valuations and higher interest rates mean our analysis is forecasting slightly higher returns in financial markets over the long-term, in comparison to previous projections. The markets 10-year annualised return forecasts for global equity markets are largely 1.5 percentage points higher than at the end of 2021, while the markets fixed income return forecasts in many regions are 1.5 percentage points higher. This spells good news for both equity and fixed income investors who have the discipline to stay invested and focussed on long-term objectives.

Also, while the turbulence in the share markets has somewhat petered out, investors should recognise that the volatility experienced this year is far from unusual. Rather, it is a factor that tends to spike when equity markets undergo a severe contraction. That said, the inevitable troughs that investors will experience over time often give way to higher peaks.

3. While there is no guarantee Australia will avoid a recession, investors could perhaps look to the past to help calm their nerves. Analysis using US stock market data over the last 48 years found that share markets tend to recover soon after recessions started. The earliest recovery began a mere two months after the COVID-induced economic downturn in 2020, while the recovery after the 2007-2009 Global Financial Crisis commenced 16 months into that recession.

If you're still dreading the thought of suffering further losses in anticipation of a possible recession and resolute about moving your investments to cash, consider this final point – Vanguard analysis has found that selling down during past recessions has proved to be a costly mistake for many investors. Those investors locked in their losses permanently because they were out of the market at the wrong time and thus weren't able to benefit when it rose again.

All this to say, regardless of whether Australia – or any other country or region – goes into a recession, investors should tune out the noise and not use today's headlines to make short-term decisions for an investment portfolio with a long-term time horizon. Afterall, there's been little evidence that timing the market delivers rewards. If anything, it has been quite the opposite.

If you have concerns about the current share market and how it affects your portfolio, please call us today.

Source: Vanguard

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The challenges of market timing

When markets fall, it's natural to want to take action to prevent further losses. Doing so however can do more harm than good. Here's why timing the market to buy low and sell high is not as easy as it sounds.

If you're invested in the financial markets and also keeping up with the news, you're probably wondering if you should do anything to insulate your portfolio from incurring further losses alongside rising interest rates and inflation.

In times like these, reminding investors to "maintain discipline" and "stay the course" – in other words, stay invested and here's why:

Reacting to the here and now

Most market commentary are about the events of the day, with a focus on the here and now. However, the 'today' is not as significant to financial markets as they're generally forward looking and more concerned about what will happen in the future. Thus, using daily developments to make constant adjustments to your portfolio is unlikely to help you accumulate wealth over the long term as the market will have already priced it in.

Additionally, to successfully time the market, investors need to get all five of these investment factors right including precisely timing exit and re-entry – a near impossible feat for even the most experienced of investors.

Locking in your losses

When markets fall, it's natural to want to sell riskier assets (i.e. equities) and move to cash or safer assets like government securities. But exiting the share market now means locking in your losses permanently and not giving your portfolio the opportunity to benefit when markets recover. Research found that 80 per cent of investors who panicked and moved to cash during the 2020 sell off would have been better off if they had stayed invested[1].

Investing at the peak

While we all want to "buy low and sell high" so our portfolios can outperform the market average, in reality, it is extremely hard to execute perfectly every single time. Analysis of the last 5 decades reveals that even in the worst-case scenarios - where investors bought into the market at its peak, just before a dip – as long as investors stayed invested instead of moving to cash, they still benefited from positive annual returns of almost 11%.

If the recent market volatility is keeping you up at night, take a moment to reflect on whether your emotions are short-term reactions to the current conditions, or something you really need to act on. If you feel like you cannot stomach temporary losses, consider if your asset allocation is right for your overall investment goals and risk appetite.

A well-diversified core portfolio, aligned to your risk appetite will help spread your risk and afford you a margin of safety over the long term. Get this right and you will probably sleep better at night.

Contact us if you would like to discuss this further.

Source: Vanguard

1 https://corporate.vanguard.com/content/dam/corp/research/pdf/Cash-panickers-Coronavirus-market-volatility-US-CVMV_072020_online.pdf

Guide to concession cards for seniors

The excitement of heading towards retirement and a new stage of life can be tinged with concern over how to manage finances. For many people, seniors' concession cards are a good way to help make ends meet.

While discounts on goods and services are always welcome, they're even more valued right now as living costs continue to climb.

Concession cards for seniors provide significant discounts on medicines, public transport, rates and power bills. Many private businesses – from cinemas to hairdressers – also offer reduced prices to concession card holders.

There are different types of concession cards offered by federal, state and territory governments. While some are for those receiving government benefits, others are available to almost anyone aged over 60.

The cards are free and should not be confused with commercial discount cards that require an upfront fee or ongoing subscription.

Seniors Card

The Seniors Card is offered by all state and territory governments when you turn 60 (64 years in Western Australia) and are no longer working full time. This card is offered to everyone, regardless of your assets or income.

The Card will allow you to claim discounts on things like public transport fares, council rates and power bills. Thousands of businesses across Australia also offer reduced prices to Seniors Card holders. In some states, a separate card is offered to access discounts provided by private businesses and another card is provided for public transport.

Federal Government concession cards

If you're receiving a government pension or allowance, you're a self-funded retiree or you're a veteran, you may be eligible for one of several cards issued by the Federal Government.

The Pensioner Concession Card is automatically issued to people receiving pensions or certain allowances.

The card provides discounts on most medicines, out-of-hospital medical expenses, hearing assessments, hearing aids and batteries, and some Australia Post services.

In most states and territories, card holders receive at least one free rail journey within their state or territory each year.

Commonwealth Seniors Health Card

If you've reached the qualifying age for an Age Pension (currently 66 years and 6 months) but you're not eligible to receive a pension, you may be entitled to the Commonwealth Seniors Health Card.

You can receive the card if you:

- Are Age Pension age or older
- Can meet residence rules
- Are not receiving a government pension or allowance
- Can meet identity requirements
- Can meet the income test
- Provide a Tax File Number or are exempt

While there is an income test, no assets test applies. You will receive similar benefits to the Pensioner Concession Card.

Low Income Health Card

For those on a low income but not yet at Age Pension age, the Low Income Health Care Card can be a big help. If you meet the income test, you'll get cheaper health care and medicines and other discounts.

Your gross income, before tax, earned in the eight weeks before you submit your claim is assessed and must be below certain limits.

The types of income included in the test includes wages and any benefits you receive from an employer, self employment income, rental income, super contributions as well as pensions and government allowances.

Other types of income are also counted including:
Deemed income from investments

- Income and deemed income from income stream products such as super pensions
- Foreign income
- Distributions from private trusts and companies
- Compensation payments
- Lump sums such as redundancy, leave or termination payments.

Veteran Card

The Department of Veterans' Affairs has a concession card for anyone who has served in the armed forces and their dependents. Like other government concession cards, the Veteran Card provides access to cheaper medicines and medical care as well as discounts from various businesses. The Veteran Card is a new offering, combining the former white, gold and orange cards. There is no change to entitlements or services with the new card.

As you can see, the potential savings from seniors concession cards can be significant so be sure to check your eligibility. If you would like help working out your income and other eligibility requirements, give us a call.

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