Spring 2018

September is upon us and spring is in the air. Our farmers and firefighters will be hoping for some soaking rain to ease the drought and ward off bushfires. Meanwhile, AFL and NRL fans will be hoping the sun shines on their team this finals season.

Economic news was overshadowed by political instability in August, culminating in Scott Morrison being sworn in as Australia's 6th Prime Minister in 11 years. Morrison is seen as a safe pair of hands economically, and consumer confidence rebounded after the vote. The ANZ-Roy Morgan consumer confidence rating rose 2.1 per cent, its biggest lift in 11 weeks.

Elsewhere the economic signs are mixed. As the latest profit reporting season ends, over 60 per cent of ASX 200 companies lifted profits in the year to June while 93 per cent paid a dividend. The unemployment rate fell to 5.3 per cent in July, while wages growth lifted slightly to 2.1 per cent in the year to June. Offsetting this, national home values fell 1.6 per cent in the year to July according to CoreLogic, the biggest annual fall in 6 years. The Reserve Bank remains positive, noting in the minutes of its August board meeting that the economy is improving, and its next interest rate move would be up. But it sees 'no strong case' to lift interest rates in the near term.

The Australian dollar fell to around US73c in August, down more than 7 per cent this year. In contrast, Wall Street hit record highs in August following comments from the Federal Reserve that it will continue to lift rates gradually provided 'strong growth in incomes and jobs continues'.

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Plugging in to TECHNOLOGY stocks

On August 2, Apple became the world's first company to reach US$1 trillion in market value. It took 42 years to get there from humble beginnings in an LA garage, but a handful of younger technology companies collectively known as the FANGs – Facebook, Amazon, Netflix and Google – are already nipping at its heels.

What do they have in common? All have used innovative technology to create new markets, often beginning with a single product or service. Think Apple's early desktop computers, Amazon's online book retailer, Netflix's streaming service, Facebook's social network and Google's search engine.

According to Forbes magazine, these tech giants have become so much a part of everyday life that their products or services are regarded almost as utilities, as essential to modern living as power or water.[i] They have also used technology and digital transformation to redefine customer experience in a way that is leaving traditional companies behind.

While their products and services may be cutting edge, their investment appeal is old school. Legendary investor Warren Buffett has been a major Apple shareholder for some time. He is known to look for stocks with reliable, long-term earnings at an attractive price with a strong 'moat'. A moat might be a brand name, key products or high barriers to exit. Switch your iPhone for another brand for example, and you lose your iTunes music library and countless apps you downloaded.

China unleashes BATs

While Apple and the FANGs are US-based, they face stiff competition in the global tech stakes from China's BATs. Baidu, Alibaba and Tencent may not be household names in Australia, but they deserve to be on investors' radar because they are a dominant market force not just in China but increasingly elsewhere as well.

Hong Kong-listed Tencent Holdings is known as China's equivalent of Facebook. Tencent was the first Asian company to reach the US$500 billion stock market valuation mark. It's WeChat social media platform recently reached an eye-popping one billion members, and it's also involved in online gaming, music, e-commerce and smartphones.

Alibaba (China's Amazon plus eBay) is the world's biggest retailer. It's New York Stock Exchange (NYSE) listing in 2014 was the world's biggest and this year it became the second Asian company to be valued at more than US$500 billion.

Baidu (China's Google) is the second most widely used search engine in the world. It's also moving into mapping, artificial intelligence and autonomous vehicles. And these are just the biggest of many emerging Chinese tech stocks.

Opportunities and challenges

The tech giants are also beginning to expand into new business areas such as cloud storage, music and video streaming. Some are also growing by acquisition, with Facebook buying What's App and Microsoft buying LinkedIn.

Yet big does not necessarily deliver success. Facebook's share price recently fell 19 per cent in a day. The sell-off was due partly to concerns about the company's ability to deal with privacy issues, but also to a flattening out of user numbers. China's BATs also face challenges from the worsening trade dispute with the US.

So how can Australian investors participate in the dynamic technology sector without getting burnt?

Getting down to business

Diversification is the key to investing in the world's leading tech stocks, while minimising the risk of individual companies performing poorly. The simplest way to gain exposure is via a traditional managed fund or an exchange-traded fund (ETF) which can be bought and sold on the Australian Securities Exchange (ASX) like individual shares.

For the broadest exposure there are global technology funds. A popular way to access the FANGs plus Apple, Microsoft and others is to choose a fund that tracks the Nasdaq 100 Index. Although the US-based Nasdaq exchange is home to a wide range of companies, it is well known for tech stocks.

Tech companies are often seen as exciting, but investors would do well to follow Buffett's lead and make sure that the fundamentals are sound, looking at their financial health and ability to deliver sustainable returns. If you would like to talk about your investment strategy, give us a call.

i 'Apple and the rise of the trillion dollar firm', 6 August 2018, https://www.forbes.com/sites/dantedisparte/2018/08/06/apple-and-the-rise-of-the-trillion-dollar-firm/#6eecde0c631d

YOUNG INVINCIBLES:

the importance of insurance

When you are young, healthy and just starting your working life the last thing on your mind is life insurance. In your 20s and 30s your financial focus is more likely to be on saving for a car, holidays, a home or the birth of a child. But failing to protect the lifestyle you are creating could have a devastating financial effect.

Like many Australians young and old, it's possible that you already have insurance cover in your superannuation fund without realising it. But that could be about to change.

Under new legislation proposed with this year's Budget, large numbers of super fund members are likely to lose their insurance cover. The legislation is still before the Senate but if the changes go ahead from July 1, 2019, those aged under 25 or with low super balances will be required to 'opt-in'.

When to consider insurance

The move to 'opt-in' insurance for young members has been generally welcomed, as some may have more insurance than they need at their age and stage of life. But there are concerns that a significant minority could be left underinsured.

No matter how fit and healthy you are, accidents happen – on our roads, while playing sport or on the job. Insurance may be a necessity if you work in a hazardous occupation such as construction. Major illness and chronic health problems can also strike in your 20s and 30s.

While Australians are marrying and establishing families later than previous generations, there are still plenty of people under 25 with a partner, and/or children, who would be financially disadvantaged if they were to die or be unable to work due to accident or illness.

Even though Millennials may not have dependents yet, or the financial commitments their parents have, spending on rent, car loans, credit cards and daily expenses all require a steady income.

So why the changes?

The Government's Protecting Your Super package is designed to protect members' savings from being eroded by excess fees and insurance premiums.

Most super funds currently make automatic deductions from members' contributions to pay for life insurance. This is known as "opt-out", as the onus is on members to cancel the insurance if they don't want or need it.

Typically, there are three types of insurance offered to members:

- Death Cover or Life Insurance – part of the benefit your beneficiaries receive when you die.
- Total and Permanent Disability (TPD) – pays you a benefit if you become seriously disabled and are unlikely to ever work again.
- Income Protection Insurance – pays you an income stream for a specified period if you can't work due to temporary disability or illness.

Under the new rules, funds will only offer insurance on an 'opt-in' basis for new members who are under 25 years old, members with balances below $6,000 or those who have an account that has been inactive for 13 months.

Good news and bad

Despite the good intentions of the new rules, the bad news is that insurance premiums are likely to increase for most members who retain cover. This is because under the present system younger, healthier members cross-subsidise insurance claims by older members.

According to Price Warner, premiums are likely to increase by about 11 per cent on average.[i] Premium rates will vary considerably from fund to fund, depending on the benefit design, demographics of the membership, and changes to terms and conditions to deal with switching cover on and off.

The good news is that there is time to consider your options. Funds are required to notify members with low balance or inactive accounts and outline what steps they can take if they have insurance and want to continue their cover.

To find out what insurance cover, if any, you may already have in super, contact your fund or speak to us. We can help you assess your insurance needs and whether you should consider opting-in or taking cover outside super.

i 'Federal Budget average premium increases', Rice Warner, 31 July 2018, http://www.ricewarner.com/federal-budget-average-premium-increases/?utm_source=Email+Campaign&utm_medium=email&utm_campaign=42575-53602-Insight_Federal+Budget+Average+Premium+Increases_31.7.18

Lessons from the RICH LIST

Most people who are intent on building their personal and business finances know there is no quick road to wealth. While some people dream about their lucky numbers finally being called, others are making every day count.

Of course, not everyone can make it onto the Forbes rich list, and some individuals rise to wealth largely through privilege and circumstance. However, for many others, their position can be directly attributed to exceptional work habits and a determination to succeed.

If you're committed to delivering a serious boost to your finances, then cultivating the techniques favoured by those on the rich list can assist you to achieve your personal and professional goals.

Having a strong work ethic

The wealthiest and most successful people in the world demonstrate a single-minded commitment to their goals; eating, sleeping and breathing their enterprises. You need look no further than Zhou Qunfei, the world's richest self-made woman, who started out working in a factory by day and taking accounting classes by night. She proves that determination over a sustained period produces undeniable results.

Pursue a dream

A number of very prosperous people don't start out pursuing wealth; they pursue a passion. Consider Bill Gates or Elon Musk, who both conceived an exciting, innovative idea. Passion compels people to continue pushing for their goals. In a society where many people just pursue income, successful people use their knowledge and talent to turn their passion into a revenue-generating venture.

Setting goals with a long-term view

Innovative ideas require big-picture thinking. The wealthiest people in the world didn't stop after one success (or failure). They remained committed to their vision and focussed on the long term. Ultimately, individuals who have accumulated significant wealth tend to be entrepreneurs whose determination to 'win' motivates them to map out the future and set specific and achievable goals.

Having support

Jeff Bezos, Amazon CEO, has a notoriously rigorous hiring process. Why? Because he understands the importance of surrounding himself with other driven people. Successful people act intentionally to nurture valuable professional and personal relationships, putting time and energy into helping these relationships grow.

Not being afraid to fail

Sir James Dyson, who literally made his fortune out of hot air, famously said '99% per cent of my life is failure', in reference to the number of prototypes his company makes before they get it right. What he shows us is that failure is an inevitable part of the process and that each failure is an invaluable learning opportunity. Realising that the insights gained from failing have practical applications, successful people continually find inspiration for new ideas and devise ways to execute them.

Making smart investments

Finally, there are many ways that affluent people go about growing and managing their wealth, and making smart financial investments is certainly a critical component of building capital. Whether you are looking to invest in the share market, a new venture or property, knowledge is power. It pays to do your homework and ask for expert advice where required.

While, the extent to which your own mindset and habits dictate how successful you are cannot be understated, it's always good to have an expert in your corner. We're here to help you maximise your wealth and achieve your vision of success.

Forbes 2018 top 5

1. Jeff Bezos $112B
   Founder and Chief of Amazon
   Attended Princeton and worked at a hedge fund before founding Amazon in 1994.
2. Bill Gates $90B
   Founder of Microsoft
   Now manages the world's largest private charitable foundation.
3. Warren Buffet $84B
   Investor
   Bought his first stock at age 11. Intends to give more than 99% of his fortune to charity.
4. Bernard Arnault & Family $72B
   CEO of LVMH
   Oversees an empire of brands including Lois Vutton and Sephora.
5. Mark Zuckerberg $71B
   CEO of Facebook
   Dropped out of Harvard to found Facebook at the age of 19.