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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).

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, 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.



How do interest rates affect your investments?

Interest rates are an important financial lever for world economies. They affect the cost of borrowing and the return on savings, and it makes them an integral part of the return on many investments. It can also affect the value of the currency, which has a further trickle-down effect on other investments.

So, when rates are low they can influence more business investment because it is cheaper to borrow. When rates are high or rising, economic activity slows. As a result, interest rate movements are also a useful tool to control inflation.

The cash rate or headline rate you hear mentioned regularly in the media is the interest rate on unsecured overnight loans between banks. The Reserve Bank of Australia (RBA) sets the rate and meets every month, except January, to consider whether it should move up, down or stay the same. This rate then usually flows through to market interest rates causing, for example, mortgage rates to rise or fall.

Rising steadily

For the past few years, interest rates have been close to zero or even in negative territory in some countries, but that all started to change in the last year or so.

Australia lagged other world economies when it came to increasing rates but since the rises began here last year, the RBA has introduced hikes on a fairly regular basis. Indeed, the base rate has risen 3.5 per cent since June last year.

The key reason for the rises is the need to dampen inflation. The RBA has long aimed to keep inflation between the 2 and 3 per cent mark. Clearly, that benchmark has been sharply breached and now the consumer price index is well over the 7 per cent a year mark.

While interest rates are the key monetary policy weapon to control inflation and dampen the economy, there can be a risk of taking it too far and causing a recession. Economic growth is forecast to slow to around 1.5 per cent this year as high inflation, low consumer confidence and rising rates take their toll.

Winners and losers

There are two sides to rising interest rates. It hurts if you are a borrower, and it is generally welcomed if you are a saver.

But not all consequences of an interest rate rise are equal for investors and sometimes the extent of its impact may be more of a reflection of your approach to investment risk. If you are a conservative investor with cash making up a significant proportion of your portfolio, then rate rises may be welcome. On the other hand, if your portfolio is focussed on growth with most investments in say, shares and property, higher rates may start to erode the total value of your holdings.

Clearly this underlines the argument for diversity across your investments and an understanding of your goals in the short, medium, and long-term.

Shares take a hit

Higher interest rates tend to have a negative impact on sharemarkets. While it may take time for the effect of higher rates to filter through to the economy, the sharemarket often reacts instantly as investors downgrade their outlook for future company growth.

In addition, shares are viewed as a higher risk investment than more conservative fixed interest options. So, if low risk fixed interest investments are delivering better returns, investors may switch to bonds.

But that does not mean stock prices fall across the board. Traditionally, value stocks such as banks, insurance companies and resources have performed better than growth stocks in this

environment.ⁱⁱ Also investors prefer stocks earning money today rather than those with a promise of future earnings.

But there are a lot of jitters in the sharemarket particularly in the wake of the failure of a number of mid-tier US banks. As a result, the traditional better performers are also struggling.

Fixed interest options

Fixed interest investments include government and semi-government bonds and corporate bonds. If you are invested in long-term bonds, then the outlook is not so rosy because the recent interest rates increases mean your current investments have lost value.

At the moment, fixed interest is experiencing an inverted yield curve which means long term rates are lower than short term. Such a situation reflects investor uncertainty about potential economic growth and can be a key predictor of recession and deflation. Of course, this is not the only measure to determine the possibility of a recession and many commentators in Australia believe we may avoid this scenario.ⁱⁱⁱ

What about housing?

House prices have fallen from their peak in 2022, which is not surprising given the slackening demand as a result of higher mortgage rates.

Australian Bureau of Statistics data showed an annual 35 per cent drop in new investment loans earlier this year.^{iv} The consequent reduction in available rental properties has put upward pressure on rents which is good news if you have no loan, a small loan or a fixed interest loan on the property.

The changing times in Australia's economic fortunes can lead to concern about whether you have the right investment mix. If you are unsure about your portfolio, then give us a call to discuss.

ⁱ <https://www2.deloitte.com/au/en/pages/media-releases/articles/business-outlook.html>
ⁱⁱ <https://www.ig.com/au/trading-strategies/what-are-the-effects-of-interest-rates-on-the-stock-market-220705>
ⁱⁱⁱ <https://www.macrobusiness.com.au/2023/02/inverted-yield-curve-predicts-australian-recession/#:~:text=Since%20the%20great%20bond%20yield,the%20shape%20of%20the%20curve.>
^{iv} <https://www.abs.gov.au/statistics/economy/finance/lending-indicators/latest-release>

Think you'll never fall for a scam? Think again!

It's no secret that scammers are getting more sophisticated. As this is an ever-evolving space, scammers are constantly developing new ways to part you with your hard-earned cash – and they cast their net wide.

While it's easy to think "it will never happen to me", people who never expected to be victims of scams are actually among the most vulnerable to being taken advantage of. While the stereotype is that older people are the most likely to be scammed, Gen Xers, Millennials, and Gen Zs are actually more likely than seniors to report losing money to fraud.ⁱ

The reality is scammers don't discriminate and people of any age or demographic who believe they are too smart to be tricked may be less careful and more likely to suffer a loss. ⁱⁱ And the losses are considerable. Australians were expected to lose around \$4 billion to scams in 2022.ⁱⁱⁱ

Here are some scams to be aware of that are doing the rounds:

Texts or calls from a trusted brand

One of the most common scams at the moment is where a criminal pretends to be a trusted brand or government agency getting in touch to collect personal information or demand a payment. You may be contacted by email, social media, phone call, or text message and they will often direct you to an official looking website.

It's easy to be taken in via text message as it can appear to be from a legitimate sender as the scammer uses 'alpha tag' technology to register a mobile number with a word or acronym – the ATO (Australian Tax Office) for example.

Beware of clicking on links and if you get a text message or call that doesn't seem right, you can find the official contact details on the company's website and call them to verify the scam.

Buying and selling

Scammers prey on consumers and businesses that are buying or selling products and services.

As a buyer you may pay the money and never receive the goods you have paid for. To protect yourself be on the alert for scams – if the advertised price looks too good to be true, it probably is. For rental properties or holiday accommodation, only use reputable online booking agents.

As a seller, you may be tricked into believing the buyer has paid in full or even paid over your advertised amount, including sending falsified payment receipts to support their claim. The buyer may then request a refund for overpayment. To protect yourself, don't accept a mobile payment from someone you don't know and never accept or refund a deposit for more than the selling price.

False billing scams request you or your business to pay invoices for services or supplies you did not order so always double check and query demands for payment if in doubt.

Tugging on the heart strings

Dating and romance scammers often make their approaches on social media or dating sites and will go to great lengths to gain trust. Protect yourself by never giving money or goods of value to someone you have never met in real life.

Scammers also appeal to our emotions by impersonating genuine charities to ask for donations after natural disasters or major events. To avoid being scammed approach charity organisations directly and check an organisation's credentials on the Australian Charities and Not-for-Profits Commission (ACNC) website to see if they are a genuine charity.^{iv}

Attempts to gain personal information

These include when a scammer gains access to your personal information by using technology.

Consider using multifactor authentication, a security measure that requires one or more proofs of identity to grant you access to any applications you use regularly and change passwords regularly, making sure to choose secure passwords.

Taking a little extra care to be aware and alert to the possibility of being scammed could save you a lot of heartache. Of course, we are here to help if you think something may be a little suspect.

i <https://consumer.ftc.gov/consumer-alerts/2022/11/fraud-reports-and-losses-not-just-grandparents-story>

ii https://www.finrafoundation.org/sites/finrafoundation/files/exposed-to-scams-what-separates-victims-from-non-victims_0_0.pdf

iii <https://www.news.com.au/finance/money/costs/australia-to-cop-4-billion-scam-loss-in-2022-according-to-scamwatch/news-story/890e469b4b05a6c950e3cb6b4f83f56c>

iv <https://www.acnc.gov.au/charity/charities>

We hope you enjoyed our quarterly newsletter Prepare for Life.
Please contact our office if you would like to discuss anything in this edition.
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