INFORMED INVESTOR

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ELEMENT WEALTH SOLUTIONS

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ECONOMIC UPDATE

INTRODUCTION

Welcome to the latest edition of our quarterly newsletter 'Informed Investor.'

Risk assets including equities and credit continued to power ahead in April. Locally, the share market and the Australian dollar were supported by rising commodity prices.

Investors continued to monitor Covid cases and the pace of vaccine rollouts worldwide.

Thankfully there remain very few infections in Australia, although rising numbers elsewhere has provided a reminder that the pandemic is far from over.

Continued over...

FURTHER INFORMATION

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Capstone FINANCIAL PLANNING

ECONOMIC UPDATE
CONTINUED

AUSTRALIA

The latest inflation data were well below consensus forecasts. Price falls for fruit and domestic travel, along with increased government subsidy payments for new dwellings and electricity, resulted in headline CPI coming in at just 0.6% for the March quarter, versus expectations of a 0.9% increase. The annual rate rose to 1.1%, well below the 2% to 3% target range.

The Reserve Bank of Australia still expects wage and price pressures to remain subdued "for some years", which suggests policymakers could be hesitant to unwind the accommodative monetary policies that are in place.

More than 70,000 new jobs were created in March – twice as many as forecast – which saw the unemployment rate drop to 5.6%. Interestingly, Australia is the only G20 country where current employment is above pre-Covid levels.

NEW ZEALAND

At 1.5% year-on-year, inflation in New Zealand was little changed in the March quarter. Official interest rates were left unchanged, at 0.25%. Arguably the most significant development over the month was the removal of travel restrictions between New Zealand and Australia. This has created a quarantine-free Trans-Tasman travel 'bubble', which is expected to have a beneficial impact on the New Zealand economy, in particular.

US

The economic recovery in the US appears to be continuing apace, supported by massive government spending. Commentators indicated the Biden Administration could raise capital gains tax rates to help finance additional spending. Initial reports suggest capital gains tax could almost double for high income earners.

US inflation has picked up. Consumer prices were up 0.6% in March and 2.6% on a rolling 12-month view. There remains concern that the high level of government spending could see inflation rise further, although policymakers insist the central bank has the tools to curb any inflation pressures.

900,000 jobs were created in March. This was comfortably ahead of expectations and saw the unemployment rate drop to 6.0%, from 6.2% previously. Whilst encouraging, employment numbers remain 8.4 million below pre-pandemic levels.

The easing of Covid restrictions has undoubtedly released pent-up demand and supported consumer spending. Retail sales rose by 9.8% month-on-month in March, supporting sentiment among retailers.

EUROPE

Despite persistently high unemployment and reports of vaccine shortages in the region, consumer confidence in the Eurozone has risen back towards pre-Covid levels. Indicators from over the English Channel may be providing some encouragement.

More social distancing restrictions in the UK were lifted during April, and so far there have been no indications of any associated increase in Covid cases. This suggests restrictions will continue to be relaxed as planned through May and June. The UK is well ahead of other European countries with its rollout program, with at least one vaccine already provided to more than half the population.

ASIA

The post-Covid recovery in China appeared to lose momentum in the March quarter. The world's second largest economy grew by just 0.6% during the period; much less than expected.

Exports remain strong, but small private companies are not yet enjoying the same level of growth.

There was an alarming spike in new Covid infections in India.

In general, services sectors are performing less well than manufacturers, partly owing to fresh virus outbreaks early in the year and 'celebrate in place' directives for February's Lunar New Year holiday.

AUSTRALIAN DOLLAR

The Australian dollar was little changed in the first half of April, but started to strengthen in mid-month thanks to rising commodity prices. Iron ore prices climbed to new record highs, for example, and copper and LNG prices also increased. In the month as a whole, the 'Aussie' appreciated by 1.4% against the US dollar – to 77.2 US cents – and by 0.8% against a trade-weighted basket of international currencies.

AUSTRALIAN EQUITIES

Rising earnings expectations saw the S&P/ASX 100 Accumulation Index rally 3.5% in April, as the effects of large monetary and fiscal stimulus programs continue to trickle through the economy. Improving economic data, rising commodity prices and a small decline in bond yields provided additional support.

Lower bond yields provided relief across the board for the Information Technology sector (+9.7%). The Materials sector also performed strongly, rallying 6.8% as the price of gold and iron ore moved higher. Demand for iron ore has surged given the size of infrastructure-focused fiscal stimulus programs in Australia and elsewhere.

Small cap companies outperformed across the majority of sectors, enabling the S&P/ASX Small Ordinaries Index to close the month 5.0% higher.

LISTED PROPERTY

Global property securities posted solid gains in April. The FTSE EPRA/NAREIT Developed Index rose 5.0% in Australian dollar terms, outperforming wider equity markets.

The best performing regions included the US (+8.2%), France (+7.0%) and the UK (+6.1%). Laggards included Japan (-0.4%), Singapore (+1.4%) and Hong Kong (+2.1%).

Real estate markets continue to be supported by stimulatory fiscal policy, which will most likely persist through 2021. Combined with positive sentiment on the back of major markets reopening from Covid, these policy measure have seen demand in the sector increase. Locally, the A-REIT market increased 2.9%.

GLOBAL EQUITIES

Most global share markets made solid progress, enabling the MSCI World Index to close the month 4.0% higher in local currency terms.

US equities led the way, with the S&P 500 Index and the technology-heavy NASDAQ both rising more than 5%. Both hit fresh all-time highs during the month.

Technology firms have performed particularly well during the pandemic, fuelled by stay-at-home guidelines and evolving consumer habits.

In Europe, most major bourses closed April between 1% and 4% higher. Italy was a notable laggard, returning -2.0%.

In Asia, major stock markets in China, Hong Kong and Singapore added between 1% and 2%, although the Japanese Nikkei 225 Index declined by 1.3%.

Emerging markets also registered solid gains, despite the spike in Covid infections in countries like India. The MSCI Emerging Markets Index added 2.4% in local currency terms, extending gains made over the past year to nearly 50%.

GLOBAL AND AUSTRALIAN FIXED INCOME

Returns from global bond markets were mixed, with yields moving in opposite directions in the US and Europe.

In the US, 10-year Treasury yields paused for breath, moving 11 bps lower after having increased 83 bps in the March quarter. Conversely, 10-year Bund yields continued to increase, closing the month 9 bps higher, at -0.20%.

Yields on UK gilts and Japanese Government Bonds were unchanged over the month.

In Australia, 10-year Commonwealth Government Bond yields fell 4 bps, to 1.75%. This move helped the domestic fixed income market register steady positive returns over the month.

GLOBAL CREDIT

Sentiment towards global credit markets was supported by generally encouraging economic data, and pleasing corporate earnings releases for the March quarter.

Spreads narrowed in both the investment grade and high yield sub-sectors, resulting in positive returns from credit markets.

Spreads on some speculative grade bonds are now back to levels last seen prior to the GFC in 2008. This is not necessarily a negative indicator, but is something for credit investors to monitor in case of a sudden reversal in sentiment.

Source: Colonial First State

YOUR INVESTMENT OPTIONS AND STRATEGY

Understanding your own behaviour and emotions is a crucial part of investing.

Building your wealth for the long term starts with a sound investment strategy.

But with so many options outside your superannuation fund – from bonds to managed funds – where might you begin?

Almost every type of investment come with risk

Investments can help grow your money. However, there's not only a risk associated with the various investment types, there's also a risk you could lose money, as well as the possibility that your investments won't achieve your financial goals within the timeframe you set out. Generally speaking, the higher the risk, the greater the potential return over the long term.

Understand your risk profile and timeframe

With this in mind, it can help to first understand what type of investor you are – and recognise that this may change as your life changes or as you get closer to retirement. To work out your risk profile, think about how you feel about short-term fluctuations in the value of your investments. Would they keep you awake at night, or would you be comfortable riding them out?

When time is on your side, you may decide you can afford to take some calculated risks with your investment portfolio. That might place you at the 'moderate', 'growth' or even 'high growth' end of the risk spectrum. But if you're planning to retire or scale back on paid work soon, you may adopt a more 'defensive' or 'conservative' investment approach to protect the value of the capital you've built up. A market correction close to retirement could have a disproportionate impact on a portfolio – so it's worth considering two risk profiles: one for superannuation and one for other investments.

What are asset classes?

Cash

Cash is considered one of the safest investments. But in exchange for its safety, it also generally offers the lowest potential return. Investing in a cash option can provide stable, low-risk income – usually through interest payments.

Fixed Interest

Investments in government or corporate bonds, mortgages or hybrid securities are a loan by you (the investor) to the issuer. In return, the issuer pays you a regular interest payment over a fixed term. Depending on the kind of investment, they can also repay the capital you initially loaned them at the end of the term.

Property and Infrastructure securities

You can invest in property and infrastructure via the share market – including commercial, retail and industrial property, or transport, utilities and telecommunications infrastructure. Investing in property and infrastructure securities can help you access these investments without needing the often large sums of capital required for owning them directly.

The potential returns for these investments can be medium to high, but you may need to hold them for a few years.

Australian and International shares

Shares (also known as equities) give you part-ownership of an Australian or international company. Your potential returns include capital growth (or loss) and income through dividends. Shares are considered medium to high-growth assets whose values tend to trend higher over time.

However, they generally carry a higher level of risk than other asset classes, meaning you may need to hold them for longer than other assets to ride out market fluctuations and generate higher returns.

All about diversification

All investments perform differently when financial markets change. Diversification is when you spread your investments across a range of assets to help reduce risk in your portfolio – that is, to avoid putting all your eggs in one basket.

Diversification won't fully protect you against loss, but it can help reduce your risk of capital loss if there is a market downturn – balancing out your returns if some investments underperform others in a given environment.

Source: Colonial First State

GOOD NEWS: SUPER CONTRIBUTION CAPS TO RISE

It could be time revisit how much you are contributing to super and make a super plan for the future.

On 1 July 2021, both the concessional and non-concessional superannuation contribution limits, also known as 'super contribution caps', will rise.

This is good news because this is the first time these limits have changed since 1 July 2017, when the concessional contributions cap was reduced to $25,000 pa for the 2017/2018 financial year and onwards.

Since that time, the non-concessional contribution cap hasn't changed either, currently $100,000 pa.

What are Concessional contributions?

These are super contributions made by your employer, from your pre-tax income (salary sacrifice contribution) or contributions for which you claim a tax deduction. They are generally taxed at only 15 per cent instead of your marginal tax rate.

What are Non-concessional contributions?

These are super contributions made from your after-tax income. Since you've already paid income tax on these contributions, they are tax-free going into your super.

Due to indexation of Australians' average weekly ordinary time earnings (AWOTE), the concessional cap will increase to $27,500 from 1 July 2021.

What are the current and new contribution caps?

Current concessional contributions cap	New concessional contribution cap
$25,000	$27,500

Current non-concessional contributions cap	New non-concessional contribution cap
$100,000	$110,000

What does this increase mean for you?

Any increase in the super contribution caps means you may increase how much you can contribute to super. The tax benefits plus the compounding of returns can make a substantial difference to your final super benefit.

Additional concessional contributions to super can be made by 'salary sacrificing' through your employer or via 'personal deductible contributions'. You should consider whether to make non-concessional contributions or maximise your concessional contributions.

Concessional contributions

Additional concessional contributions can reduce your taxable income and your end-of-year tax liability.

Concessional contributions are subject to just 15% tax on entry to your super fund compared to your upper marginal tax rate which could be as high as 37% or 45% (plus 2% Medicare levy) if you're in one of the highest tax brackets.

Note: an additional 15% tax may apply to concessional contributions if your income is over $250,000.

How to make concessional contributions

Additional concessional contributions to super can be made by 'salary sacrificing' through your employer or via 'personal deductible contributions'. Both methods have the same tax benefit so the method you choose comes down to what suits you:

Salary sacrificing:

Salary sacrificing comes out of your pre-tax salary and reduces your net taxable income meaning you may pay less tax on your personal income.

Personal deductible contributions:

Personal deductible contributions are paid by you, and you can then claim a tax deduction when completing your tax return. If you choose this method, you need to submit a form to your super fund by a certain time advising your 'intent to claim a deduction' on your super contribution.

Making the most of 'catch up' contributions

'Catch up' contributions may allow you to use up to five previous financial years' unused contribution caps in the current financial year if you meet certain requirements. The 2018/19 financial year was the first financial year you could accumulate unused concessional contributions. Unused carried forward concessional cap amounts expire after five years.

Non-concessional contributions

Non-concessional contributions do not entitle you to a tax deduction, but you won't pay any additional tax as you've already paid tax via your personal income tax liability. Earnings on the contributions are taxed at only 15% and are tax-free once you access them as either a lump sum or a pension after age 60, when you satisfy a condition of release such as retirement.

Making non-concessional contributions to super might benefit you if you are seeking to contribute larger lump sum contributions.

Making the most of the 'bring forward rule'

If you were age 64 or less at 1 July 2020 you may be eligible to use the 'bring forward rule', ie bring forward and use up to two future years' worth of your non-concessional contribution caps.

Depending on your total superannuation balance this may allow you to contribute up to $300,000 (3 x $100,000) into super this financial year. However, if you wait and the cap increases from $100,000 to $110,000, the bring forward amount will increase to $330,000 next financial year. You generally need to meet a 'work test' if you are 67 to 74 years old at the time of contribution.

Legislation is pending to increase the age at which you can trigger the bring forward rule from age 64 or younger as at 1 July of the relevant financial year to age 66 or younger.

With increases in the contributions caps on the horizon, 2021 may be a good year to revisit how much you are contributing to super and make a super plan for the future.

Source: IOOF

SAVING FOR YOUR CHILD'S FUTURE

As every parent knows (even before they become one), raising a child isn't cheap. And those expenses don't necessarily stop once they reach 18.

Parents often hope to help their adult children with significant financial milestones in life too. In this article we look at some of the main expenses for parents, how you can start saving for your child's future and the different ways to go about it.

WHAT DO YOU NEED TO SAVE FOR?

Education

Probably the biggest single expense parents think about is education. In 2019, one third of students were attending an independent school according to the ABS. And with the national metropolitan average being $340,882 for a private school education, it can pay to start planning early.

Weddings

Granted, not everyone will get married. But with the average cost of a wedding sitting at $36,000, it's no small expense. Couples might find themselves having to choose between paying for a wedding or saving for a house deposit, so a monetary contribution from the parents is often gratefully received.

House deposit

Helping adult children with a down payment on their first home is something 32% of parents are doing, a 2020 report from Mozo revealed. And they're gifting an average of $73,522.

It could be something to consider when saving for your child's future.

Unexpected costs

Life is not always plain sailing. Parents can find themselves helping grown-up children with unforeseen medical bills, periods of unemployment, meeting mortgage payments or dealing with the financial aftermath of a divorce or separation.

Putting money aside for unplanned costs can mean you don't have to dip into your savings or end up working for longer.

WHEN SHOULD I START SAVING FOR MY CHILD'S FUTURE?

In most cases, the earlier the better. The sooner you start planning for future costs, the more time you have to save, and potentially benefit from things like compound interest – where interest is paid in regular intervals, building on top of earlier interest paid. Once you've worked out how much you need to save and by when, the next step is to understand your current position.

WHAT'S A GOOD WAY TO SAVE MONEY FOR MY CHILD'S FUTURE?

It depends on your financial situation, how long you have to save or invest, the level of risk you're comfortable with and if you want to have the option of being able to access your savings at any time.

Here are some options you could consider. When weighing up what's right for you, remember to take into account all fees, charges and costs.

Savings accounts

For time-poor first parents, a regular or high-interest savings account could be a good place to start. Set up regular, automatic payments and keep it separate from your other current or savings accounts, so it doesn't get accidentally used for something else. Then when you're ready to do some research, you can think about another option for those savings.

Things to consider:

- Generally, you can access the money whenever you need.
- There may be minimum or maximum deposit and withdrawal limits.
- Low-interest rates can equal low returns.

Term deposits

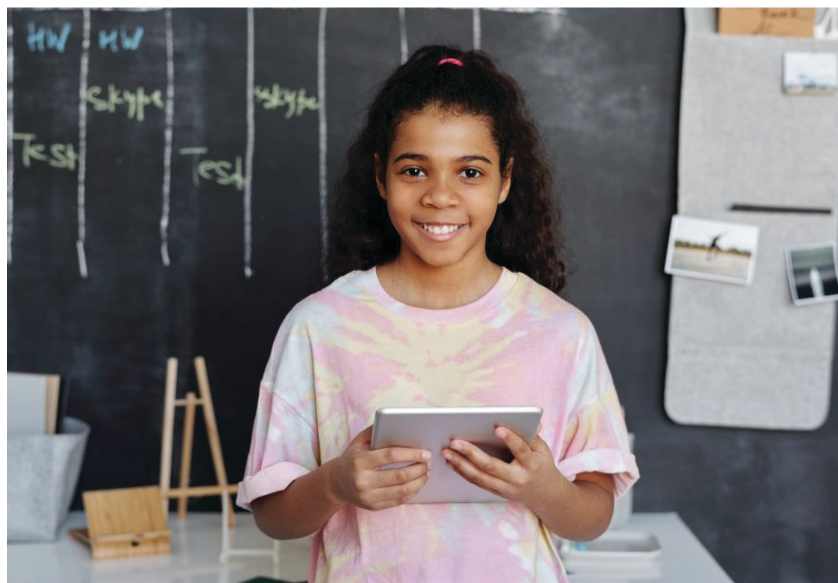
This option offers guaranteed interest rates, provided you save your money for a set period. With a term deposit, you won't be able to access the money ahead of time without incurring a fee, so if you think you'll be tempted to dip into the savings at any time, it's one to reconsider.

Things to consider:

- Your money will be locked away for an agreed period.
- There may be minimum or maximum deposit limits.
- It's likely you'll have to pay a fee if you want to access the money sooner.
- Low-interest rates can equal low returns.

Growth or investment bonds

Depending on your financial situation, a growth or investment bond could be a tax-effective way to save for your child's future. They let you invest on behalf of a child (or a grandchild).



Ownership of the bond is then automatically transferred to the child at a date in the future, set by you.

Things to consider:

- Your money will be locked away for an agreed period, usually a minimum of 10 years.
- There may be minimum or maximum deposit limits.
- You'll need to think about tax implications.
- The expected rate of return.

Education saving plans

Some providers offer savings plans specifically designed for education. There might be potential tax benefits, and they often have features designed to maximise education savings depending on which stage of schooling you're saving for.

Things to consider:

- Depending on the plan, your money could be locked away for an agreed period.
- There may be minimum or maximum deposit limits.
- You may need to pay a fee to access the money early.
- There could be tax implications.
- The expected rate of return.

Family trust

A family trust may be a suitable way to save for your child's future. How the tax benefits may compare to other options depends on the ages, taxable income and number of family members in the trust. Generally, you'll need a financial adviser or accountant to help you set it up.

Things to consider:

- There can be significant costs to establish a family trust.
- There are strict guidelines and rules set out by the ATO.
- Tax treatments are complicated and will require the help of an accountant or financial adviser.

For further information about these strategies, please contact us.

Source: AMP

TRANSFER BALANCE CAP SET TO INCREASE TO $1.7 MILLION

What could this mean for your retirement income stream?

The amount of super savings that can be transferred into a retirement pension (whether you have one or more than one) will increase from $1.6 million to $1.7 million on 1 July this year, but not for everyone.

Currently you can transfer a maximum of $1.6 million from your super savings into a retirement pension (or pensions) to generate an income after you've finished working. However, from 1 July 2021, this limit (known as the transfer balance cap) will increase to $1.7 million. While this is good news for some, the higher cap won't apply to everyone, and other caps and limits will also be affected.

WHAT IS THE TRANSFER BALANCE CAP?

One of the main benefits of transferring super savings into a retirement pension is that the investment earnings within your retirement pension account are tax-free, and from age 60 onwards, so are any pension payments you receive.

The transfer balance cap is a limit on how much can be transferred from your super savings into a retirement pension, regardless of how many retirement pensions you hold. Note, these are not to be confused with the government's Age Pension, or a transition to retirement pension.

Also, once you've transferred the maximum amount into a retirement pension (according to your personal transfer balance cap), you typically won't be able to top up your retirement pension a second time, even if your balance reduces over time.

If you transfer more than your relevant transfer balance cap into a retirement pension, tax penalties may apply.

WHY IS THE TRANSFER BALANCE CAP CHANGING?

The reason the transfer balance cap is increasing by $100,000 to $1.7 million in the 2021-22 financial year is because changes to the cap are dependent on the cost of living, as measured by the Consumer Price Index, which recently went up.

WHO DOES THE NEW TRANSFER BALANCE CAP APPLY TO?

While the general transfer balance cap is changing, your personal transfer balance cap could remain at $1.6 million, could increase to $1.7 million, or it could be somewhere in between.

What that will come down to is whether you move, or have already moved, money from your super account into a retirement pension before 1 July 2021. How much you've moved will also have an impact.

What this means is, if you've never moved money from super into a retirement pension, and do this for the first time after 1 July 2021, the new transfer balance cap of $1.7 million will apply to you.

However, if you move, or have already moved, money from super into a retirement pension before 1 July 2021, this will not be the case. Instead, your personal transfer balance cap will be determined by how much you've already transferred into retirement pensions.

If you transfer (or have transferred) less than $1.6 million, your personal transfer balance cap will be anywhere between $1.6 million and $1.7 million.

If, by 1 July 2021 you fully use, or exceed, the transfer balance cap of $1.6 million, your personal cap will remain at $1.6 million.

These changes could affect what you do before and after 1 July 2021, so please contact us to discuss whether you may be affected.

Source: AMP

WHY INSURANCE IS IMPORTANT: REAL BENEFITS FOR YOU AND YOUR FAMILY

You insure your car and your home. But nothing is more important than your life and your ability to make a living. So it makes good sense to insure your greatest asset – you!

As we move through life, find a partner, raise a family, and maybe start a business, the importance of insurance in a long term plan increases. That's because insurance is all about providing a financial safety net that helps you to take care of yourself and those you love when you need it the most.

5 REASONS WHY INSURANCE MATTERS

Why is insurance important? Let's look at five key reasons.

1. Protection for you and your family

Your family depend on your financial support to enjoy a decent standard of living, which is why insurance is especially important once you start a family. It means the people who matter most in your life may be protected from financial hardship if the unexpected happens.

2. Reduce stress during difficult times

None of us know what lies around the corner. Unforeseen tragedies such as illness, injury or permanent disability, even death – can leave you and your family facing tremendous emotional stress, and even grief. With insurance in place, you or your family's financial stress will be reduced, and you can focus on recovery and rebuilding your lives.

3. To enjoy financial security

No matter what your financial position is today, an unexpected event can see it all unravel very quickly. Insurance offers a payout so that if there is an unforeseen event you and your family can hopefully continue to move forward.

4. Peace of mind

No amount of money can replace your health and wellbeing – or the role you play in your family. But you can at least have peace of mind knowing that if anything happened to you, your family's financial security is assisted by insurance.

5. A legacy to leave behind

A lump sum death benefit can secure the financial future for your children and protect their standard of living.

CASE STUDY

Tony and Karen – Young Family

The following scenario is illustrative only to demonstrate the importance of insurance and is not based on an actual event.

Tony (34) and Karen (33) recently upgraded to a new home to allow their twin boys Nicholas and Rocky (aged 4) more room to play. This also meant taking on a bigger mortgage on one income, as Karen is a homemaker. To protect the family, Tony decided to take out Income Protection Insurance.

During a simple Saturday afternoon game of backyard cricket with the twins, Tony tripped and broke his leg. What appeared to be a simple break was more complicated than initially realised and Tony required several reconstructive operations followed by physiotherapy.

It meant Tony was out of the workforce for over six months, and while his employer was sympathetic, Tony only had two weeks of sick leave owing to him.

Thankfully, Tony's Income Protection insurance meant he received a stream of payments equal to 80% of his regular wage (including super). The couple needed to tighten their belts a little until Tony was back on his feet but they were able to keep up with their home loan repayments, which would not otherwise have been possible without their Income Protection cover.

Source: BT

A FAMILY AFFAIR: CHILDREN, SUPER CONTRIBUTIONS AND SMSFS

What are the risks and benefits of including children as members of the 'family' SMSF?

The potential increase in members from four to six a in self-managed fund has led to many to consider about whether it is worthwhile to have children as members of the parents' or 'family' SMSF.

The options are: should the kids join the fund, have their own, or go elsewhere to an industry or retail fund.

Let's face it, on the positive side SMSFs are a good way of building retirement wealth and if done properly can boost the financial literacy of all members regardless of age – so why not have one exclusively for the whole family?

PROS AND CONS OF A FAMILY SMSF

Some media commentators may tell you that they wouldn't recommend children as members or trustees of a family SMSF. Nonetheless, in some cases it can work exceptionally well, and the children can play an important co-operative component in the fund. There may be instances where a high level of respect exists among the family and decisions can be made collaboratively to the benefit of everyone.

At the other end of the spectrum, however, have a look at the ever-increasing number of court cases which are littered with sad stories. Some involve children taking money from the family fund for their own purposes, and other situations where children deceive their way into the fund as trustees and take over the parents' super. Whether the family SMSF should include children depends on the reasons for having them as members, their ages, personal situation and whether they are genuinely willing to take responsibility as trustees. Let's look at the good, bad and the ugly of having children involved with the family SMSF.

SOME REASONS TO INCLUDE FAMILY MEMBERS

There is no doubt that every family member is different and so is each child within that family. Parents need to exercise sound judgement on which child should be admitted as a member of the family super fund.

A child who has difficulty managing their own personal finances may probably have the same issues as a member or trustee of an SMSF. They may be better off as members of a retail or industry fund where professional managers look after the fund investments.

Children can be split into three categories for superannuation purposes by age and circumstance – those under 18; single adult children; and those children in a relationship, possibly with their own family.

Children under 18 years of age

Super can be provided for children under 18 years of age by a parent or relative, by making child contributions up to $300,000 over a fixed three-year period which are not tax deductible. If the child happens to be working, contributions of up to $25,000 or more may be made by an employer, or the child may qualify to claim a tax deduction themselves. Any contributions will help provide a bigger pool of money for investing and remember - the benefit of compound interest on savings should not be underrated.

A child under 18 years of age can be a member of the SMSF but can't be a trustee or director of a trustee company until they are at least that age. While the child is under the age of 18, it's the child's parents, guardian or their legal personal representative who is the trustee in the child's place.

18 years old and over

A child 18 years of age or older has legal capacity in most cases and can be an individual trustee of the fund or director of the corporate trustee. Along with the other trustees of directors, they are responsible for the operation of the whole fund, as well as all the fund members, not just themselves. This could be a catalyst to involve a child in the investment of their super savings and understand the workings of an SMSF.

Whether you would allow any of your children who has a spouse, but no family themselves, to be a member of an SMSF depends on the situation. In many cases it may be worthwhile to include the child until they have enough benefits to start an SMSF for themselves and their partner.

Children with their own family

The time may come when your child has their own family. Whether they should become members of the family SMSF or have their own will depend on the situation. The same outcomes could be achieved by the child having their own SMSF as the fund may be able to make investments jointly with the parent's fund.

Introducing family members to the 'family' SMSF

One way of introducing children to a family SMSF is that investments could be split among the members. Investments supporting the children's super balances can be segregated from of their parents' investments within the fund. This could be done by using separate bank and investment accounts and the records left to an SMSF accountant or administrator, who has the skills and systems to handle segregated investments, without incurring additional administration costs.

Having children in the family SMSF may also enable an inter-generational transfer of family assets – such as a commercial property used in the family business or other real estate. However, a word of warning, if this strategy is used it must be structured and handled correctly otherwise compliance problems may occur.

There are a number of ways in which the investment could be owned by the fund either jointly, as a company or unit trust. The strategy can allow ownership of real estate by one SMSF, or split across different SMSFs, and allows flexibility if one fund wishes to purchase units or the property in future.

REASONS FOR NOT HAVING A FAMILY SMSF

There may be many positive aspects of having a family SMSF but unfortunately, there is probably a longer list of situations where things may get amiss.

Dipping into the fund

When children become members and trustees of the family SMSF they can be in a position where they can access to the fund's resources.

Access to the fund without proper controls over the fund's bank accounts and investments can have tragic consequences.

For example, an SMSF may consist of a husband and wife and a drug-addicted son who left the fund almost penniless, in addition to the fund being treated as non-complying for tax purposes. If better controls had been exercised over the operation of the fund and the trustees understood their responsibilities, maybe the loss may not have occurred.

Relationship breakdown

In a relationship breakdown superannuation forms part of the partner's assets which is included in the marriage settlement to determine how the assets will be split between the parties.

This means that as part of the settlement that an ex-spouse may have access to their partner's super in the case of divorce. It could mean having to sell the family business assets to free up cash as part of the marriage settlement agreement.

The situation is not isolated to just the parents given that the children as members of the fund may also be going through a relationship breakdown.

Control on death

When it comes to estate planning and SMSFs, who has control is going is probably the most important factor when ensuring the wishes of the deceased member are carried out correctly.

There are many court cases where children have been appointed as trustees of an SMSF as the legal personal representative of their parents.

For example, a father and daughter are members and trustees of the SMSF. The father completed a non-binding nomination requesting the trustee to split his super balance 50/50 to the daughter and a son. The son was not a member or trustee of the SMSF at the time of his death, so the daughter appointed her husband and proceeded to pay 100% of her father's benefits to herself.

In this situation, the Court has found in the daughter's favour – as trustee her (and her husband) had discretion as the nomination made by the father was not binding on the trustee.

Even if the nomination was binding, the fact that the daughter was in control of the SMSF could have caused a protracted and costly legal battle between the beneficiaries.

Therefore, consideration needs to be given to the loss of control over the SMSF if a trustee or member dies or loses capacity.

TO INCLUDE OR NOT TO INCLUDE, THAT IS THE QUESTION

There can be many benefits by including children and other family members to an SMSF, but considerable thought should be given to the potential risks that can arise when family and money matters are combined.

It is important to weigh up the pros and cons before making such a decision as the different needs and motivations of family members may be different to your own and may only lead to conflict.

Source: AMP Capital

LEARNING THE LESSONS OF 2020: AN EXTRAORDINARY YEAR

When the COVID-19 pandemic hit Australia in March 2020 it brought immediate and severe financial gloom.

Shares plunged 37% and the economy slumped to its first recession in nearly 30 years. However against that backdrop, 2020 turned out far better for diversified investors than initially feared.

The development of vaccines became the good news of the second half of 2020 and offered hope of a return to life as normal. The anticipation of economic recovery, paired with ultra-low interest rates, drove a rebound in many investment markets and we did see a strong growth rebound in the second half of the year. In 2021, we expect to see solid returns as markets shift from pandemic winners to cyclical investments, but the gains will likely be slower than seen coming out of the March pandemic lows of 2021.

FOR INVESTORS, 2020 WAS BETTER THAN FEARED

The list of negatives brought about by the COVID-19 pandemic cannot be ignored. Unemployment surged, with severe disruption to industries like airlines, retail and the office sector. Globalisation took a further blow and tensions rose with China. Public debt skyrocketed.

However there were a number of key positives. The massive fiscal support provided by governments shielded businesses from collapse and saved jobs and incomes. Debt forbearance schemes headed off defaults, while plunging interest rates helped borrowers service loans.

Economies began to reopen after social distancing helped contain the virus, with nations like Australia, New Zealand and Asian nations doing better on this front than the US and Europe.

The November 2020 election of US President Joe Biden offered the prospect of less global policy uncertainty and reduced international tensions in 2021 and beyond.

Disruption caused by the pandemic massively accelerated a number of broader productivity gains. These include the faster take up of technology like virtual meetings, e-commerce and use of the cloud to cut costs and boost output for business.

As a result, the pandemic has shown it is possible for people to work from home and enjoy a more balanced lifestyle – increasingly in regional areas where property prices are generally more affordable.

The benefits of science - typified by the rapid development of vaccines - has also served as a rebuke to populist politicians and offers hope for better management of issues like climate change in the future.

THE LESSONS OF 2020

- Timing market moves is hard – getting out at the top of the share market in February 2020 was hard, but getting onboard again for the rally in March last year was even harder.
- Don't fight the central banks – while they could not prevent the magnitude of the fall in share markets, their massive money easing was a key driver of the recovery.

- Investment valuations need to be assessed relative to interest rates – low rates make shares relatively attractive.
- Depressions can be avoided – 2020 showed that a large, rapid, well-targeted economic policy response can protect an economy from a significant shock and enable it to rebound quickly.
- Turn down the noise – stick to a long-term investment strategy.

REASONS FOR OPTIMISM THROUGH THE REMAINDER OF 2021

Recent bumps in the road of vaccine roll out has not stifled the overall goal of achieving herd immunity in many developed countries by the second half of this year. Fiscal stimulus and easy monetary policy continue to work through the system, with even more fiscal stimulus being injected into the US economy. Continuing high saving rates indicate significant spending potential as confidence improves. Low inflation, and hence low interest rates, mean we are still in the "sweet spot" of the investment cycle.

After having run up so hard since early November 2020, shares are still vulnerable to a short-term pull back. We are likely to see a continuing shift away from investments that benefitted from the pandemic and lockdowns (technology, health care stocks and bonds) to investments that benefit from recovery (resources, industrials, tourism stocks and financials).

We expect global shares to return around 8% this year, but we anticipate there may be a rotation away from tech-heavy US shares to more cyclical markets in Europe, Japan and emerging countries. Australian shares are likely to be relative outperformers returning around 12%.

Australian home prices are likely to rise 10-15%, boosted by record low mortgage rates and government incentives, but the pause in immigration and weak rental markets will likely weigh on inner city areas, and units in Melbourne and Sydney.

NINE THINGS FOR INVESTORS TO REMEMBER

- Harness the power of compound interest – under the principles of the 'Rule of 72", it takes 144 years to double an asset's value if it returns 0.5% p.a, but only 14 years if the asset returns 5% p.a.
- Don't get thrown off by the cycle – investors can often abandon a well thought out strategy at the wrong time during falling markets - as some may have done in March last year.
- Invest for the long term - get a plan that suits your wealth, age and risk tolerance and stick to it.
- Diversify - don't put all your eggs in one basket.
- Turn down the noise. As discussed earlier.
- Buy low, sell high - the cheaper you buy an asset, the higher its prospective return, and vice versa.
- Beware the crowd at extremes. Don't get sucked into the euphoria or 'doom and gloom' around an asset.
- Focus on investments that you understand. It's probably best to avoid companies that have complex and hard to understand valuations or business models.
- Accept it's a low nominal return world. Historically, when inflation is around 1.5%, the average return of 7% for super funds begins to look pretty good.

Source: AMP Capital