RETIREWELL

WEALTH MANAGEMENT SOLUTIONS

eNewsletter

Exclusive Client Email Newsletter
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To Clients and Friends of Retirewell,

Welcome to the first edition of a new style of Retirewell e-Newsletter. With the exponential growth in the use of digital technology for mass communication, the amount of information being made available to us has grown substantially and be can be quite daunting. Much of this stuff is irrelevant 'noise', but some is useful and important information. The purpose of this new e-Newsletter is to pass on the best recent articles we have come across that could be of interest to you, on a regular basis – we will aim for at least 6 issues a year. We promise there will be links to no more than 5 articles per newsletter – with a bit of humour thrown in for good measure! If none of the selected news items or articles catch your interest, then at least you might get a smile from the "…and on a lighter note…" piece, at the end.

1. **"Australian cash rates on hold – bank mortgage rates, home prices and implications for investors"** *Dr Shane Oliver, Head of Investment Strategy and Chief Economist, AMP Capital – 4 April 2017*
   Synopsis : 2 page article. We have seen the bottom of a 30 year decline in interest rates. The RBA is unlikely to raise interest rates from the current 1.5% level, until second half 2018. The banks are likely to continue with out-of-cycle rate rises. Runaway price growth of housing in Sydney and Melbourne could be followed by 5 – 10% price falls into 2018. Be wary of Sydney and Melbourne property markets, particularly units. Household debt, although high, is unlikely to crash the economy. Term deposit rates will remain very low, so the demand for alternative sources of income such as commercial property, infrastructure and high yielding Australian shares will continue. A falling $A (caused by a rising $US) will provide a boost for unhedged global shares.
   To read the full article, click **HERE**

2. **"The $US 200 trillion global debt mountain – how big a threat is it really and what are the implications for investors?"** *Dr Shane Oliver, Head of Investment Strategy and Chief Economist, AMP Capital - 22 March 2017*
   Synopsis: 2 page article. Global debt levels have reached new records, both in dollar terms and in relation to GDP. Total gross world public and private debt is around $US170 trillion – a record 235% of global GDP. Some fear that any rise in interest rates will derail global growth – but the relationship between income, savings and debt is quite complicated and the situation is not as dire as it would seem (see article for reasons). Debt interest burdens are low, e.g. despite the recent rise in bond yields, US public debt interest payments are less than 3% of US GDP – well down from 4.5% in 1991. In Australia, interest payments as a share of household disposable income are at their lowest since 2003. There is no sign of significant debt servicing problems globally or in Australia. Central banks will adopt a gradual approach to raising rates. So just because global debt is at record levels, does not mean a crisis is imminent. There is no sign of a crisis on a generalised basis globally. To read the full article, click **HERE**

3. **"Using age banding to estimate spending in retirement"** *Michael Kitces, Partner and Director of Research, Pinnacle Advisory Group USA – Portfolio Construction Forum 30 November 2016*
   Synopsis: 9 page article. Retirees today spend up to 3 decades in retirement. Spending levels tend to decline (in real terms), as the retiree moves through the 3 phases of retirement – the "Go-Go" early years of retirement, to the "Slow-Go" years, and eventually the "No-Go" years. Not only does the level of retirement spending decline by about 1% per year, but also the composition of spending changes. Some spending categories steadily decline while other categories rise (most notably, health care). Mr Kitces suggests implementing an age-banding approach for estimating retirement spending, but laments the fact that there are no projection tools built (yet) to handle this approach. The fact that retiree spending clearly declines during retirement, can impact everything from how much is "safe" to spend at the beginning, to how much the prospective retiree needs to retire. To read the full article, click **HERE**

4. "History repeats on housing, but how long will this last?" *Ashley Owen, Chief Investment Officer, Stanford Brown and The Lunar Group – Cuffelinks Newsletter 9 March, 2017*

Note: The next 2 articles are on the same topic because Australians are almost unique in having a staggering 60% of their household wealth, tied up in non productive residential housing.

Synopsis: A short article on the vulnerability of the big Australian banks to the Australian housing market. A history of mining and housing booms and busts since the 1880s– a very interesting graph on 'Australian Real House prices: since 1900', with a reminder that we have had 5 periods since 1900 when real (inflation-adjusted) house prices have not risen for a decade or more. Mr Owen warns about the Melbourne and Brisbane high-rise markets and concludes "the most likely outlook for the broad housing market is for modest price falls in housing and then many years of no real growth, rather than a sudden major crash." This outcome would be positive for first home buyers who might eventually be able to afford to buy a home, if prices stay flat and wages rise over time. To read the full article, click **HERE**

5. "The Australian housing market – what are the key issues?" *Dr Shane Oliver, Head of Investment Strategy and Chief Economist, AMP Capital – 15 March 2017*

Synopsis: A good analytical 2 page article on the state of the Australian housing market with particular reference to the price rises in Sydney and Melbourne over the last 5 years (73% and 47% respectively) and resultant poor affordability. Median multiple of house prices to household income is 6.6 times in Australia versus 3.9 in the US and 4.5 in the UK. In Sydney it's 12.2 times and in Melbourne it's 9.5 times. New home building and supply of land have been inadequate. Demand has been driven by ultra low interest rates, high immigration, foreign buying and SMSF buying – but tax benefits and concessions are main drivers of demand by investors rather than home owners i.e. negative gearing and the 50% capital gains tax discount. However, we are unlikely to see a crash – mortgage stress is relatively low and debt interest payments relative to income are around 2003-04 levels. There is no general oversupply (with the notable exception of high-rise units in Sydney, Melbourne and Brisbane) and there is unlikely to be a surge in interest rates. Hopefully, tax reform will be part of next Budget, to ease tax-driven investment demand. To read the full article, click **HERE**

… and on a lighter note…

Bet you didn't know this… **HOW THE INTERNET STARTED, ACCORDING TO THE BIBLE**
To read the full article, click **HERE**

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