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Complete Financial Planning Newsletter

IMPORTANT INFO:

- Xmas party date Thursday 16th of December. See invite for more details.
- Xmas closing dates will be: last day Thursday 16th of December, reopening Tuesday 4th of January.
- Emma and Kathy have passed the Economics and Legal Context Unit of their Graduate Diploma and will take a break of study and resume at some stage next year to finalise the course.
- It seems that all platform providers, insurance companies and even government departments have been affected by COVID and new government requirements. So what used to be a streamlined process for Administration – is no longer the case. Things are taking a lot longer than they used to and there are backlogs from all ends, along with post that goes missing, or emails that never get received!!
- Our CFP team is trying not to let the frustration get the better of them during these trying times, so thankyou to those clients that have been affected by these delays and we really hope that these days will become some of the past very soon - Bring on 2022!
- ***Reminder: Please remember to let us know of any personal details that need to be updated when we contact you before your review. If there have been no changes, please also let us know that the details we hold are current.***

ARTICLES FOR THIS MONTH:

Quarterly economic update: July - September 2021

COVID here to stay

The third quarter of the calendar year brought with it the third and by far the biggest wave in COVID-19 infections. Largely restricted to NSW and Victoria the outbreak was driven by the highly infectious Delta variant. Such was its speed of spread it forced a change in strategy from one of elimination to learning to live with the virus, supported by a massive vaccination campaign. By quarter's end vaccination rates were closing in on key targets that will allow a slow and selective lifting of the severe lockdown conditions that have prevailed for months. This may lead to a slower economic recovery than occurred after previous waves.

Time to chill

You know Australia has a housing problem when the head of one of the big banks, in this case Matt Comyn at CBA, calls for action "sooner rather than later" to stop the property market overheating. This was on the back of CoreLogic data showing house prices in Melbourne and Sydney rose 15.6% and 26% respectively over the 12 months to August. The International Monetary Fund (IMF) also called on Australian regulators to cool the market. Don't expect this to happen through the usual instrument of increased interest rates. Rather, look for reduced lending in specific sectors, such as investors, higher deposit requirements, or testing loan serviceability at higher interest rates.

Pop goes iron ore

Iron ore's price bubble eventually popped as China instructed its steelmakers to cut back on production. The main reason given was to reduce emissions, and perhaps to help clear the skies in the run up to the winter Olympics. Over the quarter the ore price fell 45%, with major miners taking an equivalent hit. BHP, Rio and Fortescue saw their shares tumble 33%, 26% and 44% respectively.

Hot topic

In August the Intergovernmental Panel on Climate Change (IPCC) released its latest report. It warned that "unless there are immediate, rapid and large-scale reductions in greenhouse gas emissions, limiting warming to close to 1.5°C or even 2°C will be beyond reach". The report paints a grim picture of what that warmer world will look like and returned climate change to the front pages of the world's newspapers.

The numbers

Equity markets experienced a bit of a rollercoaster ride over the quarter. All the major indices posted record highs, but most ended up within 1% of where they started.

The Aussie dollar also had a volatile quarter, trading between 71 and 75.4 US cents and finishing at 72 cents. It was a similar story against the other major currencies.

In both cases the late-quarter sell-offs were blamed on expectations of higher US interest rates.

On the radar

Many of the world's leaders will come together in Glasgow at the end of October for the 26th UN Climate Change Conference (COP26). If they heed the warning from the IPCC, and if they agree to take the necessary steps to limit warming to 2°C (and preferably 1.5°C), it will set the scene for a dramatic economic transformation, with huge opportunities for those who can sort the winners from the losers.

Of more immediate concern, Chinese property company China Evergrande appears to be on the brink of collapse. Heavily indebted to the tune of US$300 billion, if it is allowed to fail it is likely to have global ramifications, not the least for Australia. For one thing China's construction boom has been a huge driver of demand for our iron ore.

Cheer today, debt tomorrow

The traditional Christmas carol starts

> ‘Twas the night before Christmas, when all through the house
> Not a creature was stirring, not even a mouse,
> The stockings were hung by the chimney with care,
> In hopes that St Nicholas soon would be there.

Nowadays the carol could be rewritten

> ‘Twas the week before Christmas, the cash registers ring
> Shop till you drop, don’t miss a thing,
> Buying up big, it’s not very hard
> If you don’t have the cash, just pull out the card.

From early November retailers have been telling us what we can’t live without and what our kids must have if they are to still love us on Christmas Day. It’s easy to get caught up in the momentum. Of course, the downside is you end up with the post-Christmas blues when the credit card statements arrive. This may mean that wealth plans get scrapped because you have to pay off the debt first.

How can you manage the Christmas challenge?
Obviously, the best strategy is to plan ahead and spend only what you can afford. If you have the discipline to do this, congratulations, however there are not many people who can successfully control their Christmas spending.

So how about some lateral thinking like these ideas?

- Sell things you don’t need in a garage sale or online to fund your Christmas fun. Start with the expensive toys your kids have grown out of to make space for the new. They could make perfect Christmas gifts for someone else’s children. And don’t forget all the things you’ve bought impulsively in the past year – did that new gym equipment really live up to expectations?
- Buy a few quality presents for children rather than buying many cheaper items. This also helps the environment with less rubbish going to landfill.
- Give an “experience” as a gift, particularly for older relatives who don’t need more “things”. How about arranging a family reunion, taking them on a nostalgic tour of their old haunts or to your local theatre?

If your best intentions fail and you end up with a large Christmas debt, a repayment plan is essential before the interest bill starts adding up. This may mean committing a portion of your income to reducing the debt, working overtime or getting an extra job.

And what about next year?
If you put a $2 coin in a tamper-proof container every single day you would have over $700 to fund next year’s celebrations. It’s certainly not rocket science and with a tiny amount of commitment, you could start next year with a clean debt slate. Won’t that make next Christmas more enjoyable?