

your **money** your **future**

## Newsletter: May 2020

Welcome to the latest edition of our client newsletters.

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

In this edition topics include:

- Learnings for Aussie equities investors
- Preserving retirement savings during COVID-19
- Gifting and financial generosity during coronavirus.

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.

In the meantime we hope you enjoy the read.

All the best

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# Learnings for Aussie equities investors

Lockdown measures in Australia have now been put in place, and markets have reacted as the Australian Government has responded to the crisis. For nervous holders of Aussie equities, it's worth remembering there are two situations to brace portfolios for: the course this pandemic will run, and the inevitable recovery.

## Getting the facts right

Though the number of cases in Australia of COVID-19 seem relatively low compared to global counterparts, this virus is spreading quickly through a global population with no immunity, and faster than modern medicine and governments can keep up.

Australia is rated as one of the countries most prepared to cope with the outbreak<sup>1</sup>, but it needs to be paired with a rapid response plan. Masses of people requiring treatment all at once – when regular flu season is on approach – is a significant consideration and concern.

Like much of Europe and Asia, Australia is also resorting to the basics to stagger the impact of the virus on its healthcare system – social distancing, isolation and quarantine.

The relatively sudden and highly disruptive impact on normal social functioning is, of course, having an impact on the companies and services which have enjoyed a period of predictable demand and a long bull run.

## What we're bracing for

Australia may need to make more pronounced moves to reduce the spread. These decisions, if taken, would rightly put

health and well-being outcomes ahead of economic ones but would come with more market volatility.

Further, we expect now that Australia will experience two consecutive quarters of negative growth, causing the first recession since the early 1990s.

Though it's hard to fathom at the moment, there is one important event we are bracing for also: a recovery.

As it stands, shares are likely to see further short-term falls given the uncertainty around COVID-19, both in terms of the duration of the outbreak in Australia and worldwide, and the extent of its economic impact even in the case of containment. However, for the next 12 months, we expect total returns to be helped by an eventual rebound in growth and supportive policies.

Measures we can reasonably expect from the government and central bank include:

- Quantitative easing.
- Policy stimulus.
- Fiscal stimulus.
- A cash rate cut.

It's important to remember both of the realities to realise the panic will endure, and it will also end. Now is the time for careful, rational and long-term strategies to be an absolute focus, to ensure we get through this period without wearing the cost long-term.

## Some golden rules

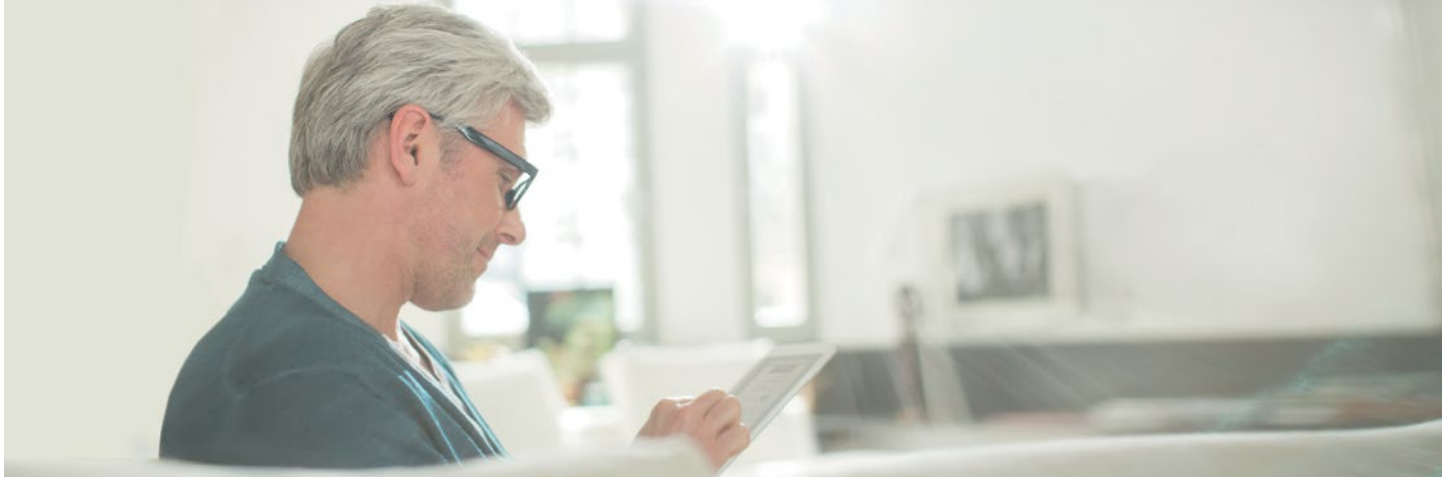
Here are some golden rules we are considering:

- Stick with companies who have good balance sheets for now.
- Be ready to assess capital raisings, as some companies will need to come to the markets for fresh equity and there will be some great deals on offer for new shareholders.
- Use the dislocation to high grade the quality of our portfolio.
- Be very wary of investing in some of those loss-making and high valuation sectors like IT, as the markets' toleration for business models that need constant funding will change.
- We now must be close to peak panic, be an opportunistic buyer if we can, and if it suits our long-term strategy.

By Dermot Ryan, Sydney, Australia

i <https://www.businessinsider.com.au/best-prepared-countries-for-a-pandemic-still-not-that-prepared-2020-3?r=US&IR=T>

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# Preserving retirement savings during COVID-19

Investment markets globally are experiencing significant volatility as economies around the world try to navigate the uncharted waters of the COVID-19. If you're approaching retirement this volatility can be a source of anxiety, and it can be difficult to understand what a person can do to protect their nest egg.

We spoke to John Dani, private client adviser at AMP Advice, who offered five tips for pre-retirees to consider that may help preserve retirement savings during COVID-19.

## 1. Resist the urge to switch your super to cash

If you're looking at your super balance and seeing it fall in value, it's human nature to want to protect what you have. But Mr Dani says it's important consider riding out the storm, to allow for the opportunity to give your super a chance to rebound.

He says by switching to cash, you may be selling assets for less than they bought them, which may lock in your losses and compromise the ability of your super to recover when the market improves.

"From Black Monday in 1987 and the Recession in 1990, to the Global Financial Crisis in 2007, what history shows us is that investment markets do recover," he adds. "While it is a very, very difficult time and people are naturally fearful, they need to find some courage and keep calm when it comes to their super."

## 2. Think carefully before accessing your super early

As part of its economic response to COVID-19, the Federal Government is allowing eligible Australians early access to up to

\$20,000 of their super. But Mr Dani says that pre-retirees should think very carefully before taking up this offer.

"Not only would you be giving up the gains from a future market recovery, but you may be also giving up the compounding return on the withdrawal between now and when you eventually retire".

"For some people, though, the early access may be an important option; if they've lost their job or their business has suffered, they need to keep a roof over their heads and pay for other necessities."

## 3. Take advantage of other government assistance & other relief

In the event that you've lost your job, had your hours cut, or your business is suffering, Mr Dani says you shouldn't hesitate to take advantage of the regular JobKeeper or JobSeeker payments the government has made available.

"Many people in this age group may have never accessed government benefits, but you need to put aside your pride. You don't need to queue up at the 'dole' office, it's all done online and taking advantage of the government's measures will help in these extraordinary times we are faced with."

People should also consider what other measures are available to help supplement and ease any financial hardship or strain they may be experiencing. As mentioned above, the government has introduced some thoughtful options for people who have lost their jobs; many banks are providing hardship measures for those who have mortgages; and the residential and commercial tenants may also have some measures introduced.

These are all options people should be exploring and considering as well to help ease any hardship they may be experiencing.

## 4. Consider your situation before helping others financially

Some pre-retirees may be faced with pressure to help out grown-up children – or other family members – financially if they're struggling due to the economic impacts of COVID-19, but Mr Dani says any requests for help should be carefully considered.

"We all love our kids and we all want to help them and ensure they aren't going to be impacted by financial stress, but remember that they are also probably able to access government assistance during this time."

Mr Dani says that if you do decide to help your family financially, you need to be really clear whether the money is a gift or a loan, and if it's a loan it's a good idea to put this, and any terms attached, in writing to avoid any miscommunication or conflict and ensure all expectations and boundaries have been established up front.

## 5. Use caution if you decide to invest when the market is down

"If you have the courage and the risk appetite, and are in a financial position to do so, the market downturn may represent an opportunity to contribute some money into your super so you could benefit more when the markets recover," Mr Dani says.

However, he urges anyone considering investing at this time, either in their super or in other financial products such as shares, to do so cautiously, invest within their means and not to borrow to invest.

"The big hint here for anyone wanting to invest is to do so gradually. Don't try to pick the bottom of the market but adopt a strategy such as investing a set amount each week or fortnight to spread the risk of your entry into the market," he says.

*If you're unsure, get in touch so that we can assist you to make decisions appropriate to your circumstances.*



# Gifts and financial generosity during coronavirus

## Are you thinking of giving or lending money to adult children (or other family members) who are in financial hardship?

Parents are often called on to help during times of crisis. Now, with a growing number of people experiencing financial hardship as a result of the coronavirus pandemic (COVID-19), there's an increased chance that parental assistance might extend to financial support.

Money can be a very emotional thing, particularly when you get family involved. The reality is, we all want to help our kids and our first instinct is to provide assistance if they're in need. We just need to do so prudently.

If you're considering giving or lending money during the COVID-19 crisis, here are some things to think about.

### Exceeding gift limits to children may affect your Age Pension

The current Age Pension rules allow you to gift up to \$10,000 per financial year, to a total of \$30,000 over a rolling five-year period<sup>i</sup>. For instance, you may choose to take a lump sum from your retirement savings to do this.

If you give away amounts above these limits, the excess will still be counted as an asset of yours, and subject to deeming under the income test for 5 years, so you may not receive the increase in Age Pension that you might otherwise expect.

This means you can't give away \$100,000 and then suddenly go on the full Age Pension. The limits allow people to be generous, but at the same time not artificially qualify for a higher Age Pension as a result of giving all their money away.

### Explore financial hardship assistance before giving

COVID-19 hasn't altered any of the current rules regarding giving, but it has opened up more options for people in financial hardship, which may prevent the need for assistance in the first place.

Your children [now] have access to a lot of avenues for financial assistance before they need to draw upon the bank of Mum and Dad. Have they applied for the JobSeeker payment?

Your children may also be able to access money from their superannuation<sup>ii</sup>. They need to do this with care, but it's another avenue that your children may have available.

There's also more affordable access to education<sup>iii</sup> for upskilling and additional measures for rental relief. It might be worthwhile exploring these options if your children are experiencing financial difficulties before you turn to giving.

### Setting boundaries if you do help out

If you're thinking about giving money you should be prepared to communicate clearly. You want to make sure that everyone is really, really clear: the money that I'm providing to you, is it a loan or is it a gift? Communication and clarity are absolutely vital. If it's a loan, set clear expectations about how and when it will be paid back.

If you don't have a formal legal contract, it's important to retain emails or text messages that state your intentions, including the payment arrangement.

It's also important to note, if it's a loan, Centrelink will treat it differently to a gift. While the gifting limits discussed above will not apply, the outstanding balance of a loan will be counted as an asset.

Further, the outstanding balance will be treated as a financial investment and subject to the Centrelink deeming under the income test until it is repaid.

### Keeping things fair

If you have more than one child and you're only providing financial assistance to one of them, you may want to give some thought to how you're going to respond to another child saying, 'You helped Jenny, can you help me?'

It's important to think about whether each of your children needs help. Or if you could prepare an explanation as to why you're only extending financial generosity to one family member.

### Additional considerations

When making a decision about gifting or loaning money, it is important to bear in mind:

- That you'll be foregoing the opportunity to earn any income or potential growth from the amounts you'll loan or give away
- That there may be implications to your estate planning to consider
- Any potential tax implications or costs you may incur if you need to sell assets to raise the gift or loan amount.

### We can help

Before making any decisions, it may help to speak to us – we're here to help you manage the effects of COVID-19 on your financial situation.

<sup>i</sup> Services Australia, How much can you gift

<sup>ii</sup> Australian Taxation Office, COVID-19 early release of super

<sup>iii</sup> Department of Education, Skills and Employment, Higher Education Relief Package