Pinnacle
Wealth Management
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The Pinnacle View Point

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Stock Market—April wrap-up

The Australian equity market (S&P/ASX 300 Accumulation Index) closed down 1.65% for the month of April. The strongest performing sectors over the month included: Energy, Resources, Utilities, Materials, Industrials and Consumer Discretionary. The weakest performing sectors over the month included: Banks, Technology, Health Care, REITs and Telecommunications.

In company news, M2 Group Ltd launched a competing offer for iiNet Ltd with an all scrip bid valuing the company at a premium to TPG Telecom's offer. As the miners released quarterly production reports, S&P announced it had placed many iron ore producers on negative credit watch.

The RBA maintained a steady cash rate of 2.25% in April, with Governor Glenn Stevens expecting moderate growth in the global economy in 2015 underpinned by a strengthening US economy, while China slows a little. Commodity prices have fallen over the past year on the back of lower demand and significant increases in supply. The fall in energy prices is expected to support global output while contributing to lower inflation.

In Australia, domestic demand conditions appear to have weakened as business capital expenditure falls, which is driving unemployment higher. Although overall credit growth is reportedly moderate, business lending has strengthened recently. As dwelling prices continue to rise strongly in Sydney, the RBA is closely monitoring risks that may arise in the housing market.

In international news, the US Federal Reserve maintained its target federal funds rate range of 0 to 0.25%, as economic growth slowed during recent months and household spending declined. In China, the PBOC announced a 100 basis point cut to the required reserve ratio as the purchasing manufacturer's indicator slipped to the lowest level in 12 months. In Europe, investors will be encouraged by the quantitative easing program, while keeping an eye on negotiations for bailout funds for Greece.

LAST MONTH

- The ASX 200 fell 1.7% (Total Return) for the month April to 5,790 pts, again failing to break through the 6,000 barrier. Investors took profits on banks ahead of results in the coming week, amidst increasing caution driven by high market multiples and falling earnings expectations.
- Resources outperformed Industrials across all style and size-based indices spurred by a rebound in iron ore and oil prices, and covering in short-interest. Small Resources performed the best (+11.3%), driving the outperformance of Small Ordinaries over Large Caps (ASX 100) by 3.6%.
- Seven sectors outperformed the market in April, with the Energy (+10.2%) and Transportation (+5.0%) faring the best, while Health Care (-5.3%) and Banks (-4.2%) lagged the most.
- In terms of sector attribution, Energy (+40bp) and Materials (+17bp) were the main contributors in April, but it was not enough to offset the negative contributions from Banks (-190bp). Transportation made a meaningful contribution to returns aided by TCL (+5bp) and Qantas (+4bp).
- At the company level, the market was dragged lower by the big four banks (ANZ, CBA, NAB, WBC), detracting 188bp between them, with the worst being WBC (-61bp). Returns found some support from resources names with BHP (+20bp), ORG (+10bp) and STO (+7bp) on higher iron ore and oil prices. CYTD, BHP (+79bp) has surpassed the Banks (best being WBC +78bp) and MQG (+46bp) as top contributor to performance with the worst being BSL and WPL both detracting 8bp for the year ending April.

Outlook

The market is currently trading on 17.1x consensus earnings forecasts for next year, which are expected to decline 4.7%, with a corresponding dividend yield of 4.5%.

We are seeing growing evidence of earning headwinds in the form of lower commodity prices, falling business capital expenditure, political uncertainty and rising unemployment. This coincides with a concerted effort by monetary authorities, around the world, to stimulate economic growth and promote stability.

Companies that can deliver strong cash backed earnings and attractive returns will continue to do well in this environment.

Global Commentary

- The major U.S. equity benchmarks reached record highs in April before falling back at the end of the month, ending with modest gains. Notably, the technology-heavy Nasdaq Composite Index finally managed to surmount the levels it achieved at the height of the dot-com bubble in March 2000, although it remained well below that peak on an inflation-adjusted basis. A rebound in oil prices led to strong performance for energy shares, and materials and telecommunication services stocks were also strong. A sharp pullback in biotechnology stocks and some other highly valued segments left half of the sectors in the S&P 500 Index in the red for the month, with health care performing worst. Smaller-cap stocks, which typically have a greater focus on domestic growth, underperformed as the U.S. dollar weakened a bit. The dollar's fall reversed a trend that has prevailed for some time and made investors more optimistic about the profitability of U.S. multinationals.

- Investors braced themselves at the start of the month for the arrival of first-quarter earnings reports, which appeared likely to reflect the negative effects of both falling energy prices and the strong U.S. dollar. While these headwinds had an impact, markets rose over the first few weeks of the month as many companies reported that profits had not declined as much as analysts expected.

- The market's macroeconomic backdrop darkened a bit during April. News that employment growth had slowed dramatically in March caused an initial pullback in stocks, but investors quickly appeared to conclude that it was an aberration and might even lead the Fed to delay raising short-term interest rates. The strong dollar and other factors clearly had a negative overall impact on growth, however. Stocks declined late in the month following the release of data showing the economy had only grown at annual rate of 0.2% in the first quarter, well below even reduced expectations.

- Stocks in developed non-U.S. markets posted solid gains in U.S. dollar terms in April as measured by the MSCI Europe, Australasia, and Far East (EAFE) Index. The euro and the British pound advanced approximately 4% and 3%, respectively, versus the greenback, while the yen was relatively unchanged against the dollar. Overall, the U.S. dollar was weaker versus most currencies in April, marking a reversal from the past 12 months. U.S. dollar depreciation is additive to returns for dollar-based investors holding securities in non-U.S. currencies.

Global Commentary… Cont./2

- Emerging markets stocks rallied in April as investors speculated that an interest rate hike by the Federal Reserve would be pushed back into this year's second half. Rising U.S. rates raise the risk of capital outflows from emerging markets, where yields are higher than in developed markets. Though the Fed signaled in its April policy statement that an increase in short-term rates was still possible in the coming months, signs of U.S. economic weakness in the first quarter led most analysts to believe that a June rate hike was increasingly unlikely. The MSCI Emerging Markets Index rose to a seven-month high on April 28, the start of the Fed's two-day policy meeting, but pared some of its gain by month-end. Expectations that China would implement more stimulus to support its economy also boosted investors' risk appetite, after the People's Bank of China lowered the reserve requirement ratio for domestic banks for the second time in two months. All 10 sectors in the MSCI index rose, led by energy stocks—which climbed almost 17%, lifted by a surge in global oil prices.
- Chinese stocks listed on both mainland and A share markets climbed about 17% due to stimulus expectations and inflows from retail investors. Surges in new trading accounts, trading volumes, and margin lending by novice investors in recent months led China's securities regulator to ban a source of financing for margin trades, its latest effort to reduce risk in the stock market.
- Indian stocks fell as some investors opted to lock in profits ahead of first-quarter earnings after the domestic Sensex benchmark rose to a record in late January. However, India's economic outlook remained positive: the World Bank forecast India's economy would expand at a 7.5% rate this fiscal year and accelerate in subsequent years, while Fitch Ratings said the country's vulnerability to capital outflows has declined thanks to a better policy environment.
- Russian stocks climbed roughly 17%. Russia's central bank cut its key rate by a larger-than-expected 1.5% in its third rate cut this year, as bank officials deemed that the worst of the economic crisis resulting from Western sanctions and slumping oil prices is over. Inflation in Russia hovers near 17%, however, and its economy is still expected to contract this year.

Snippet

Self Driving Cars

Google has announced that its self-driving prototype cars are ready to leave the test track and be driven in the real world. The self-driving car will make its debut on public roads this summer in California. The pod-like two-seater has no gas pedal and a removable steering wheel. Google aims to have driverless cars available to consumers in the next five years after successful testing over the past year and more extensive experience with technology adapted for existing cars. The Google car uses the same technology as a fleet of Lexus SUVs which has logged some 1.6m kilometres. For years, the car of the future has been stuck going in circles but now they will travel onto the streets of Mountain View, albeit very, very slowly. For their city driving, Google is capping the cars' speed at 40kmph. Although it will be the first time the cars hit the real roads, the cars' brains have already been there, logging kilometres on California streets in a virtual simulation. The robot cars will have human "safety drivers" on board. They will have access to a steering wheel and gas pedals for the tests, but that's a limited feature. Google designed its cars to be fully autonomous, not optionally driven, and to cement that mandate it plans to strip the manual driving features from the inside of its automobiles. Google said its adapted vehicles on the road had been involved in 11 minor accidents, but that none were the fault of the technology. That included being hit from behind by other cars or side-swiped. All in all, Google believes its computers can drive better than humans and its working full speed to hand over the controls completely, and as soon as possible.

Budget 2015

The Treasurer Joe Hockey's 'no surprises' Federal Budget involves limited superannuation and taxation changes, with a number of key measures having been announced prior to Budget night. Of note is the Government's announcement that it will reform a number of family assistance measures, as well as the means test for the Age Pension.

Below is a brief summary of some of the key announcements:

For those over age 60

Below is a summary of the key announcements relative to the means test for the Age Pension that may affect you. Please talk to your financial adviser for further details regarding other proposals from the Federal Budget and for how any proposals may affect you personally.

Pension asset test changes

From 1 January 2017, the following changes to the pension asset test have been proposed:

- **Increase** in the 'asset free areas' for both homeowners and non-homeowners.
- Increase in the asset test taper from **$1.50 per fortnight to $3 per fortnight** per $1,000 of assets over the lower threshold.

Asset free area changes

The proposed changes to the asset free area (the lower asset test threshold) are:

- For **homeowners** – the asset free area is proposed to **increase** from **$202,000** to **$250,000** for **singles** and from **$286,500** to **$375,000** for **couples.**
- For **non-homeowners** - the asset free area is proposed to **increase** from **$348,500** to **$450,000** for **singles** and from **$433,000** to **$575,000** for **couples.**

Asset test taper

The asset test taper rate (the amount by which a person's pension entitlement decreases under the assets test) is proposed to increase from **$1.50 per fortnight to $3 per fortnight** per $1,000 of assets over the lower threshold.

Under these proposed changes the asset test taper rate will return to 2007 levels and will result in a substantial reduction in the upper assets test threshold.

The table below sets out the current and proposed asset test thresholds:

	Current—Lower threshold	Proposed—Lower threshold	Current-Cut-off limit	Proposed—Cut-off limit
Single Homeowner	$202,000	$250,000	$755,500	$547,000
Single Non-Homeowner	$348,500	$450,000	$922,000	$747,000
Couple Homeowner	$286,500	$375,000	$1,151,500	$823,000
Couple Non-Homeowner	$433,000	$575,000	$1,298,000	$1,023,000

Implications

The implications of these changes on the amount of Age Pension you will be eligible for post 1 January 2017 will vary depending on your circumstances but can be summarised below:

- If you are a couple who owns you own home and have **assessable assets below $200,000** there will be **no change** to how much Age Pension you will be eligible for.
- If you are a couple who owns you own home and have **assessable assets between $200,000 and $400,000** you will likely be eligible **for more** Age Pension than you are currently receiving.
- If you are a couple who owns you own home and have **assessable assets above $450,000** you will likely be eligible **for less** Age Pension than you are currently receiving.
- If you are a couple who owns you own home and have **assessable assets above $823,000** you will likely **not be eligible for any Age Pension.**

The government estimates that approximately 12% of pensioners will lose entitlement to the Age Pension as a result of the changes to the asset test. These people will automatically be issued with a Commonwealth Seniors Health Card which provides a number of benefits such as discounts on Pharmaceutical Benefits Scheme (PBS) prescription medicines and potentially concessions from various services providers.

As a result of these proposed changes, strategies that reduce assessable assets will become more effective.

Currently for every **$1,000** reduction in assessable assets, asset tested pensioners receive an additional **$1.50 per fortnight** of pension. As a result of the changes, for every **$1,000** reduction in assessable assets pensioners will receive an additional **$3 per fortnight** of pension.

Budget 2015… Cont./4

Asset test reduction strategies include:

- Contributing to superannuation in the name of a spouse under Age Pension age
- Improving the principal home
- Gifting within allowable limits
- Gifting five years prior to Age Pension age

For those under age 60

Income tax changes

Personal income tax

There were no changes to personal marginal tax rates for resident or non-resident taxpayers in this year's Budget. However, the following changes in relation to personal income tax were announced:

- Motor vehicle expense deductions
  - The number of methods available for calculating tax deductions related to the business use of a motor vehicle will be reduced from four to two, with the '12 per cent of original value method' and 'one-third of actual expenses incurred method' to be removed with effect from 2015/16 financial year.
  - The 'cents per kilometre method', which currently provides a deduction based on the size of the motor vehicle's engine, will also be modified. The reference to engine capacity will be removed and a flat rate of 66 cents per kilometre will be applied to determine an individual's deduction amount under this method.
- Fringe Benefits Tax (FBT)
  - Employees of public benevolent institutions, health promotion charities, public and not-for-profit hospitals and public ambulance services are currently able to salary sacrifice meal entertainment benefits without being subject to FBT and without the benefits being reportable.
  - From 1 April 2016, a new separate single grossed-up cap of $5,000 will apply for salary sacrificed meal entertainment benefits for employees of these institutions. All use of meal entertainment benefits will now be a reportable fringe benefit.
  - Meal entertainment benefits exceeding the separate grossed-up cap of $5,000 can also be counted in calculating whether an employee exceeds their existing FBT exemption or rebate cap.
- Zone Tax Offset
  - Fly-in fly-out workers whose normal place of residence is outside the remote 'zone' will be ineligible for the Zone Tax Offset. Currently, workers whose normal place of residence is outside the 'zone' can benefit from the offset by working in a specified remote area for more than 183 days in an income year.

Superannuation changes

Access to benefits

- Release of superannuation benefits for terminal medical condition
  - As previously announced by the Government, the conditions under which an individual suffering a terminal illness can access their superannuation benefits will be amended.
  - Currently, access to benefits using the 'terminal medical condition' condition of release requires an individual to obtain certification from two medical practitioners (one of whom is a specialist practising in the area related to the injury or illness) stating they are likely to have less than 12 months to live. This time period is proposed to be extended to 24 months with effect from 1 July 2015.

Social security and family assistance changes

Family assistance

- Parental Leave Pay
  - Eligibility conditions for the Government's Parental Leave Pay scheme will be tightened, preventing some parents from claiming parental leave payments from both their employer and the Government. From 1 July 2016, parents who are eligible for employer-funded parental leave that is more generous than the Government's Parental Leave Pay scheme will no longer receive the taxpayer-funded payment as well. Where employer-funded parental leave is less than the Government's scheme, parents will be eligible for a Government payment, up to the maximum Parental Leave Pay benefit (ie currently 18 weeks at the national minimum wage).
- Child care
  - The Government has announced a comprehensive package of reforms intended to provide a simpler, more affordable, flexible and accessible child care system. The reforms include a new Child Care Subsidy that will replace the current Child Care Benefit, Child Care Rebate and Jobs, Education and Training Child Care Fee Assistance programs from 1 July 2017.

Budget 2015… Cont./5

- Eligibility for the new Child Care Subsidy will be based on an activity test and a means test. Families with incomes of up to $60,000 (in 2013/14 dollars) will be eligible for a Child Care Subsidy of 85 per cent of the lesser of the actual child care fees and a benchmark price per child. The subsidy rate will reduce to 50 per cent for families with income of $165,000 and above. The subsidy amount will be capped at $10,000 per child for families with income of $180,000 and above. No cap will apply for family incomes of less than $180,000.

United Kingdom and the EURO

After the Conservative party victory in the UK, the world seems concerned about a 'Brexit' – a British exit of the EU. A British exit from the European Union could cost the UK 14% of GDP according to a German study. The UK is an EU member but has retained the GBP or British Pounds as its currency. When the euro was first proposed as a single currency system for the EU, UK Prime Minister Tony Blair declared that there were "five economic tests" that must be met for his country to accept the euro. 1. Business cycles and economic structures must be compatible enough that the UK could live with Eurozone interest rates. 2. The system must have sufficient flexibility to deal with both local and aggregate economic problems. 3. Adopting the euro must create conditions conducive to firms and individuals investing in the UK. 4. The euro would enable the nation's financial services industry to remain in a competitive position internationally. 5. Adopting the euro must promote higher growth, stability and a long-term increase in jobs. These benchmarks were tough to satisfy and the move to the euro couldn't be justified. The British government has also wanted to maintain control of its own interest rate policy, which would be lost under a euro system. The UK simply didn't want to take the risk that in the event of crisis it wouldn't have the protection of its own currency and central bank.

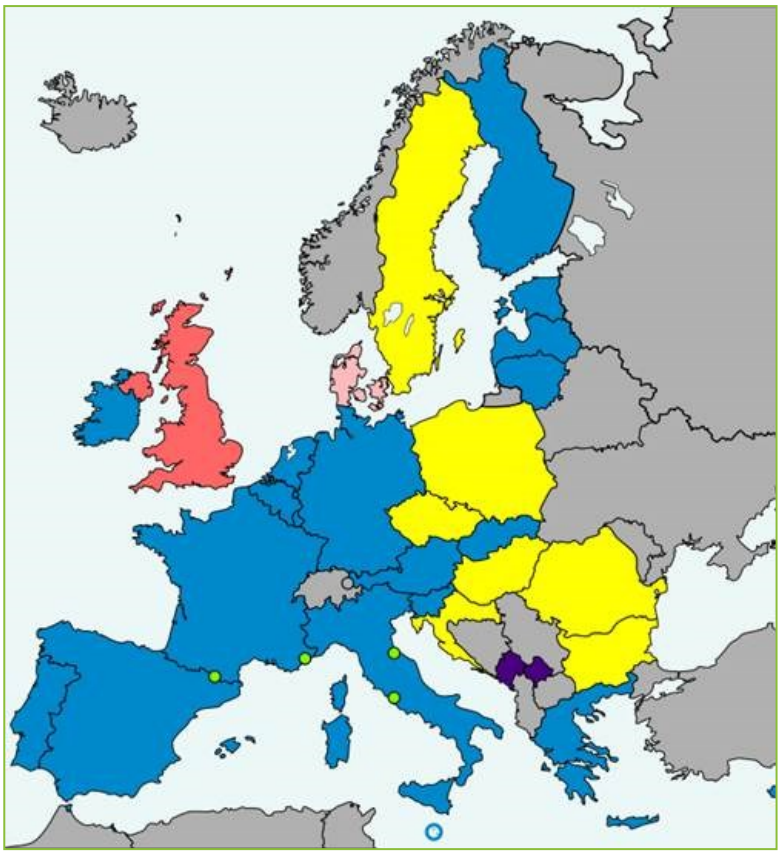
The eurozone consists of Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain. The eurozone is an economic and monetary union (EMU) of 19 European Union (EU) member states that have adopted the euro (€) as their common currency and sole legal tender.

The European Union (EU) is an economic and political union of 28 member states which are located primarily in Europe. United Kingdom is part of the EU but not part of the Eurozone.

Superannuation isn't just a great way to save for your retirement. There are a number of ways it can benefit you now.

With 30 June approaching, now is a great time to think about how you can boost your super savings this financial year and make some smart decisions about your financial future.

There are many tax-effective strategies you can implement before the end of financial year but these opportunities will be different for everyone, so it's important to get personal advice about what's best for you.



Self-Managed Super Funds (SMSF's)

Are you considering opening a SMSF?

Do you know what your obligations as a trustee are if you open a SMSF?

Is a SMSF appropriate for you? – we have developed a SMSF Questionnaire to help determine the answer.

www.pinnaclewm.com.au/resources/smsf/

Did you know that Chris Launer is a SMSF Specialist Adviser?

We encourage anyone thinking about opening a SMSF to contact our office and discuss your options with Chris Launer, as there are many important factors to take into consideration.

If you're attracted by what you've read here, have any questions, feed-back about the Pinnacle Viewpoint or would like to discuss your financial situation, we invite you to take advantage of a no-obligation, free consultation to find out whether a relationship with Pinnacle maybe for you. No matter what you decide, it's bound to be a rewarding experience.

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