The INVESTMENT COLLECTIVE

INVESTMENT MARKET UPDATE

ISSUE 85 AUTUMN 2023

"OUR DUTY IS YOUR FUTURE"™

MESSAGE FROM MANAGER

It's been a funny year weather wise and with the integration with Alteris taking shape, I have had the opportunity to travel the east coast several times. Finally, it is getting cooler in Rockhampton and Gladstone, but in Sydney and Melbourne in particular, it's like summer never really came. I have often joked that Rockhampton is the Melbourne of the North (hey, it's got wide streets and old buildings), and post COVID, there are just as many people in the street. The connection between the two cities is interesting. Both cities were founded in the gold rush period and their lovely buildings reflect the spoils. For a long time, Mount Morgan, situated just west of Rockhampton, was the world's largest gold mine, and it's a little known fact that profits from the mine funded exploration in the Middle East. This was the genesis of British Petroleum.

Just this month, both the cities of Rockhampton and Melbourne have been brought closer together following the launch of Bonza Airlines. I took a return trip last week. At a cost of about $150 all up I was on the tarmac in Tullamarine in just 2 hours and 50 minutes. New planes, open-feeling cabins - honestly, it's worth a try.

On a completely different matter, the pending restructure of the Reserve Bank of Australia (RBA) caught my eye. I have read on social media, all sorts of nonsense suggesting clandestine links between the words richest families and private banks internationally, but the fact is that the RBA is a construct of the Australian government, with a charter to operate independently.

While the government of the day appoints the RBA Governor (currently Phillip Lowe), decisions on monetary policy and oversight of the banking system are made by the RBA itself. The idea behind this independence is to try to prevent decisions regarding monetary policy/interest rates from becoming political tools.

Maintaining this separation is obviously more difficult than it looks and just this week a report commissioned by the Albanese Government has recommended a raft of changes to the way the RBA operates. The most significant change relates to the establishment of an expert committee on monetary policy. It follows comments by Phillip Lowe, widely criticised, that interest rates would not begin rising until sometime in 2024. This supposedly led to thousands of people rushing to buy homes funded by mortgages they would soon be unable to afford.

> **" The most significant of these changes relates to the establishment of an expert committee on monetary policy."**

There are a few things to note here. Rising inflation and associated increases in interest rates were evident way before Lowe made these comments – it was a common topic of our board, and one reason we sold holdings in Federation Villages and Suncorp House. The RBA board did not cotton on, and one reason is probably that after years of focusing on inclusion and diversity, no one had a real handle on the topic at hand. Rather than reverting to an old-style board comprising a mixture of heavy hitting business people, employee representatives, and experienced money managers, an interesting solution has been tabled – do not fix the existing board, make a second one, properly diversified of course.

Oh dear!

What's just as bad is that the government is making the RBA scapegoat for interest rate rises in the first place. The RBA responds to economic conditions.

As I have written before, even prior to this becoming a problem, increasing government spending and spraying money around as if it were from a firehose is a one-way ticket to inflation, particularly when supply chains are clogged and the labour market is bursting at the seams. The inflation we see and the associated increases in interest rates are almost solely a function of errant government policy. You will know they are serious when you see genuine labour market and social welfare reform along with a massive hatchet being taken to bureaucracies.

David French
Chief Executive Officer

Client Seminars

Our Investment Seminars will once again be presented live and in person in May 2023! These presentations provide valuable insight to clients as they address current economic issues and how they affect our investments. We enjoy the opportunity the presentations provide to bring clients, staff and guest speakers together.

Our presenters will be David French (Chief Executive Officer) and Owen Evans (Investment Committee Chair). David French will discuss investing in fixed interest securities and Owen Evans will outline what you need to know about international stocks. Attendees will have the opportunity to ask questions, have a bite to eat and meet the staff from our local offices. If you haven't already, RSVP for your local seminar. We look forward to seeing you there!

Rockhampton
Tuesday, 9 May 2023
Empire Conference Room
Doors open 5:30pm

Melbourne
Tuesday, 16 May 2022
The Auburn Hotel
Doors open 5:30pm

Farewell John!

In March, we said farewell to John Phelan. John had been with The Investment Collective for five years and spent most of those years as compliance manager and working within the internal compliance team.

John has a keen interest in war history and cycling and has launched a new tour operation named 'Battlefield Cycling'. These tours take participants on a cycling tour through France with a focus on visiting the various war memorials throughout the country.

Best of luck John!

Do we have to sell the house to pay for aged care?

Amongst the many decisions to make when someone you love needs to move into residential aged care lies the common question: Do we have to sell the house to pay for aged care fees? Families are often worried about the need to sell the home and ask about alternative options.

Similar to the choice of buying or renting a home , the “buy” or “rent” option is also available to pay for the room cost in aged care, where the “buy” option is a refundable deposit, and the “rent” option is a daily payment. There is also the option of paying for room costs through a combination of the two which provides a level of flexibility that can help with affordability, especially if there are not enough assets to pay the full lump sum or people don’t want to sell their assets, like the family home. There are important things to consider before making any decisions.

If you pay a lump sum (generally called a Refundable Accommodation Deposit or RAD) this money is exempt for Centrelink/DVA age pension purposes and its repayment is guaranteed by the Federal Government. The balance is refunded to the resident should they move facilities, otherwise to their estate on death.

"Families are often worried about the need to sell the home and ask about alternative options."

Those funds paid as a lump sum will generally no longer be accessible by the resident during their stay in aged care and no interest is payable on the amount paid. However, by paying it as a lump sum you will reduce the accommodation costs you might have otherwise paid if you paid for the room using the rent option (called a Daily Accommodation Payment.)

The decision on how to pay the aged care accommodation costs is not an easy one and requires a full analysis of the finances. This includes looking at what effect it may have on any estate plans, current family arrangements, the impact it can have on the total aged care costs, Centrelink/DVA pension benefits, and the need to retain access to cash to meet ongoing expenses.

We understand the costs associated with aged care can be daunting and require careful consideration. It’s important to look beyond the immediate costs of aged care to consider and bring to attention the consequences and flow-on effects of a range of scenarios. We’re here to help - if you’d like to discuss further, please contact your adviser.

Robert Syben
Senior Financial Adviser

Selling assets to manage debt

Over the past month, we have seen the Reserve Bank of Australia (RBA) pause its seemingly endless increase in cash rates.

This increasing cash rate has been implemented to curb inflation. However, for many, this has just exacerbated the issue of making ends meet as interest rates on home mortgages, investment loans, car loans and personal loans significantly rise. Coupled with the increased cost of living for goods and services, much of the hard earned income is now consumed with little to nothing left over for other activities like a holiday.

The days of a near zero cash rate and low interest rates seem well behind us and hoping it will go back there soon is unlikely.

For those who took out loans over the past few years or are still working through repayment of previous loans, the question has now been posed, "should I sell assets to cover the debts and pay my bills?"

The answer is a resounding – it depends

Each person is different and an individual's financial position must be considered as it means the answer can change.

> **"The days of a near zero cash rate and low interest rates seem well behind us and hoping it will go back there soon is not likely."**

Selling assets such as investment properties, shares or downsizing the car can assist with a quick amount of cash that can reduce debt and give some much-needed breathing room to the weekly cash flow. With ever present credit card bills, loan repayments and the 'after pay' credit systems (and its associated high interest rates) this may be very beneficial.

You may look to sell your investment property, pay the debt, and then invest the remaining equity in a different investment like shares or real estate income trusts (if you want to stay in property). Selling some shares can give that sudden cash injection needed.

On the surface, this seems like a great approach. Lowering the loan-to-value (LVR) ratio leads to better cash flow and the added benefit that lending institutions may consider refinancing at a lower rate if the LVR has been reduced (always ask – it does not hurt). So what are the potential downsides?

- Are you selling the asset at a bad time in the market and not optimising the asset value?
- Will selling the asset create a significant capital gain, offsetting the cashflow savings?
- Are you selling an income generating asset at the expense of tightening the budget, and potentially impacting your long-term retirement goal for time of retirement or income in retirement?

Which asset is the right one to sell?

Each scenario is different and the assets and loans in play are different – there is no one answer.

The key is to make your decision an informed one. Your financial adviser is here to help discuss the situation, identify the pros and cons and help determine how the decision works with your financial goals and risk profile.

If you need help reviewing your debt management strategy, please contact your financial adviser for assistance.

Allan McGregor
Financial Adviser

When can you access your super?

With rising inflation and significantly increasing cost of living pressures, Australians have been impacted in various aspects of their lives. Superannuation acts as the largest savings tool for many Australians and the rising cost of living has led to people wondering when they can access superannuation.

The purpose of superannuation is primarily to fund retirement, and this remains the most common condition of release for many people.

You must meet your preservation age before you can retire, for most people this is over age 60. The table below shows preservation age based on year of birth:

Date of Birth	Preservation Age
Before 1 July 1960	55
1 July 1960 to 30 June 1961	56
1 July 1961 to 30 June 1962	57
1 July 1962 to 30 June 1963	58
1 July 1963 to 30 June 1964	59
From 1 July 1964	60

Upon reaching your preservation/retirement age, you have the option to fully retire and gain full access to the funds accumulated in your superannuation account.

If you are not ready to retire, there may be other conditions you satisfy that provide access to your superannuation funds:

- Upon reaching preservation age, you can keep working and commence a transition to retirement account. This will give you partial access to your funds, however, there are rules regarding this kind of account. Your adviser can help determine if this is the right option for you.
- Regardless of employment status, turning 65 will provide full access to your superannuation funds.
- Changing jobs after age 60 will also provide access to the funds accumulated in superannuation until the point you changed jobs. Any superannuation contributions from your new job will remain preserved until you meet another condition of release.

If you are not approaching your preservation age, it is harder to get access to your superannuation savings. However, there are circumstances where you can gain access to your superannuation, these include:

- Severe financial hardship. You would need to be facing bankruptcy to trigger this condition, this condition is assessed by the trustee of your superannuation fund, not the Australian Taxation Office (ATO).
- Terminal medical condition. If it is believed you will pass away from a medical condition within 24 months, you can access your superannuation. However, this will need to be verified by two doctors.
- Permanent incapacity due to medical condition. The super fund trustee needs to be satisfied. You must have a permanent condition that is likely to stop you from working i.e. becoming a paraplegic. This condition of release will also require medical reports and doctor verification.
- If your balance is less than $200 you may be able to withdraw these funds.
- If you have made voluntary contributions to superannuation and wish to use these funds to purchase your first home, you may be eligible to withdraw some funds from super. The rules around this scheme can be complex and the ATO will need to determine the amount of super savings that can be released.

General information on conditions of release can be found on various websites including the ATO, however, for personal advice on accessing your superannuation and which strategy is right for you, it is recommended that you contact your financial adviser.

Liz Whalley
Financial Adviser

Investment Update

As we begin the year, we are seeing an environment of increasing interest rates and the possibility that inflation has reached its peak. Recent offshore banking failures serve as a reminder of the lengths central banks and financial regulatory authorities will go to maintain a strong financial system. The United States (US) Federal Reserve has taken swift action to protect smaller banks' deposits, while the Swiss Financial Market Supervisory Authority has reordered the investment hierarchy to ensure UBS's takeover of collapsed lender Credit Suisse.

Central banks face the dilemma of continuing to raise rates to combat inflation whilst also maintaining liquidity in the banking system. Markets are currently in a holding pattern as they assess the impact of these interest rate decisions and the possibility of a global or US recession.

In this environment, we believe that investors should prioritise liquidity and focus on companies with strong balance sheets and cash flow, while avoiding volatile and speculative assets. Risk management is crucial and having sufficient liquidity will be key to taking advantage of any investment opportunities that may arise.

Artificial Intelligence

Artificial Intelligence (AI) is a term used to describe intelligent machines and computer programs that can understand human intelligence and problem solve. AI programming often includes cognitive skills such as learning, reasoning, self correction and creativity.

Recently, AI has become a buzzword and investors are eager to explore the potential for profit in this rapidly evolving field. While there are various applications for AI, not all of them are guaranteed to be profitable.

It is widely recognised that AI is a transformative force, yet many investors still underestimate the societal and industry changing power of this technology along with its investment potential. We can see the value of the technology and if investors are considering investing in AI, we recommend a fund with expertise in this area, such as Loftus Peak.

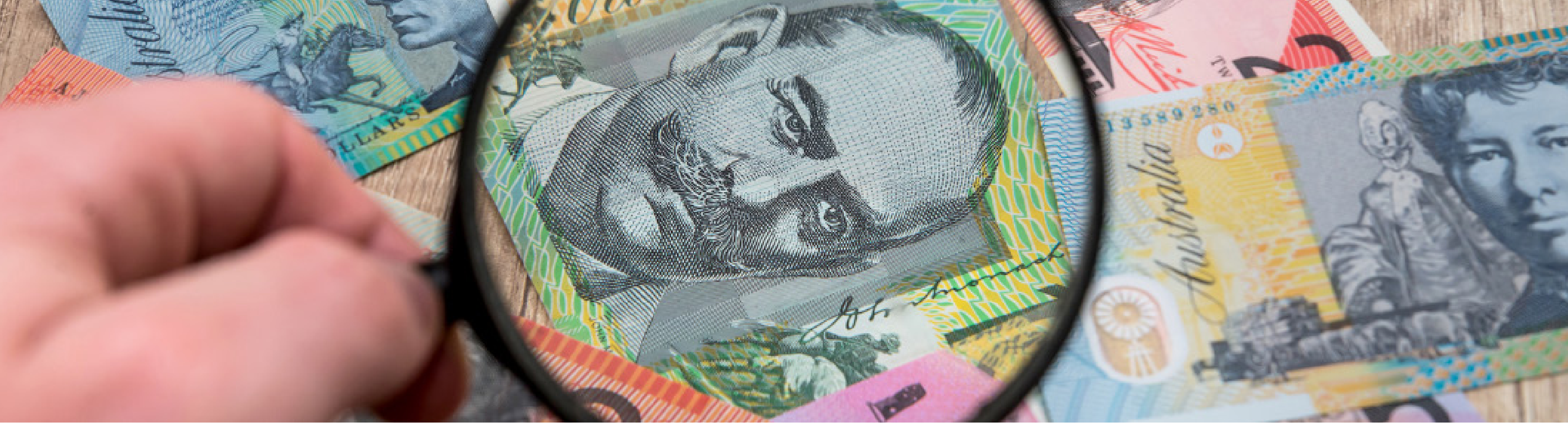
The Loftus Peak investment team focus on the key industries driving AI and identify the most promising investment opportunities. Loftus Peak also assess the potential of advanced AI technologies including OpenAI's ChatGPT to determine which companies are likely to benefit from these developments.

"While there are various applications for AI, not all of them are guaranteed to be profitable."

Loftus Peak's portfolios provide investors with significant exposure to leading companies such as Nvidia, Advanced Micro Devices, Arista Networks, Microsoft, Alphabet, and Amazon. These companies create the tools and platforms that AI programs run on, as well as the end user applications.

If you are interested in investing in the potential growth of AI innovation, we recommend that you speak to your financial adviser to determine whether this investment opportunity is appropriate for your risk profile.

The Investment Team



Centrelink Update

Are you working while receiving an Age Pension?

If your income goes over the cut-off point, detailed in the table below, Centrelink will pay you $0 for that fortnight. In some situations, they may suspend your Age Pension.

If Centrelink suspend your payment, your partner's payment may also be suspended.

Suspending your Age Pension

Centrelink needs to be notified if you or your partner starts any paid work, and your income must be reported each fortnight. If you fail to report income changes, Centrelink may pay too much Age Pension and you may have a debt to pay back. Centrelink may also cease your payment.

If your income from employment exceeds the cut-off point, it will reduce your Age Pension to $0 for that fortnight. If income exceeds the cut- off point for more than six fortnights in a year, your age pension will be suspended for up to two years.

You do not need to ask Centrelink to suspend your payment, this will be done automatically. If this occurs, Centrelink will write to you and advise that your payments have been suspended. The letter will outline the dates of the period that your payment has been suspended. You will not need to report your employment income while your payment is suspended.

You can also keep your Pensioner Concession Card for up to two years during the suspension.

Centrelink will not suspend your Age Pension if any of the following apply:

- you are ineligible for Australian employment income.
- you have a Work Bonus balance.
- you only earn income from self-employment, even if your business is in Australia.

Restoring your Age Pension

You can ask Centrelink to restore your payment within two years if any of the following apply:

- your income reduces below the cut-off point for Age Pension.
- you stop working.

If your Centrelink payments have been suspended, contact your financial adviser and ask for your Age Pension to be restored. It is important to contact Centrelink within the period detailed in the letter sent to you. If Centrelink is contacted after this period, you will have to submit a new claim for Age Pension.

If you need advice or have any queries regarding Centrelink or your aged care pension payments, please contact your adviser.

Carrie Large
Centrelink Administrator

Your situation	Income cut off point
Single	$2,243.00
A couple living together	$3,431.20 combined
A couple living apart due to ill health	$4,442.00 combined
A traditional pensioner- single	$2,331.00
Traditional rate pensioners- couple living together	$3,790.50 combined
Traditional rate pensioners - couple living apart due to ill health	$4,618.00 combined

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*Please note that the content in this newsletter is general in nature and has not taken your personal or financial circumstances into consideration. If you have any questions please contact your adviser.

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