



Waverley Wealth News - Spring 2023

September is upon us, and spring is in the air. It's time to shake off the winter cobwebs, get out into the garden or the great outdoors. Meanwhile, AFL and NRL fans will be hoping the sun shines on their team this finals season.

After endless gloomy forecasts, there was a glimmer of hope last month that the cost of living might be easing. Inflation fell in July to 4.9% from 5.4% in June, despite predictions by economists of a rise.

While housing prices are still rising, up by 7.3 per cent for the 12 months, and total dwelling approvals recorded a sharp decline in July, the next Reserve Bank Governor Michele Bullock believes prices in some areas will fall by five per cent or more by 2050 because of climate change.

Consumer confidence is continuing to slowly improve. The ANZ-Roy Morgan Consumer Confidence has now increased for a record 26 weeks in a row. Unemployment was up slightly by 0.2% to 3.7%, meaning an extra 36,000 people are now looking for jobs.

China looms large as a threat to Australia's economy. As our largest two-way trading partner, China's worsening economic conditions are concerning for Australian investors although stronger demand from steel producers led to a small increase in iron ore prices. The ASX200 ended the month down, gains in financial stocks were offset by losses in mining and energy shares because of their dependency on China. The Australian dollar rebounded slightly based on improved confidence in the US.

Please find attached three articles that we hope you find both interesting and helpful. If you would like to discuss any of the topics covered, please do not hesitate to contact us on 0403 879 982 or email at - enquiries@waverleywealth.com.au

In the meantime, I hope you remain healthy, happy & warm as we head into the beautiful Melbourne Spring.

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Kind regards,
Scott
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How do interest rates affect your investments?

Interest rates are an important financial lever for world economies. They affect the cost of borrowing and the return on savings, and it makes them an integral part of the return on many investments. It can also affect the value of the currency, which has a further trickle-down effect on other investments.

So, when rates are low they can influence more business investment because it is cheaper to borrow. When rates are high or rising, economic activity slows. As a result, interest rate movements are also a useful tool to control inflation.

Rising steadily

For the past few years, interest rates have been close to zero or even in negative territory in some countries, but that all started to change in the last year or so.

Australia lagged other world economies when it came to increasing rates but since the rises began here last year, the Reserve Bank of Australia (RBA) has introduced hikes on a fairly regular basis. Indeed, the base rate has risen 3.5 per cent since June last year.

The key reason for the rises is the need to dampen inflation. The RBA has long aimed to keep inflation between the 2 and 3 per cent mark. Clearly, that benchmark has been sharply breached and now the consumer price index is well over 7 per cent a year.

Winners and losers

There are two sides to rising interest rates. It hurts if you are a borrower, and it is generally welcomed if you are a saver.

But not all consequences of an interest rate rise are equal for investors and sometimes the extent of its impact may be more of a reflection of your approach to investment risk. If you are a conservative investor with cash making up a significant

proportion of your portfolio, then rate rises may be welcome. On the other hand, if your portfolio is focussed on growth with most investments in say, shares and property, higher rates may start to erode the total value of your holdings.

Clearly this underlines the argument for diversity across your investments and an understanding of your goals in the short, medium, and long-term.

Shares take a hit

Higher interest rates tend to have a negative impact on sharemarkets. While it may take time for the effect of higher rates to filter through to the economy, the sharemarket often reacts instantly as investors downgrade their outlook for future company growth.

In addition, shares are viewed as a higher risk investment than more conservative fixed interest options. So, if low risk fixed interest investments are delivering better returns, investors may switch to bonds.

But that does not mean stock prices fall across the board. Traditionally, value stocks such as banks, insurance companies and resources have performed better than growth stocks in this environment.ⁱ Also investors prefer stocks earning money today rather than those with a promise of future earnings.

But there are a lot of jitters in the sharemarket particularly in the wake of the failure of a number of mid-tier US banks. As a result, the traditional better performers are also struggling.

Fixed interest options

Fixed interest investments include government and semi-government bonds and corporate bonds. If you are invested in long-term bonds, then the outlook is not so rosy because the recent interest rates increases mean your current investments have lost value.

At the moment, fixed interest is experiencing an inverted yield curve, which means long term rates are lower than short term. Such a situation reflects investor uncertainty about potential economic growth and can be a key predictor of recession and deflation. Of course, this is not the only measure to determine the possibility of a recession and many commentators in Australia believe we may avoid this scenario.ⁱⁱ

What about housing?

House prices have fallen from their peak in 2022, which is not surprising given the slackening demand as a result of higher mortgage rates.

Australian Bureau of Statistics data showed an annual 35 per cent drop in new investment loans earlier this year.ⁱⁱⁱ

The changing times in Australia's economic fortunes can lead to concern about whether you have the right investment mix. If you are unsure about your portfolio, then give us a call to discuss.

ⁱ <https://www.ig.com/au/trading-strategies/what-are-the-effects-of-interest-rates-on-the-stock-market-220705>

ⁱⁱ <https://www.macrobusiness.com.au/2023/02/inverted-yield-curve-predicts-australian-recession/#:~:text=Since%20the%20great%20bond%20yield,the%20shape%20of%20the%20curve.>

ⁱⁱⁱ <https://www.abs.gov.au/statistics/economy/finance/lending-indicators/latest-release>

Buying shares for kids:

a gift that keeps on giving



Many parents and grandparents worry about how to help the children in their lives achieve financial independence. But the value of long-term investment can seem like a dry and complicated idea for kids to get their heads around.

In fact, many young people would like to know more about money, according to a Young People and Money survey by the Australian Securities and Investments Commission MoneySmart website. The survey found more than half of the 15-21-year-olds surveyed were interested in learning how to invest, different types of investments and possible risks and returns. What's more, almost all those young people with at least one investment were interested enough to regularly check performance.ⁱ

One way to introduce investment to children may be to begin a share portfolio on their behalf. The child can follow the progress of the companies they are investing in, understand how the market can fluctuate over the short- and long-term, as well as learn to deal with some of the paperwork required, such as filing tax returns.

How to begin

Setting up a share portfolio doesn't need to be onerous. It's possible to start with a minimum investment of around \$500, using one of the online share trading platforms. Then you could consider topping it up every year or so with a further investment.

Deciding on which shares to buy comes down to the amount you have available to invest and perhaps your child's interests.

If the initial investment is relatively small, an exchange traded fund (ETF) may be a

useful way of accessing the hundreds of companies, bonds, commodity or theme the fund invests in, providing a more diversified portfolio.

ETFs are available in Australian and international shares; different sectors of the share market, such as mining; precious metals and commodities, such as gold; foreign and crypto currencies; and fixed interest investments, such as bonds. You can also invest in themes such as sustainability or market sectors such as video games that may appeal to young people.

Alternatively, buying shares in one company that your child strongly identifies with – like a popular pizza delivery firm, a surf brand or a toy manufacturer – may help keep them interested and excited about market movements.

Should you buy in your name or theirs

Since children cannot own shares in their own right, you may consider buying in your name with a plan to transfer the portfolio to the child when they turn 18. But be aware that you will pay capital gains tax (CGT) on any profits made and the investments will be assessable in your annual income tax return.

On the other hand, you could buy the shares in trust for the child. While you are considered the legal owner the child is the beneficial owner. That way, when the child turns 18, you can transfer the

shares to their name without paying CGT. Your online trading platform will have easy steps to follow to set up an account in trust for a minor.

There is also some annual tax paperwork to consider.

You can apply for a tax file number (TFN) for the child and quote that when buying the shares. If you don't quote a TFN, pay as you go tax will be withheld at 47 per cent from the unfranked amount of the dividend income. Be aware that if the shares earn more than \$416 in a year, you will need to lodge a tax return for the child.ⁱⁱ

Taking it slowly

If you are not quite ready to invest cash but are keen to help your children to understand share investment, you could consider playing it safe by playing a sharemarket game, run by the ASX.ⁱⁱⁱ

Participants invest \$50,000 in virtual cash in the S&P/ASX200, a range of ETFs and a selection of companies. You can take part as an individual or a group and there is a chance to win prizes.

Another option, for children able to work independently, is the federal government money managed website. This is pitched at teens and provides a thorough grounding in savings and investment principles.^{iv}

Call us if you would like to discuss how best to establish a share portfolio for your child, grandchild or a special young person in your life.

ⁱ <https://files.moneySMART.gov.au/media/kjvjabp5/young-people-and-money-survey-snapshot.pdf>

ⁱⁱ <https://www.ato.gov.au/Individuals/Investments-and-assets/In-detail/Children-and-under-18s/Children-s-share-investments/>

ⁱⁱⁱ <https://www2.asx.com.au/investors/investment-tools-and-resources/sharemarket-game>

^{iv} <https://www.financialcapability.gov.au/teens>

Destinations to fire up your passions



The world is an amazing place, with so much to see and do. In fact, sometimes it can feel as though there is so much to experience it can be quite a challenge selecting a destination, but if you follow your heart and explore your passions when planning a trip you can't go wrong.

Considering the plethora of amazing places and experiences our world has to offer, it's a shame that many people, overwhelmed by choice, stick to going back to places they have visited before. In fact, a poll conducted in the US confirmed that three out of four people always go back to the same places.ⁱ

If you are keen to avoid the 'same old, same old' but short on ideas, it can help to think not of where you want to go, but what you want to do. One travel trend that's not going away any time soon is the desire for genuine experiences. Just look at Airbnb – in addition to being an accommodation platform it now offers a massive range of around 41,000 'experiences' across 93 countries and more than 2000 cities.ⁱⁱ

So, what do you look for when there is a big wide world out there with so much to see and do? Think about what you and your travelling companions love.

If you have a 'need for speed'

The Tour de France is known as the greatest race on Earth. The endurance needed to ride over 100kms a day for three weeks across some of the world's most physically challenging terrain, is incredible. Every year spectators line the routes to be part of the atmosphere and it's even possible to hop on a bike and experience some of the stages for yourself.

If you prefer the roar of engines and the smell of burning rubber and high-octane fuel, maybe the Monaco Grand Prix is for you. With a course that is the most difficult on the F1 circuit winding through the streets of the city, it's certainly a race like no other.

Closer to home, another race like no other is the Alice Springs Camel Cup. The antics of the notoriously unpredictable dromedaries and their riders makes for a hilarious day out.

If you want to marvel at our natural world

The famous Bandhavgarh National Park in central India is a stunning wildlife destination where you have the best chance out of anywhere in the world to spot a wild Bengal Tiger.

And if you want to stay in Australia, head to Ningaloo Reef in WA where you can snorkel with the gentle giants of the shark world – whale sharks, which can measure up to a massive 10 metres.

If you're an adrenaline junkie

Get your pulse racing with white river rafting on the Colorado River, passing through the iconic Grand Canyon or fly down the fastest zip line in the world in Wales at an eye-watering 200 km/h.

Or for an amazing local experience, walk along the harbour bridge in Sydney on one of the world's longest bridge climbs and gaze out on an unparalleled view of the iconic harbour.

If you like to sample fine wine

For the wine buffs – not for nothing is Bordeaux France, considered by many to be the world's foremost region for wine. If you need to narrow the field a little further, the vineyards of Saint Emilion were the first to be listed as a UNESCO World Heritage Site.

And Australia is no slouch in the wine stakes either, with the Baross Valley in SA widely considered Australia's preeminent wine region, famous for its Shiraz.

If you were born to shop

In terms of sheer variety and abundance of styles and shops, New York City is the shopping Mecca that dreams are made of. Or fossick for exotic treasure in Istanbul's Grand Bazaar, the world's oldest and largest undercover market.

On a smaller scale, but closer to home, Salamanca Market in Tasmania is a vibrant streetscape of the state's finest artisan products.

With so many amazing experiences to be had, think about how you like to spend your time to come up with an itinerary that will tick all your boxes whether you want to race, explore, sip, or shop.

ⁱ <https://nypost.com/2022/09/20/americans-say-they-vacation-in-the-same-places-poll/>

ⁱⁱ <https://tourpreneur.com/few-airbnb-experiences-generate-significant-revenue-according-to-the-latest-arrival-research/>