QUINN FINANCIAL PLANNING

Spring 2015

Spring is here and not a moment too soon! As the weather warms up it's the signal to pack away your winter woollies, get back into the garden or start a new fitness program and start planning your summer holidays.

Things are heating up on the global economic front too. In the United States, second quarter growth has been revised up to an annual rate of 3.7 per cent, well ahead of the initial estimate of 2.3 per cent. Corporate investment, consumer spending and the US housing market have also strengthened. Whether this is enough to allow the US Federal Reserve to begin lifting interest rates remains to be seen, particularly since China has been aggressively lowering its rates, but in the short-term it has helped stem the selling on Wall Street.

Australian shares also rallied towards the end of August after a month of volatility that began in Shanghai and reverberated around the globe. The Aussie dollar also breathed a sigh of relief and finished the month above its August lows at around US72c.

The big surprise was the strong rebound in oil prices, prompted by recovering share prices and reduced supply. After falling 30 per cent since July, Brent crude surged more than 10 per cent on August 28 - the biggest one-day gain since March 2009.

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SHARES DOWN *BUT* NOT OUT

Most investors are familiar with Warren Buffett's advice to be fearful when others are greedy and greedy when others are fearful. But when share prices fall around the globe as they have in recent weeks, it's difficult to keep your wits about you when everyone else is at their wit's end.

At a time when it's difficult to forecast what will happen to share prices from one week to the next, what is certain is that investors who focus on value rather than price will be the first to find disgarded gems among the debris.

Before jumping in though, it's important to understand the reasons behind the latest market volatility.

What just happened?

The trigger for the sell-off was the Chinese market's 8.5 per cent fall on Monday August 24. Shares on global markets quickly followed suit. By mid-week, the local market was 16 per cent below its April high.

Although there have been worse corrections since 2008, it was the sight of so many global markets toppling in unison that had many investors rattled.

Chinese slowdown

After climbing 150 per cent in the year to June 12, it was clear to many observers that Chinese shares were due for a reality check. The Shanghai market has fallen about 38 per cent from its June peak, but it's still about 35 per cent higher than a year ago.

The issue that pricked the Chinese share bubble was concern about a worse than feared economic slowdown as the nation transitions from an investment boom to a consumer-driven economy. The International Monetary Fund forecasts growth of 6.8 per cent in 2015, a cracking pace compared with other leading economies, but well down from 7.4 per cent last year.[i]

Global concerns

Events in China may have triggered the recent volatility, but global investors have been worried on a number of fronts all year. Falling oil and commodity prices, the Greek debt crisis and uncertainty about when the US Federal Reserve will start lifting interest rates have made investors cautious.

Sharemarkets hate uncertainty and are likely to over-react to news, good and bad, until the outlook is clearer.

A correction, not a crash

The general consensus among economists and commentators is that local shares are experiencing a correction, not a crash. Our sharemarket is not over-valued and the outlook for the local economy is still fundamentally sound.

According to CommSec, the US and European markets were 18-20 per cent over-priced before the latest sell-off, the Shanghai market was 46 per cent over-valued while Australian shares were just 10 per cent above their long-term average price-to-earnings ratio of 15, where they sit now.

In other words, local shares are not cheap but not expensive either. And some stocks that have been heavily sold may already be in value territory, provided their earnings are underpinned by solid economic fundamentals.

Australia's economy is growing slowly but steadily. The Reserve Bank of Australia forecasts growth will rise from 2 per cent to 2.5-3.5 per cent by the end of 2016. Consumers are spending and property prices are rising. Even falling commodity prices are not all bad; they keep inflation low and they are driving the fall in the Aussie dollar which helps our export and tourism sectors.

Back to basics

When share prices are fluctuating wildly, it's worth remembering that when you invest in shares you are investing in companies not abstract prices. As the annual profit reporting season draws to a close, there were few nasty surprises. Despite the challenging conditions, companies lifted dividends by about 8 per cent on average.

Australian shares offer substantial rewards for investors in quality companies who stay the course.

If you would like to discuss any of the issues raised in this article in the context of your financial situation, don't hesitate to give us a call.

i China's transition to slower but better growth, IMF, 14 August 2015, http://www.imf.org/external/pubs/ft/survey/so/2015/CAR081415B.htm

WHERE IS THE **BEST PLACE** TO *stash your cash?*

Australia's historically low interest rates are great news for borrowers but a headache for savers. Whether you are a young single saving for a home deposit, a family saving for future education costs or a retiree seeking income, the hunt is on to find the best return on your savings.

In a recent survey by Westpac[i], 29.4 per cent of people said bank deposit accounts were the "wisest place for savings". Real estate (24.6 per cent) and pay debt (16.5 per cent) were also popular choices, ahead of shares (9.5 per cent). And despite generous tax breaks, superannuation (5.2 per cent) limped in behind "spend it" (5.4 per cent).

Finding the wisest home for savings is not just about the highest return. If you are saving for a holiday or a home deposit, long-term investments such as shares or super are not appropriate.

Your appetite for risk and the amount you have available are also factors. Say you receive a $5000 windfall, or identify savings of a few hundred dollars a month. Real estate is out of the question, so what are your options?

Play safe with bank deposits

Bank deposits come with a government guarantee up to $250,000, but safety comes at a cost. Five years ago term deposits were paying more than 6 per cent. Today, they are paying less than 3 per cent on average, only about 1.5 percentage points above inflation.[ii]

Alternatively, high interest savings accounts pay a fraction above 3 per cent if you are prepared to shop around.[iii] Unlike term deposits, these accounts have the added bonus of being at call.

If you put $5000 in an online account at 3 per cent you would earn $150 in interest after one year and $808 over five years.

Pay off debt

If you have a mortgage or credit card debts, then using savings to reduce debt can be a winning strategy.

The average standard variable home loan interest rate is currently around 4.6 per cent, so any additional payments you make are earning an effective interest rate of 4.6 per cent.[iv]

Even bigger savings can be made by paying down credit card debt. According to Canstar, credit card interest rates range between 8.99 per cent and 23.5 per cent.[v]

A $5000 debt on a credit card charging 18 per cent interest will cost you around $900 in interest a year. If you make the minimum payment each month you end up paying $17,181 over 33 years. But increase your monthly payment to $246 and you cut the cost to $5902 over two years, a saving of $11,279.

Build wealth with shares

If you are saving for a longer-term goal you can afford to take a little more risk for a potentially higher return.

Australian shares returned 9.7 per cent a year on average in the five years to July 2015 from a combination of capital growth and dividend income.[vi]

With $5000 the easiest way to gain exposure to a portfolio of quality Australian companies is via a managed Australian share fund. Alternatively, if you already hold direct share investments you could purchase additional shares.

Secure your future with super

If you are saving for retirement, then it's hard to go past super. Not only does super come with generous tax concessions but the long-term nature of your investment allows compound interest to work its magic.

According to research firm SuperRatings, the median balanced super fund returned 9.6 per cent in the 2015 financial year and 9.11 per cent a year over the past five years.[vii] 'Balanced' here means 60 per cent is invested in shares and other growth assets with the remainder in cash and fixed interest.

There are a wealth of options for savers who are prepared to look beyond traditional bank accounts.

Quality advice can help you get the most out of your savings so you can achieve your personal financial and lifestyle goals sooner, so please give us a call to discuss a tailored strategy.

i Westpac-Melbourne Institute Consumer Sentiment Index, June 2015.

ii Canstar, viewed 12 August 2015, http://www.canstar.com.au/interest-rate-comparison/

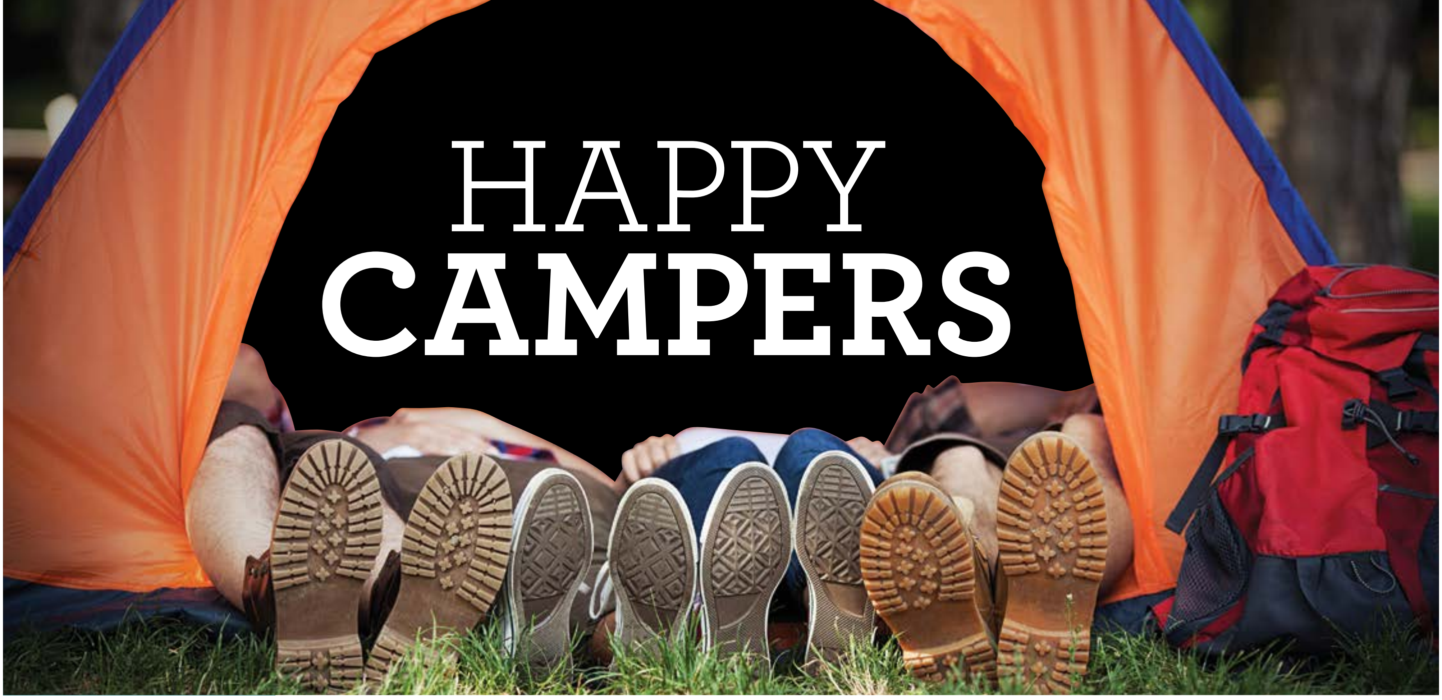
iii Canstar, viewed 12 August 2015, http://www.canstar.com.au/interest-rate-comparison/

iv Canstar, viewed 12 August 2015, http://www.canstar.com.au/interest-rate-comparison/

v 'What's your credit card interest rate?', Canstar viewed 12 August 2015, http://www.canstar.com.au/credit-cards/whats-your-credit-card-interest-rate-2/

vi AFIC, http://www.afi.com.au/Investment-performance.aspx

vii SuperRatings, viewed 12 August 2015, http://www.superratings.com.au/latest-returns/returns



HAPPY CAMPERS

How the great outdoors got its groove back

Caravanning and camping are sometimes seen as old-fashioned holiday options, but times are changing. Improved technology and facilities and a falling Aussie dollar have seen a resurgence in the back-to-nature getaway.

And if you think it's only retirees and boy scouts 'roughing it', think again. In fact, a whopping 85 per cent of Aussies have enjoyed an adventure under the stars at least once[i], and this type of travel makes up about 10 per cent of all trips away[ii].

What's more, with the rise of 'glamping' (camping with a little luxury thrown in) and the availability of increasingly sophisticated caravans, interest in 'old school' getaways has long been on the rise.

Families are escaping to nature

"The popularity of caravanning and camping has been climbing for at least a decade," says Stuart Lamont, CEO of the Caravan Industry Association of Australia. Throw in a big fall in the value of the Aussie dollar and more families could be tempted to get in the car and head to the coast or the mountains rather than fly to an overseas resort.

Lamont says camping holidays appeal most to the under-50s, with groups of young people and families with kids keen to escape busy lifestyles and spend time in nature.

"As we've become more technologically advanced we've become more distracted, so caravanning and camping provides a great opportunity to reconnect with family and friends and get away from the stresses of life," he says.

Research shows campers are more happy, energised, fit, optimistic and satisfied than non-campers. Families who go camping also feel closer and, interestingly, wealthier. Eighty per cent of kids who camp say their parents are less stressed when camping.[iii]

Retirement adventure

So-called 'grey nomads' continue to dominate the caravan market, with people over the age of 50 being over 42 per cent more likely than the average Australian to have stayed in a caravan or campervan on their last local holiday.[iv]

"In times gone by you would go to school, get a job, get married, buy a house, work for 40 years and then go camping. So it's built into our DNA – older Australians like to get out and explore," says Lamont.

Caravan registrations have experienced a higher rate of increase than any other vehicle type in the last two years, and the number of registered caravans in Australia has risen year on year by 5.5 per cent.[v]

Top spots

Australians are most likely to pitch a tent or park their caravan in nature-rich West Australia, Tasmania and the Northern Territory[vi], but staying closer to home is also popular. Grey nomads typically head north in the middle of the year to avoid the chilly southern winter.

From WA's famed Ningaloo Reef, to the lush forests of the Grampians National Park in Victoria, to watching the sun set over Uluru or the Blue Mountains in NSW, our sunburnt country offers something for those of all ages and budgets.

Options for every budget

Camping and caravanning costs can vary dramatically. Depending on size, shape and vintage, caravans can cost anywhere from $3,000 to $100,000 – but the average is around $45,000. Tents can cost as little as $20 and an unpowered site $10 per night, but many families choose to fork out for more expensive gear and as much as $100 per night for a powered site.

Renting a campsite cabin is also an option; once again prices vary but it's usually cheaper than shelling out for an equivalent holiday home or hotel room.

More than memories

Lamont believes camping and caravanning have one large advantage over other types of getaway: "You can go on a holiday with your own gear and afterwards you still have assets you can reuse, as opposed to just memories."

So what are you waiting for? Pack that rucksack and get out there!

i http://www.caravanindustry.com.au/wp-content/uploads/2015/02/MEDIA-RELEASE-State-Tourism-Bodies-recognise-excellence-in-caravanning-and-camping.pdf

ii http://tra.gov.au/documents/Snapshots_2012_Caravan_or_Camping_FINAL.pdf

iii http://www.caravanindustry.com.au/wp-content/uploads/2015/02/MEDIA-RELEASE-The-Value-of-Camping.pdf

iv http://www.roymorgan.com/findings/6291-australian-families-are-happy-campers-201506170001

v http://www.caravanstats.com.au/_r137/media/system/attrib/file/19/2014%20Caravan%20and%20Campervan%20Data%20Report.pdf

vi http://www.roymorgan.com/findings/6291-australian-families-are-happy-campers-201506170001