QUARTERLY INSIGHT

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Autumn update

We are hoping that you have all started off with a positive outlook to 2021. Although last year was a challenging year for most, it was definitely a year for reflection.

As we start to see Australia and the world go through the vaccination process, we are also beginning to see families getting together on the weekends, sports being played with crowds cheering them on and the excitement of dressing up and heading to a wedding again. We understand there are still others that are concerned about leaving the home or going out to gatherings or restaurants. The article on ***Why Feeling Connected Makes us Feel Good*** is very relevant and shows us how this plays an important role with our health and well-being.

Besides the Wellbeing article, we have also provided you with some insight into the Bond Market, achieving financial harmony or shaking up your financials with a clean out and protecting you and your loved ones with personal insurance.

We would also like to invite you to register your details to get access to the Yield Report (www.yieldreport.com.au) and Finance News Network (www.finnewsnetwork.com.au) that provides you with daily cash rates, term deposits and investor events that might be of interest to you.

Stay safe and as always as your Financial Adviser, we are here for you, your family and your loved ones. Please call us as often as you need.

All your bond market questions answered

Jonathan Shapiro, Australian Financial Review

The RBA has doubled the value of bonds it buys to $4 billion a day. Why is the RBA doing this, why is the bond market important, and what does it mean for stocks?

The bond market has existed for hundreds of years and, while most of the time its machinations are uneventful, every now and again it reminds us it's the boss of everything.

We are now living through one of those moments as a sharp rise in yields has forced us to rethink the risks and rewards in financial markets and put seemingly all-powerful central banks back on notice.

The bond market has therefore been testing the Reserve Bank's resolve and some speculate it may coax it into increasing its bond buying to achieve its policy objectives.

To help understand past, present and future bond market conniptions, here is an explainer that we will keep updated for the latest developments.

What is the bond market?

The bond market is arguably the oldest financial securities market on the planet. It is where governments, corporations and other lenders borrow money to finance their activities.

There are several parts to the bond market but the two main ones are the government bond market and the credit market.

The former is the market for government securities, the latter is for private-sector borrowers which are riskier to lend money to and therefore have to pay a higher rate, or a credit spread.

Governments that borrow money in their own currency (like the United States, Australia and Japan) are considered risk free in that they can never really default.

Why the bond market matters?

The bond market matters for several reasons. One, of course, is that it is the rate at which governments borrow. If the rate goes down, it becomes cheaper for governments to borrow money.

If the rate goes up, it becomes more expensive, and if governments have accumulated large stocks of debt, the budget becomes more sensitive to moves in borrowing costs.

But the bond market is also an important influence in other markets, from corporate bonds to stocks. The government bond rate sets the risk-free rate upon which all other investments are priced.

If the three-year bond rate is 1 per cent, it makes little sense to accept a similar rate for a three-year loan to a risky corporation at the same rate.

What's going on right now?

Over the last several weeks, bond rates have been rising, steadily at first and then quite sharply.

The main reason they're rising is because the market is anticipating that the economy will emerge from its pandemic slump far quicker and more robustly than previously anticipated.

That is due in part to vaccines, to government spending packages and to central banks' willingness to keep short-term interest rates low.

To instil confidence among borrowers, central banks committed to not raise interest rates until there was clear evidence of higher inflation.

Now the bond market is testing that, but the central banks don't want to blink. Sharply higher rates, however, suggest the market thinks that keeping short-term rates low will only amplify inflationary effects in the future.

Sharply rising bond rates are therefore providing an early test of the resolve of central banks to maintain low rates and the confidence of the equity market, as prices in some parts of the market are predicated on long-term rates staying low and central banks holding down borrowing costs for households in the short term.

What's inflation got to do with it?

Over the past 10 years, rising bond yields have tended to subside as deflationary forces – such as an ageing population, a less unionised workforce and technological disruption – have exerted themselves.

But there is no doubt the market is on alert that there could be a sustained and meaningful outbreak of inflation in the future.

This is the challenge for central banks that want to stoke inflation – rising prices would reflect that workers are able to demand higher wages because the economy is at or near full employment.

Inflation also eats away at high government and household debt burdens as incomes rise relative to loan amounts. (This is how the post-war debt problem was solved).

But too much inflation in the form of rising prices for goods and services also destroys the purchasing power of workers and savers, eroding their wealth.

Why bond rates matter to the RBA?

Rising bond rates matter for the Reserve Bank because it has joined other central banks in intervening in the government bond market.

In March last year, the RBA committed to buying bonds to set the three-year bond rate at the same level as the cash rate.

This was to make businesses, banks and households comfortable to borrow money cheaply for three years. To achieve this they bought bonds when the rate moved away from its target.

In November, the Reserve Bank went further and pledged to buy $100 billion of longer term bonds with maturities of between five and 10 years. This was later extended to $200 billion.

The reason was to counter the fact that other central banks were aggressively buying bonds in their markets, forcing down yields relative to Australia.

That put upward pressure on the currency, which was unhelpful for the country's exporters and was therefore adversely hurting growth.

But since the Reserve Bank began buying bonds, yields have increased materially, in line with global rates as the market explores the possibility of rate hikes. And even the three-year rate has drifted above the three-year target of 0.1 per cent.

The bond market has therefore been testing the Reserve Bank's resolve and some speculate it may coax it into increasing its bond buying to achieve its policy objectives.

On March 1, the Reserve Bank did increase the amount of long-term bonds from $2 billion to $4 billion as a demonstration of its commitment to achieving its objectives.

One problem the Reserve Bank has tried to manage is to not overwhelm the bond market or be seen to provide direct government financing.

The Reserve Bank's stance is that it sets borrowing costs in the economy to achieve its mandates but it doesn't print money so the government of the day can spend to its heart's content. The more bonds it buys, the harder it becomes to peddle that line.

We may find out more about the Reserve Bank's thinking or its intentions to deal with rising bond rates at Tuesday's meeting.

What is the takeaway?

The events of the past few weeks have shown that, despite decades of commentary lamenting central bank distortion, there is still an actual government bond market, and it is still very powerful.

For central banks, investors and policymakers it is an important reminder that there is no free lunch in markets.

There is a risk that too much stimulus – whether monetary or fiscal – could come at a cost. The bill could come sooner and be higher than we think.

Give your finances a shake-out

Like trees losing their leaves in autumn, why not take a leaf out of their book and choose this time of year to shed some of your own financial baggage.

In the style of Marie Kondo, the Japanese organising whizz who has inspired millions to clean out their cupboards, decluttering your finances can bring many benefits.

While you work through all your contracts, investments and commitments, you will no doubt discover many that no longer fit your lifestyle or are simply costing you in unnecessary fees.

And if that is the case, then it is likely that such commitments will not be sparking any joy. And joy is the key criteria Kondo uses to determine whether you hold on to something or let it go.

So how does decluttering work with your finances and where do you start?

Where are you?

The first step is probably to assess where you are right now. That means working out your income and your expenses.

There are many ways to monitor your spending including online apps and the good old-fashioned pen-and-paper method.

Make sure you capture all your expenditure as some can be hidden these days with buy now pay later, credit card and online shopping purchases.

The next step is to organise your expenditure in order of necessity. At the top of the list would be housing, then utilities, transport, food, health and education. After that, you move on to those discretionary items such as clothes, hairdressing and entertainment.

Work through the list determining what you can keep, what you can discard and what you can adapt to your changed needs. Remember, if it doesn't spark joy then you probably should get rid of it.

Weed out excess accounts

Now you need to look at the methods you use when spending. Decluttering can include cancelling multiple credit cards and consolidating your purchases into the one card. This has a twofold impact: firstly, you will be able to control your spending better; and secondly, it may well cut your costs by shedding multiple fees.

Another area where multiple accounts can take their toll is super. Consider consolidating your accounts into one. Not only will this make it easier to keep track of, but it will save money on duplicate fees and insurance. If you think you may have long forgotten super accounts, search for them on the Australian Tax Office's lost super website. Since July 2019, super providers must transfer inactive accounts to the tax office.

Once you have simplified your super accounts into a single fund, the next step is to check that your investments match your risk profile and your retirement plans. If they aren't aligned, then it's likely they will not spark much joy in the future when you start drawing down your retirement savings.

If you have many years before retirement and can tolerate some risk, consider being reasonably aggressive in your investment choice as you will have sufficient time to ride investment cycles. You can gradually reduce risk in the years leading up to and following retirement.

Sort through your insurances

Another area to check is insurance. While insurance, whether in or out of super, may not spark much joy, you will be over the moon should you ever need to make a claim and have the right cover in place.

When it comes to insurance, make sure your cover reflects your life stage. For instance, if you have recently bought a home or had a child, you may need to increase your life insurance cover to protect your family. Or if your mortgage is paid off and the kids have left home, you might decide to reduce your cover.

Prune your investments

If you also have investments outside your super, they too might benefit from some decluttering. As the end of the financial year approaches, now is a good time to look at your portfolio, sell underperforming assets and generally rebalance your investments.

Many people who have applied Marie Kondo's decluttering rules to their possessions talk about the feeling of freedom and release it engenders. It may well be that applying the same logic to your finances gets you one step closer to financial freedom.

If you would like to review or make changes to your finances, why not call us to discuss.

Love & money: achieving financial harmony

The past 12 months have been a challenging time for many of us on a personal level, with the pandemic having a far-reaching impact on so many aspects of our lives. While the Australian economy is proving remarkably resilient, personal finances have been affected in different ways by lockdowns and government initiatives put in place to soften the economic toll of the pandemic.

Whether your finances were adversely impacted, or you came out of 2021 relatively unscathed, if you are in a relationship you and your partner's attitude towards your finances may have shifted. Given that money has the potential to be a source of conflict in relationships, it's a now a good time to get in sync to ensure you are on track to achieving financial harmony.

Check in and see where you stand financially

The first step is knowing where you stand financially. This involves looking through your shared and individual accounts and being open with each other about your saving and spending habits.

This is unlikely to make for a romantic date night given the potential for uncomfortable conversations, which is why one in three Australians admit having kept a financial secret from their partner.[i] However, by being transparent with your partner, you'll be working through issues before they snowball into a source of greater financial and relationship stress.

Discuss or re-evaluate your goals

We can all lose track of our end goals, especially when life becomes unpredictable and we need to shift focus. So that you don't move too far away from your financial goals, re-evaluate your priorities. These may have changed in the past year – maybe you've had to halt those travel plans or realised you no longer need or can't afford that new car.

As you and your partner are two individuals, you might not always be aligned in terms of your approaches to saving and spending. We all have different deeply entrenched views and beliefs around money and it's one area that you may never completely see eye to eye on. That also goes for goals – we all have our own dreams and ambitions. Maybe one of you sees a need to renovate the bathroom, while the other thinks the money would be better spent on a holiday. Discuss the goals you both have and be prepared for compromise to find a plan that suits the family as a whole.

Re-evaluate your priorities and how you spend

Priorities and spending habits can change over time and more recently, in response to a changed world. In 2020, 56% of Australian households surveyed believed their financial situation was vulnerable or worse due to the pandemic.[ii] You may have less disposable income and needed to tap into savings or your superannuation or access credit as a result.

It's important to acknowledge if your financial position has changed, reassess your priorities and make any necessary adjustments. This may involve taking a look at your spending and saving habits and making changes so that your dollars go towards supporting what's most important to your family. Again, it's important to discuss this with your partner and work through it together.

Develop a budget

Budgeting is an obvious step, but you'll need to ensure that the budget works for both of you and supports your shared goals. There are great budgeting apps you can use, but what you'll both need to bring to the table is a commitment to sticking with the agreed upon budget. Discuss your household needs, such as mortgage or rent payments, utilities, etc, as well as your individual needs and what your shared goals are.

Try to agree on a system that keeps you both accountable. It can be as formal as filling out a spreadsheet every week, or perhaps having a monthly family meeting around how things are tracking and if there's any room for improvement.

Money talk in relationships can be tricky as it's often a loaded and emotive topic that can bring up other issues. This is why an adviser can help with these conversations, facilitating discussions in a safe and neutral environment and providing expert advice, tailored to your situation.

Please reach out if we can be of assistance.

i https://www.moneymag.com.au/talk-money-relationships

ii https://www.bt.com.au/insights/perspectives/2020/australian-consumer-spending-changes.html

Mind the insurance gap

At a time when many people have been focused on their family's health and livelihood, having adequate life insurance has never been more important. Yet the gap between what we need and what we have, has been growing.

Life insurance is all about ensuring your family can maintain their lifestyle if you were to die or become seriously ill. Even people who do have some level of protection, might discover a significant shortfall if they had to depend on their current life insurance policies.

That's because 70 per cent of Australians who have life insurance hold relatively low default levels of cover through superannuation.

Default cover may not be enough

The most common types of default life insurance cover in super are:

- Life cover (also called death cover) which pays a lump sum or income stream to your dependents if you die or have a terminal illness.
- Total and permanent disability (TPD) cover which pays you a benefit if you are disabled and unlikely to work again.

If you have basic default cover and are part of what is considered an "average" household with no children, then it's likely you only have enough to meet about 65-70 per cent of your total needs. The figure is much lower for families with children.

Indeed, a recent study by Rice Warner estimates that while current levels of insurance cover 92 per cent of death needs, they only account for a paltry 29 per cent of TPD needs.[i]

Such a shortfall means that you and/or your family would not be able to maintain your current lifestyle.

A fall in cover

The Rice Warner study found the amount people actually insured for death cover has fallen 17 per cent and 19 per cent for TPD in the two years from June 2018 to June 2020. This was driven by a drop in group insurance within super which has fallen 27 per cent for death cover and 29 per cent for TPD cover.

This was largely a result of the introduction of the Protecting Your Super legislation. If you are young or your super account is inactive then you may no longer have insurance cover automatically included in your super. You'll now need to advise your fund should you require cover.

It may make sense not to have high levels of cover, or even insurance at all, when you are young with no dependents and few liabilities – no mortgage, no debt and maybe few commitments. But if you work in a high-risk occupation such as the mining or construction industries, or have dependents, then having no cover could prove costly.

Another reason for the fall in life insurance cover has been the advent of COVID-19. With many people looking for cost-cutting measures to help them through tough times, insurance is sometimes viewed as dispensable. But this could be false economy as this may be exactly the time when you need cover the most.

There is also the belief that life insurance is expensive which is certainly not the case should you ever need to make a claim.[ii]

An appropriate level of cover for you

It is estimated that an average 30-year-old needs $561,000 in death cover and $874,000 in TPD cover. As you and your family get older, your insurance needs diminish but they are still substantial. So a 50-year-old needs approximately $207,000 in death cover and $499,000 in TPD.

These figures are just for basic cover so may not meet your personal lifestyle. When working out an appropriate level of cover, you need to consider your mortgage, your utility bills, the children's education, your daily living expenses, your car and your general lifestyle.

It's also important to consider your stage of life. Clearly the impact of lost income through death or incapacity is much greater when your mortgage is still high, your children are younger, and you haven't had time to build up savings.

While having some life insurance may be better than nothing, having sufficient cover is the only way to fully protect your family. So why not call us to find out if your current life and TPD cover is enough for you and your family to continue to enjoy your standard of living come what may?

Now more than ever, in these uncertain times, you may find that you too are significantly underinsured and need to make changes.

i https://www.ricewarner.com/new-research-shows-a-larger-underinsurance-gap/
(All figures in this article are sourced from this Rice Warner report.)

ii https://www.acuitymag.com/finance/confusion-around-life-insurance-leaves-australians-vulnerable-nobleoak

Why feeling connected makes us feel good

Feeling connected to others plays a key role in our mental health and wellbeing. Discover why connection is so powerful – and how you can have more of it in your life.

How much social connection we seek out varies from one person to another, but one thing's for sure – as humans, we share a fundamental need to interact with and feel connected to others.

"We are social creatures by nature," says Relationships Australia National Executive Officer, Nick Tebbey. "That feeling of belonging and being connected is really important for our wellbeing."

Research backs that up, with a 2017 study finding that social connectedness and mental health are not only inextricably linked, it tends to be connectedness that promotes good mental health rather than the other way around.

"On the other hand," says Tebbey, "we know that feeling isolated and lonely has a significant impact on our mental and physical health."

The many faces of connection

What it takes to feel connected can be different for everyone.

"Connection doesn't look the same for all of us and that's actually a real positive," says Tebbey. "It means we're able to connect – and feel connected – in so many different ways, regardless of our circumstances."

So, while some kinds of connectedness revolve around physically spending time with like-minded people or doing something unifying – such as being part of a sports team or a book club – others are far less organised.

"Sometimes all it takes is making the effort to say hello to a neighbour," says Tebbey. "Even small acts like that foster a genuine sense of connection."

A study of Relationships Australia's 2019 Neighbour Day – an annual campaign that encourages people to connect with others in their community – proved exactly that. Those who made the effort to do something neighbourly experienced an increased sense of belonging.

"It doesn't have to be your next-door neighbour or neighbourhood community either," explains Tebbey. "Communities exist in many different forms, including those you belong to online."

And don't forget how nice it can be to receive something in the post. Letter writing may be a lost art but there's something really lovely about knowing someone has taken the time to put pen to paper just for you. Our premier partner Australia Post have launched a special release stamp set to encourage people to stay connected. Learn more here.

Sometimes you don't even need anything tangible or actual interaction with others to feel connected.

"A really good example of that was the 'teddy bear hunt' that popped up all over the world as a response to COVID-19," recalls Tebbey. "Simply participating made you feel like you were a part of something and, through that, more connected."

One explanation for that is the fact that connectedness is actually a subjective thing, which means it relies far less on hard facts, like how large your social circle is, and far more on what you believe, sense or feel.

"This subjectiveness explains why it's possible to feel connected to a group of strangers, but also why you can sometimes feel lonely or unconnected among a group of people you know," adds Tebbey.

Starting a conversation

If you are experiencing loneliness or struggling to feel a real sense of connection, Tebbey suggests speaking up or reaching out.

"Surveys we've conducted at Relationships Australia indicate that most of us are quite capable of recognising when we're feeling isolated or lonely. However, we're less well equipped to understand why we're feeling like that, and, importantly, what we can do about it.

“Talking to people you’re close to about how you’re feeling and asking them for help – if you feel comfortable – can be a good starting point. It may even help you identify larger issues that you need to seek support around in order to feel more connected.

“And if you don’t have someone close to talk to or find that it doesn’t help, reach out to a support service like Beyond Blue.”

The Beyond Blue online forums are a great way to connect with people online in a safe and anonymous environment. Discussion topics cover anxiety, depression, suicide, and a range of other life issues. Anyone in Australia can participate in discussions, connect with others, and share their experiences with our community.

If you need assistance visit Beyond Blue’s support services. Our mental health professionals are available 24/7 on: 1300 22 4636.

For immediate support call Lifeline on 13 11 14 and in an emergency, always call triple zero (000.)

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