PATTINSON F.S

Your dreams, our passion, the future together.

August 2019 Newsletter

Welcome to our latest newsletter!

Tax Refund & Other Windfalls

Tax season is here again and for some, this will create an unexpected windfall. Along with a tax refund, windfalls can come in the way of a work bonus, an inheritance, a second household income, or even by ridding ourselves of extra possessions via Gumtree!

How we view these windfalls will often determine what we then decide to do with these 'extra' funds. For example, do we see our tax refund and other windfalls as hard earned money that should be directed to a responsible purpose, or is it a lucky break that lets us indulge ourselves? For many of us, the answer probably lies a little in each of these options.

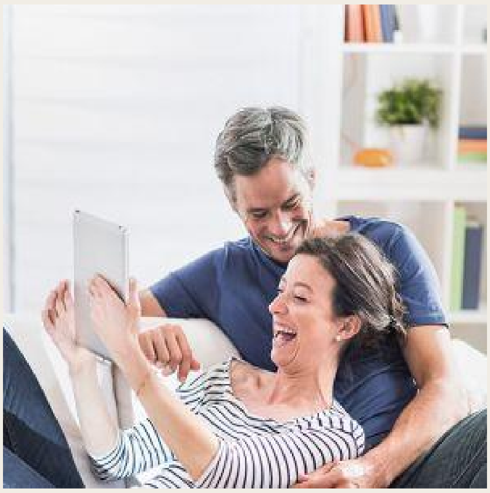
While it is important to treat ourselves every now and again, a windfall can also create an opportunity to help build (or strengthen) our financial foundations to achieve more of our long term goals than might otherwise have been possible.

Your tax refund might give you the option of creating a dream holiday account, reducing your mortgage or making a voluntary superannuation contribution. It might help you set up a rainy day fund, and give you the extra peace of mind you've been looking for. Alternatively, you may choose to gift the money to someone close to you, to create a legacy, or make a special charitable contribution.

Windfalls like tax refunds are also a timely occasion to initiate a catch up with us, as your financial adviser. We can revisit your plan and perhaps fast track some of your goals, or even add new ones that might otherwise have seemed out of reach before.

So for those with a tax refund or special windfalls on the way – enjoy – and we hope that you make the most of your money, in whatever way you choose.

Keys to de-stress your mortgage



“Don't sail out farther than you can row back.” This Danish saying is sound advice for anyone thinking of borrowing to buy a home.

According to a paper[1] for the Centre of Policy Development and University of Canberra, Australians have a tendency to be over-confident in our ability to repay loans. We also underestimate the likelihood of things potentially going wrong in our lives.
Have you ever heard yourself or someone else say “I'll be able to repay my loan, provided I keep my job, don't get sick and I'm not hit with any large unexpected bills”? Chances are you probably have. But things can and often do go wrong.

Causes of mortgage stress

A study[2] was completed for the Royal Melbourne Institute of Technology (RMIT), which looked at the specific triggers that have resulted in Australian households being unable to meet their mortgage repayments. Survey respondents were asked the initial causes and, if they changed, what the final causes were. They were also able to identify more than one cause. The graph below shows the results.

How to reduce mortgage stress

Like most things in life, it's difficult to make borrowing a stress-free exercise, but there are a few things you might consider that may help to reduce the angst.

1. Build up a buffer
It's a good idea to hold (or build up) a cash reserve in a mortgage offset account to provide a buffer that can be drawn upon to meet your loan repayments if you become ill or are off work for other reasons.

2. Take out personal insurances

It's important to ensure your income (which is what services your debts) is not compromised due to certain events beyond your control. One way to do this is to ensure you have adequate personal insurances. Key examples include:

• Income Protection Insurance which can replace up to 75% of your income if you are unable to work due to illness or injury. This can ensure you are able to continue meeting the majority of your living expenses, not just your loan repayments.
• Critical Illness Insurance which can help you service or pay off your loan and meet a range of expenses in the event you suffer a specified illness, such as cancer or a heart attack.
• Total and Permanent Disability Insurance which can help you service or pay off your loan and provide an ongoing income if you become totally and permanently disabled.
• Life Insurance which can be used to service or pay off your loan and provide your family with an ongoing income if you pass away.

3. Take out mortgage protection insurance

Many lenders offer insurance when you take out a home loan that covers the mortgage (often up to a specified amount and for a particular period of time) if you die, become disabled or your employment ends involuntarily.

4. Fix the interest rate

Fixing the interest rate on your home loan can provide protection against rising interest rates. The downside is there are often restrictions on making additional payments into a fixed rate loan, which would limit your capacity to build up a buffer. Many people find a combination of fixed and variable rate loans works best, as additional repayments can be made into the variable rate portion of the debt.

5. Don't add fuel to the fire

Over 40% of the people who completed the RMIT survey responded to the initial difficulty in meeting mortgage repayments by using credit cards more often than they normally would. Using debt to service debt is very likely to compound the problem.

6. Review your situation

At the first sign of a problem, it's essential to seek advice, as there may be a range of potentially viable options to explore. Better still, you may want to seek advice before you decide how much to borrow.

How can we help?

We can help you assess your budget and cashflow situation and determine your affordability level. We can also determine your insurance needs and advise you on a range of other financial matters.

1. Source: Understanding human behaviour in financial decision making: Some insights from behavioural

If you have any questions in relation to this article, please give the office a call.

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Economic Update - August 2019

Within this month's update, we share with you a snapshot of economic occurrences both nationally and from around the globe.

US Federal Reserve cuts rate

- US economic data strong
- Australia cuts rates too
- China data surprises on upside

We hope you find this month's Economic Update as informative as always. If you have any feedback or would like to discuss any aspect of this report, please contact us.

The Big Picture

Anyone focused on US economic data – but avoiding media coverage – could be forgiven for being shocked about the current US Federal Reserve (the Fed) move on interest rates.

The Fed had not cut rates since 2008 until July 31st and last raised rates in only December 2018. The latest GDP growth came in at 2.1% when the Fed had expected 1.8% and the markets 2.0%. The consumer component of GDP was particularly strong at +4.3% but business investment (with the uncertainty of trade war solutions) fell 5.5%.

The latest US jobs number saw 224,000 new jobs created against an expected 160,000 while unemployment (at 3.7%) was all but at historic lows. Wages growth was 3.1% and core inflation was 2.1% (the target is 2.0%).

Retail sales came in at +0.4% for the month. That made three good readings in a row after the first was initially printed as negative before being revised upwards in subsequent months. The US consumer is strong and consumers contribute about 70% to economic growth hence the importance of domestic consumption to US growth.

So why was the market pricing in a certain cut for the end of July with a material chance of a double rate cut? The day before, a CNBC survey pronounced that only 48% thought the Fed should have cut at the end of July while 95% said they thought the Fed would cut!

There was absolutely no case for a cut on past data alone. The market, and President Trump, were bullying the Fed into an easing programme for two reasons. The first was as an insurance policy against future problems flowing from the US-China trade war. The second was because of the easing bias that is sweeping central banks across the world. In a race to the bottom, the US needs to keep its policy aligned with rest of the world.

That the Fed just cut rates by one quarter of a point while flagging further future cuts has introduced a new risk. What if the US economy continues to be strong and maybe even grow stronger on the back of the rate cuts?

On the face of it, a strong US economy is great – except that the Fed would then be forced to hike rates again. Such flip-flopping would likely cause further uncertainty in the economy and introduce the chance of the Fed then tightening too quickly and too far. To continue reading please visit https://www.infocus.com.au/news/economic-update-august-2019/.

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