

# According to us

## newsletter

Winter 2013



## Resetting the dial...

Another financial year passes, with this one concluding in a new political landscape domestically.

Whilst the market reacted little to this event, the clarity it provided can only be positive, given business likes “certainty” in whatever form.

The year past has definitely not been without its challenges, as companies strive to reset their business models for a modest growth environment, as well as grappling with an ever changing market and regulatory environment. The introduction of a carbon price is one clear example of this. In our sphere, it has been the implementation of reforms to the financial advisory and investment management industries.

It is also clear to all and sundry, five years down the track from the Global Financial Crisis (GFC), that the credit-fuelled growth days are not returning in a hurry - even with interest rates currently sitting at close to historic lows.

That said, the above should not obscure the fact that the last financial year has been more than productive. Many issues have been faced and addressed (e.g. Cyprus) and lessons learnt. The concern though, is we seem to be ushering in FY14 in a similar predictable fashion to recent financial years. Or are we? On the surface this might be so, but I examine some of the differences in the current market pullback to such past episodes in recent years.

Separately, the last quarter of the financial year coincided with changes to superannuation (yet again I hear you say). Most were announced pre-Federal budget and confirmed in the budget. Others have been announced as legislation has passed. Even though not all are “law” as yet, they are generally supported by the coalition. Whilst we endeavour to keep you apprised of developments, Jackie Cook provides a succinct final checklist for the forthcoming financial year.

If you have any questions upon reading, we would be more than happy to field enquiries.

## Changes to the Superannuation Landscape

By Jackie Cook, Financial Strategist

Following a flurry of activity in the last quarter of FY13, we provide you with a summary of the changes that are likely to affect you and your family in the year ahead:

**1. Increase in Superannuation Guarantee (SG) contributions** - the minimum SG contribution will be raised from 9.00% to 9.25%.

In a phased approach, SG contributions paid by employers to super funds on behalf of employees will gradually increase in increments of 0.25% (in the first two years) and 0.5% thereafter, until it reaches 12% in FY20 as shown in the table below:

Year commencing	SG
1 July 2013	9.25%
1 July 2014	9.5%
1 July 2015	10.0%
1 July 2016	10.5%
1 July 2017	11.0%
1 July 2018	11.5%
1 July 2019 and after	12.0%

**2. Superannuation Guarantee (SG) contributions for the over 70s** - the upper age limit for SG contributions (previously 70) has been removed, therefore there will now be an obligation for employers to contribute for employees who are 70 years and over.

**3. Increase in the concessional contributions cap** - for those aged 60 and over at any time during FY14, the concessional contributions cap increases from \$25,000 to \$35,000. Previous proposals of a required balance of \$500,000 to be eligible for a higher concessional contributions cap have been abandoned.

For those aged 50 - 59, the concessional contributions cap will increase from \$25,000 to \$35,000 in FY15.

These higher caps are temporary and will cease when the general cap indexes to \$35,000 (expected to be in FY19).

There will be no change to the non-concessional contribution cap (currently \$150,000).

**4. Ability to withdraw excess contributions** - individuals can withdraw excess concessional contributions made to their SMSF after 1 July 2013. Clarification on this process is still to come.

**5. Ban on off-market transfers abandoned** - the proposed ban on off-market transfers of listed securities between a SMSF and a related party, which was due to take effect from 1 July 2013, will not go ahead. The current rules that apply to off-market transfers and related party transactions will continue.

**6. Pension minimums increased** - the Government's relief on the required minimum pension payments will end with the minimum percentages returning to their “pre market downturn” rates as shown in the table below.

Age	Percentage of account balance
Under 65	4%
65 - 74	5%
75 - 79	6%
80 - 84	7%
85 - 89	9%
90 - 94	11%
95 or more	14%

If you are concerned about how these changes are going to impact you, please contact our office and we would be more than happy to discuss.

# How should we read recent turmoil

By Geoff Greetham, Executive Director

For the fourth year in a row, global share markets have experienced a “pullback” in the last quarter of the financial year.

It is instructive that the All Ordinaries Index (XAO) in the last four financial years, when it rallied, reached its peak respectively on 16th April 2010, 8th April 2011, 4th May 2012 and 10th May 2013.

There is an old adage, with reference to the US market, “sell in May and go away”. This is based on a perceived seasonal decline in share markets, with some attributing it to lower trading volumes associated with the American summer period.

Unfortunately, whilst it may have been prescient the last four years, such a dictum ignores trading costs and tax consequences from doing so, not to mention the difficulties in timing re-entry.

It also relies on a simple belief that trading volumes drive the market, whereas there are a multitude of global and local macro and micro factors at play.

In fact, in looking back over these last four years, and perhaps as to why this year we trust will be different, the most obvious cause of this “seasonal” decline relates to the US Federal Reserve’s (the Fed) policy actions.



The period in 2010 and 2011 coincided with the Fed’s Quantitative Easing (QE) programmes (QE1 and QE2) respectively coming to an end. QE is where the central bank, in order to stimulate the economy, buys financial assets so as to inject money into the economy. The period in 2012 coincided with the end of the Fed’s Operation Twist initiative. Operation Twist was where the Fed sold short-term Treasury bonds and bought long-term Treasury bonds, with the aim of lowering long term interest rates - another form of stimulus.

All these initiatives were launched with the aim of supporting what was seen as a faltering, low growth outlook for the US. However the cessation of each occurred at a time when continued doubt still existed as to the economy’s direction.

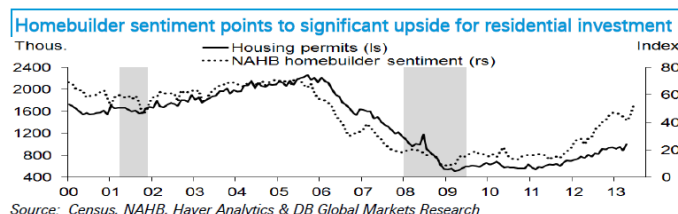
One of the chief reasons behind the current 2013 pullback is again the Fed’s musings and approach to the economy. Where the fundamental difference lies this time is that the Fed is more upbeat than it has been for some time.

Whereas previous years saw stimulus being “reconfirmed” in one form or another against a weak economic backdrop, this year the flagged winding down of now QE3 is being done against an ever improving outlook.

Evidence is increasing that the US economy is on the mend:

- US unemployment, which was at one stage just over 10% at the height of the recession, is now around 7.5%, with the US creating just under 200,000 jobs per month;

- Housing has turned the corner, with housing starts up some 30% on year ago levels, homebuilder sentiment, which encapsulates present/likely future sales and buyer traffic, at its highest level since March 2006, and housing affordability encouragingly at near record high levels; and
- a host of other indicators e.g. auto sales, lumber production (a lead on housing) and rail traffic hinting at ongoing industrial expansion.



This also against a backdrop of a “shale oil/gas” energy revolution, which is lowering energy costs for Americans significantly.

So the recent fall is not a reflection of the state of the US economy, but more a case of investors unwinding speculative trades where they were using “cheap money” provided through the QE programmes to buy higher yielding risk assets. This was no more evident than in Australia where foreign ownership of the Australian bond and share market had risen significantly.

That said, our share market performance does not “boil down” to one issue. There are a few other issues at play - concerns about China’s growth, declining commodity prices and the shift in growth from the mining sector to the non-mining sector.

Circumstances are challenging, but certain media comments referencing the risk of a recession seem somewhat overblown, given Australian recessions have tended to arise from speculative busts with heightened levels of credit growth at their core. Credit growth at present can best be described as subdued (just ask the banks), with debt levels of publicly listed corporates below long term averages and at cyclical lows.

There is no doubt growth has slowed. However the view that because growth has dipped, it will continue to dip is misplaced, particularly given the interest rate cuts over the past year and half working their way through the system and now relief from a declining AUD. This is further supported by corporates’ increasing focus on reducing costs in the current environment - a large part of which is underpinning their increasing earnings.

That said, we suspect the case put forward some time ago of a low growth low interest rate environment is still very much intact, with bouts of volatility, which sometimes need to be welcomed to “flush out” speculators, hopefully providing a sounder platform from which the market will advance.

## Striking A-c-cord

Did you know...

In the last ASX half year reporting season (February-March 2013), industrial companies, as a group, recorded year on year growth in earnings per share (EPS) for the first time since the same corresponding half in 2008 i.e. the start of the Global Financial Crisis (GFC).



Please note that the information in this publication is for general use only. We would be pleased to talk with you in regard to your particular circumstances should you wish to explore any particular aspect further. Any tax planning matters should be discussed with your accountant before proceeding.

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