



Prosperitas

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Prosperitas: Latin for prosperity & good fortune

Trading Places

As we welcome the latest addition of the 'Australian Prime Minister' to our parliament and the bubbling tension that is the trade war continues to threaten between the United States and China, you may be forgiven for thinking that the state of the world economy is a dire one. The reality is that the global economy is vastly improved from where it was 10 years ago with the US economy growing at a great rate, China continuing to maintain GDP growth of just below 7% and the European economy vastly different with Ireland, Portugal, Spain and Italy all running current account surpluses in 2017. Of course, there are real risks that exist with perhaps none more so than the trade war between the US and China; as Donald Trump will no doubt remember from his time at Wharton Business School, comparative advantage is the guiding principle of trade and no-one benefits from a trade war.

We remain cautiously optimistic that markets will continue to deliver reasonable risk adjusted returns above the very low interest rates that exist in bank deposits, particularly where due consideration has been given to the price paid for the asset. When we look at the market price-earnings ratios of some countries (such as Germany, South Korea, Japan), it remains clear that there are opportunities to invest outside of the Australian market at potentially cheaper prices. We have written about

the benefits of investing overseas in the middle section of this newsletter to give you more information as to why we like the asset class. We have also included some information on Superannuation Contribution Splitting which has been available for over 10 years but has become far more relevant in recent times with the introduction of limits that can be held in tax-free super.

Following many requests, the Garden Gnome has woken from hibernation to

set your garden up for Spring and the Bookworm has gone back to the archives to review a personal favourite from the shelf. We also introduce our newest employee, Eleni, who joined us recently. We hope you enjoy the latest edition of *Prosperitas* and look forward to seeing you next time you come into the office.

Martin R McIntosh
Managing Partner

Why invest overseas?

When thinking about where to invest, we should consider what we can invest in. Australians can do anything – we have founded great companies and invented marvels. However it is simply the truth that Australia's equity market is dominated by banks and miners. We have few technology firms, biotech companies, capital goods firms or manufacturers to invest in on the ASX relative to many other equity markets. This is no surprise – Australia's economy comprises about 2% of the global economy: to invest solely in Australia is to forego 98% of the world's economy!

Beyond our shores investors can access exposure to the technology firms of the United States; German industrials like Siemens or BMW; or rapidly growing Chinese companies which sell insurance or services or consumer goods the largest middle class in the history of humanity. There is a lot out there!

Obviously, franking credits are a consideration, but these should be a minor one in our opinion. If you can get a 7% unfranked yield, you are getting the equivalent of the 5.4% fully franked yield (assuming full 30% tax rate for the Australian company paying the dividend).

And if a company is paying a dividend but it is not growing earnings, that dividend may be all you will ever get.

The simple truth is that Australia's listed companies are on average more expensive than most listed equities globally at present and they are likely to grow earnings more slowly. Below are charts of major equity markets globally in terms of valuation and earnings per share growth. Australia's price-to-earnings ratio of just under 16 times is eclipsed by few countries globally. And Australia's expected average earnings per share growth of 7.8% over the next

twelve months is higher than only Japan and the United Kingdom. Many other markets display higher earnings growth and are cheaper than the Australian equity market.

What's more, the proliferation of exchange traded funds, managed funds and listed investment companies mean that Australian investors have a plethora of choices for investing offshore with ease. As always, please discuss your options with your adviser at Planning Partners, but at least consider the types of companies you can buy a stake in beyond Australia's shores.

Major Market price-earnings ratios - Next 12 months



Most markets are inexpensive, with several outright cheap: Germany, Korea, Japan and China are reasonably priced (all markets you want to own in a growing, inflationary world).

Source: MSCI, Credit Suisse
 Note: Next 12 months price earnings ratios.
 Correct at 28 August 2018.

Superannuation Contribution Splitting

Superannuation contribution splitting allows a member of a superannuation fund to transfer their employer/ tax deductible superannuation contributions less contributions tax into their spouse's superannuation account in certain circumstances.

The potential benefits of superannuation contribution splitting include:

- Earlier access to superannuation benefits.
- Tax effective funding of life insurance premiums.
- Levelling out of superannuation balances.
- Increased social security payments.
- Hedging against legislative risk.

To be eligible for superannuation splitting the spouse must be:

- Aged less than their preservation age; or
- Aged between preservation age and 65 and have not permanently retired from the workforce.

The maximum amount that can be split across to an eligible spouse is 85% of the actual annual contribution made, which reflect the total contributions made less the 15% contributions tax.

To make a valid superannuation contribution splitting election an application must be provided to the trustee of the superannuation fund by 30 June of the following financial year at the latest. Where the member's entire benefit is rolled over or withdrawn the splitting election must be completed during the financial year.

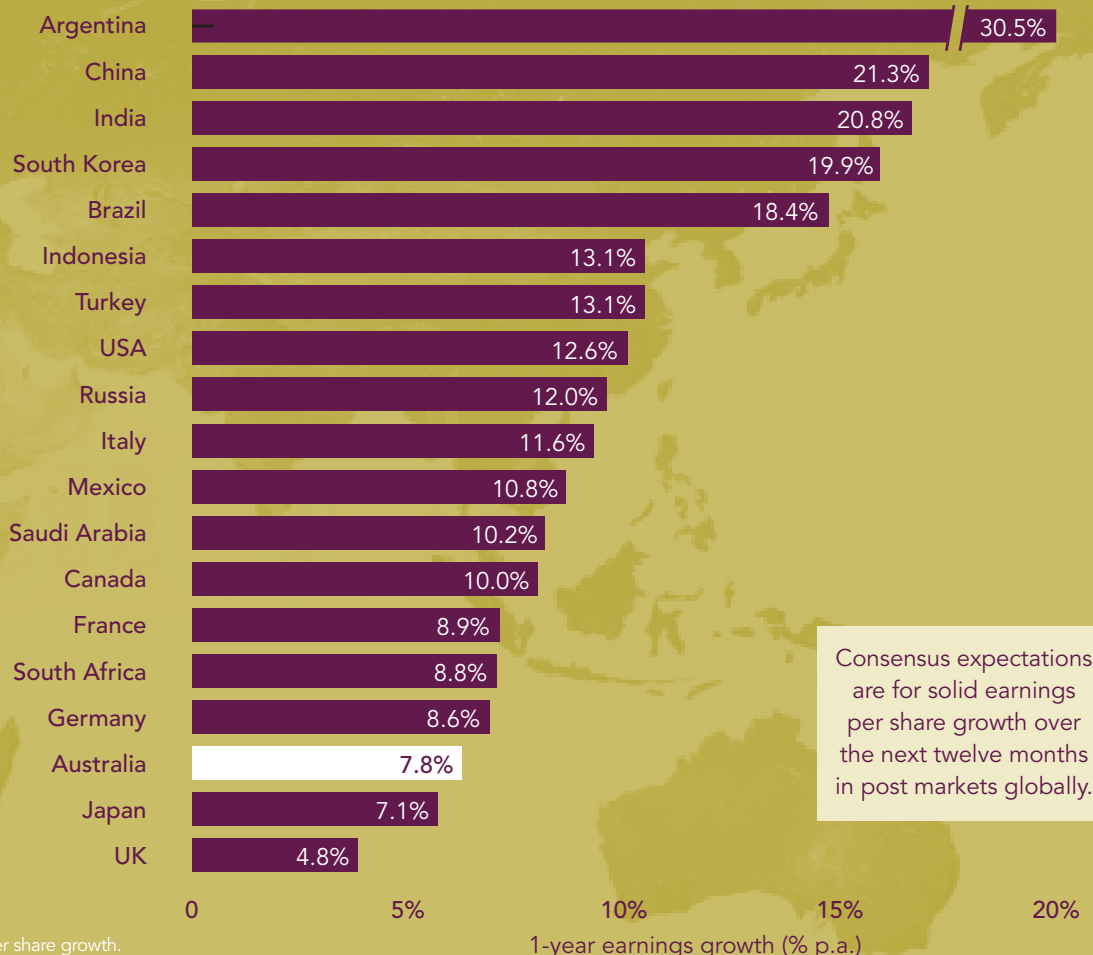
For a spouse who has taken a break from employment or dropped back to part time work, contributions to super can slow dramatically – meaning by retirement, the gap between account balances can be significant. Therefore looking at contribution splitting is a good option as it can allow both members of a couple to keep their account balances growing. On top of this you don't need to find any extra cash flow in the household to implement this strategy. It can be as simple as transferring part of the highest income

earners employer superannuation guarantee contributions to the lower earner each financial year.

Contribution splitting will also benefit high income earners and pre-retirement couples where one member of the couple's superannuation balance is expected to exceed \$1.6 million. The 2017 tax reforms mean that if you and your partner plan ahead - as a couple you can hold \$3.2 million tax free in retirement. But because balances are often skewed to one partner, they may end up paying some tax in retirement even if their spouse is well under the \$1.6 million individual limit. For those couples, being able to transfer (contribution split) the maximum amount every year can help to even out account balances.

If you have any queries in relation to this or any other strategies please don't hesitate to contact our office.

Major Market EPS Growth - Next 12 months



Consensus expectations are for solid earnings per share growth over the next twelve months in post markets globally.

Source: MSCI, Credit Suisse
 Note: Next 12 months earnings per share growth.
 Correct at 28 August 2018.



Eleni Paterson

Player Profile: Eleni Paterson

With the start of Bec Walton's maternity leave drawing near, the pressure was on to find a suitable replacement as Director of First Impressions. Luckily for Planning Partners, Eleni Paterson was looking for a change of suburbs after several years in a similar role in Hawthorn. It has been a seamless transition and apart from football allegiances, Eleni has proved a perfect fit for the role.

Growing up in the Eastern suburbs of Melbourne, Eleni has a long affinity with the Camberwell area. From Glen Iris primary school and then onto secondary school at Sacre Couer and Carey Grammar, although not simultaneously. After completing an Arts Degree at Monash University, Eleni took time out of the workforce to raise her daughters, Britt and Taylah. As her kids grew older, Eleni reinvented herself as a Personal Trainer and Beautician.

With her father on the board of the South Melbourne FC, Eleni has maintained her loyalty to the Swans despite their move to Sydney, a loyalty that has paid dividends with many grand final appearances and the odd flag.

When she's not watching her beloved Swans, Eleni enjoys going to the gym or seeking out new spots to have brunch; if there's a cafe with chilli eggs on the menu, she's tried it.

And by the way, Bec had a beautiful baby girl Harper Lee, who is happy and healthy.

Garden Clippings



Its not just footballers and gardeners that look forward to spring, bugs are now on the move and about to feast on tasty new growth and sap. Stay alert but not alarmed.

Other critical gardening tips for early spring;

- Plant some Groundcovers – Get groundcover plants growing so they smother any weeds that are trying to get established in garden beds. Over summer they will also help conserve precious soil moisture by reducing evaporation.
- Prepare your Vegetable Patches – Now that the temperatures are rising, its time to prepare your spring vegetable plant out. Weed your bed, dig in a good manure, preferably sheep manure or well rotted chicken manure, dig in and mulch.
- Prepare your Watering System – Be prepared before summer starts to have an easy and reliable watering system in place to look after your crops while you are away. Dripper lines, and water timers are critical to regular watering which ensures even growth and plentiful harvest.
- Tidy-up – Prune perennials and fruit trees that have not yet been pruned and also plants damaged by frost (if all likelihood of frost has past). Some plants will have already begun to shoot, so don't delay!

GG

The Bookworm



Rating: 9/10

The Great Gatsby – F Scott Fitzgerald

Having been overcome by a wave of nostalgia, the Bookworm has delved deep into the archives and has gone all the way back to 1925 to discuss one of, if not the greatest books of all time.

The Great Gatsby is set in the fictional town of West and East Egg on Long Island during the summer of 1922. The novel is primarily concerned with the life of Jay Gatsby, a self-made millionaire (through somewhat ambiguous means) who is obsessed with the upper class Daisy Buchanan. Told through the first-person narration of Nick Carraway, Gatsby's next door neighbour, we learn of Gatsby's aspirations and dreams as he seeks to win the heart of Daisy. Gatsby throws large and extravagant parties as a way of impressing Daisy who lives across the bay from Gatsby's mansion.

The novel deals with the trials and tribulations of class mobility as Gatsby attempts to rise above his 'station' or as Nick so eloquently puts it; '...a sense of the fundamental decencies is parcelled out unequally at birth'. The idea of the American Dream permeates throughout the novel and remains as relevant today as it did during the Roaring Twenties when the novel was set.

Initially an unsuccessful novel that only really got the acclaim it deserved after Fitzgerald's death in 1940, the book has sold over 25 million copies and is considered by some (including The Bookworm) to be the greatest American novel of all time. This is a brilliantly written book that is dripping with symbolism and can be enjoyed by the scholar and casual reader alike.

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