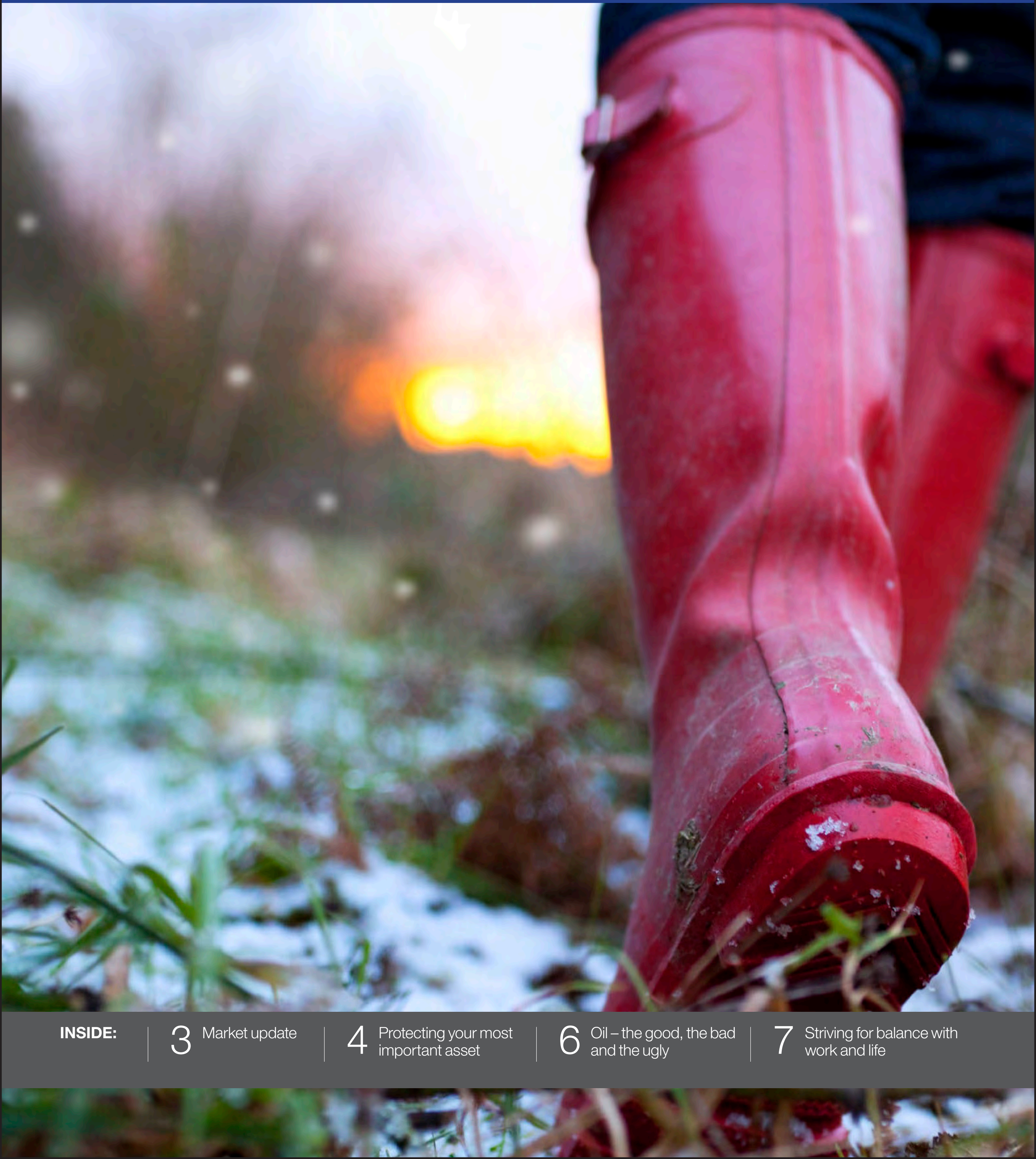
Insights

WINTER 2015

BG WEALTH MANAGEMENT



Welcome

Insights

Winter 2015

With oil prices dipping in the first half of the year, we investigate what this means for investments.

We also discuss how you can ensure your income is protected should an unexpected accident or illness occur and why it is something you need to consider during your working life.

Piers Bolger, Head of Portfolio Management - eQR Securities, provides us with his regular Market Update, looking at performance both at home and globally.

Finally, we discuss the elusive work-life balance so many Australians struggle to attain and arm you with five tips to achieving it.

Until next time – happy reading.

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Market update

The outlook for the domestic economy is mixed, with its performance likely to be led by events on global markets for the remainder of 2015.

Global overview

The word that best summarises financial markets is volatile. Economic factors and geopolitical events continue to drive different views in markets, resulting in marked performance swings across asset classes.

There is a growing realisation that rising inflation levels have the potential to impact financial markets, which has led to a sharp rise in global bond yields. As we head into the second half of the year, the biggest challenge is whether the multi-year bond rally has finally reached its end game.

There are also concerns any moves by the US Federal Reserve to increase official cash rates will result in bond yields moving even higher from current levels. Additionally, equity markets may have moved ahead of fundamentals, making them prone to a correction.

Recent sell-offs in bond and equity markets represent a recalibration across global financial markets. But at this stage, this does not create a prolonged bear market.

It's true the growth outlook remains mixed, with weaker than expected economic data across a number of regions in the first quarter of the year.

But while the European Central Bank (ECB) has been surprised by the extent of the 'bounce' in the European economy given it has only just begun its quantitative easing program, we see little chance of the ECB closing its program before its stated end date of September 2016. This provides tacit support for both bond and equity markets.

Central banks in Japan and China and other emerging markets will continue to reduce cash rates to stimulate their economies. In addition, commodity prices are stabilising, although it will be some time before prices reach levels seen in 2014. These factors in combination should help to support global markets.

At home

In Australia, the challenges facing the economy show no signs of reduction. With the need for structural reform vital, along with global and regional sensitivities, we do not see material change in the domestic economic landscape any time soon.

Property data continues to show positive momentum with house prices in both Sydney and Melbourne still exhibiting growth. However, although the low interest rate environment is supporting higher house prices, we remain concerned about the medium-term outlook. This could impact the strength of the housing market, particularly if there is no broader improvement in the economy and the jobless rate rises.

Furthermore, the performance of corporate Australia remains subdued and the earnings outlook for the banking sector seems to have peaked. So it may be some time before the economy rebounds.

Looking forward

Overall, we believe the domestic economy will continue to moderate further. The near term fortunes of the economy will be linked to the global macro outlook as much as to domestic issues. Financial markets will continue to take their lead from global peers, most notably the US, and we have seen our bond market move in line with US Treasuries in recent periods.

Moreover, the slowdown across China, along with lower commodity prices, and a more benign corporate outlook have the ability to be a drag on the domestic share market for the remainder of the year.

Protecting your most important asset

It's easy to assume challenging times tend to affect other people. But the reality is any one of us can suffer an accident or illness that stops us from doing our job – even at a relatively young age. Which is why income protection insurance is such an important investment at every stage of our lives.

As a young person, it's easy to think few things have the potential to affect your income. But every day, people who are really just at the start of their lives experience events that mean they are temporarily unable to perform their role and earn the salary they need to support themselves and their family. As a result, income protection insurance is an essential cover for most of us.

Accidents and illness can happen to anyone, whether it's an injury from playing your favourite sport on the weekend, an accident whilst skiing on holidays or an unexpected illness striking you down unexpectedly.

We are all at risk of suffering an accident or serious illness. In fact, when it comes to cancer alone, according to the Australian Institute of Health and Welfare's 2012 report *Cancer in Australia: An overview* men have a one in three risk of being diagnosed with cancer by the age of 75, whereas for women this figure is one in four.[1]

Income protection provides financial support for people suffering a range of illnesses including cancer, heart attack and stroke. This type of cover is one of the main ways to protect your finances should you suffer a serious accident or illness. Let's take a look at how it works.

Taking out cover

Income protection insurance provides a financial benefit when someone experiences an event that prevents them from going to work for an extended period. These generally include cancer diagnoses, heart attacks or strokes, as well as serious accidents.

These policies provide cover after a designated waiting period – usually between four to six weeks. Policies usually provide cover for up to 75 per cent of a person's income, for up to five years. The cover ensures that if you suffer a serious accident or illness, you can still meet your obligations such as mortgage repayments and day to day household expenses. It means your family won't be seriously adversely affected if you do have to make a claim on your policy.

One of the benefits of income protection insurance is that it is usually tax deductible, which can make it an attractive adjunct to other forms of insurance such as life insurance.

1. www.aihw.gov.au

“Without income protection insurance you would probably need to rely on your retirement nest egg to keep the ship afloat.”

The important thing to understand about income protection cover is that the earlier in life you take it out, the lower the premiums will be*. Which is why it makes sense to consider this type of insurance as soon as you start working.

What are your options?

While policies will differ from insurer to insurer, generally there are two options when it comes to receiving a pay out on an income protection policy. You select the option that’s right for you when you take out the policy. The first option is to be insured for a sum that’s an agreed value. For instance, someone who earns $100,000 a year might choose to be covered for 75 per cent of their income. This can be a good option if you expect your income to fall because it locks in your salary at a higher level.

The other choice is to receive a pay-out based on an indemnified value. Under this option the pay-out will be determined by the income you earn at the time the claim is made.

How does it work?

Let’s look at a hypothetical example to bring this type of insurance to life. Mary and Paul have two children and are paying off their home. Paul is a pilot and Mary works as a beauty therapist.

When Mary fell down some stairs and broke her leg she was unable to work for three months. But because she had income protection insurance that covered 75 per cent of her salary, the family was able to continue to meet its mortgage repayments. Importantly, Mary was able to fully recuperate at home while the money from the policy helped to cover her and her family’s cost of living.

Income protection insurance is a must-have form of cover for most Australians. If you’d like to find out more about your policy options and how this type of insurance works, please contact your adviser today.

Oil – the good, the bad and the ugly

The price of oil may only be something you think about when you're filling up at a petrol station or when you book a flight and see fuel excises. But if you've been looking at oil prices recently, you would have noticed they've been going down. So what does this mean for investments?

Declining oil prices

Oil prices have changed rapidly in the past year. This has been a result of two factors – global oil supply and demand, and the Organisation of the Petroleum Exporting Countries (OPEC).

Key points

- Oil prices have declined over the past year due to:
  - increased supply, while demand remained static
  - OPEC allowing the market to self-regulate supply.
- Lower prices may benefit consumers and countries that import oil, while posing challenges to economies that rely on oil exports.

1. Global oil supply and demand

- Growth in oil demand has been at a stable pace with growth and projected growth at approximately 1.2% pa for 2004-2019.
- In recent times, there has been a dramatic increase in supply with shale oil as the new source of oil. Much of the increase in production has come from the US. The increased supply has meant an excess of oil and in turn, prices have declined.

2. OPEC

- OPEC has regulated oil over the past 30 years by matching supply to demand. This meant the level of prices encouraged development of new sources of oil.
- Shale oil is cheaper to produce than other sources of oil and as a result, was still profitable even at much lower prices. This meant OPEC had less power to regulate the market by restricting or increasing production.
- OPEC is now allowing the market to self-regulate through lower prices, and the current levels are now not profitable for the majority of US shale oil producers.

What do lower oil prices mean?

Lower oil prices are particularly helpful to consumers but can also be positive for some countries.

- Cheaper oil prices flow on to cheaper energy prices both for homes and for food production, as well as cheaper petrol prices, leaving consumers with a higher disposable income, particularly beneficial to those in countries with lower average incomes.
- Countries that import oil can now acquire the same volumes more cheaply which assists with growth. Europe and Japan fall into this category which will assist with their economic recovery.

In contrast, countries that rely on oil and gas exports will face economic pressure due to the lower prices.

- Some of the most dependent countries include those in less stable global regions like Nigeria, Libya, Russia and Iran.
- Increased economic pressure may also heighten existing tensions in these regions.

The outlook for oil prices

The new low threshold for oil prices is around US$65 per barrel, compared to around US$80 per barrel up until November 2014. If prices drop below this level, it would discourage new shale oil development, and production has already decreased with US rig counts dropping by approximately 20% since mid-2014.

Lower supplies will help drive the market to correct to higher oil prices. Prices closer to US$80-US$100 per barrel over the next 5-10 years is required to ensure current oil consumption is being replaced by new discoveries. So perhaps we should enjoy our cheaper petrol while we can.

Striving for balance with work and life

Work-life balance for four out of every ten working Australians is actually getting worse, according to a report by The Australian Institute Think Tank in November of last year. The study also found Australians are donating $110 billion in free labour each year by giving extra time to work without being paid. This means the average full-time worker is doing six hours of unpaid overtime each week – worth an estimated $9,471 a year.

Why?

The reason for the increasing work-life imbalance, is work insecurity and pressure from bosses, says Director of Research David Baker. Fear about job security is described as widespread.

"For many Australian workers rocking the boat appears to be a genuine concern," Mr Baker says. "If seeking better balance is perceived to be a threat to career prospects people are unlikely to freely raise the issue with their boss."

On top of that, technology means we are constantly available, so it can be difficult to switch off. So is the elusive work-life balance possible?

Work-life balance – what is it actually?

Firstly, it helps to actually define what work-life balance is. It's an often talked-about concept but in reality how that looks is very personal.

Jim Bird who works at WorkLifeBalance.com, a company that offers high performance, enterprise-wide work-life balance solutions and time management programs, says that what it's not, is trying to schedule equal hours between your work and personal life.

There's no perfect, one-size fits all solution but rather, that the best individual life work balance will vary over time and often on a daily basis, Mr Bird says.

Why it's important

It is common knowledge that overwork over time equals burn out, ill health, lack of productivity and motivation. Balance brings out the best of us in both our work and personal lives. It's essentially about having a balance of achievement and enjoyment.

"Achievement and enjoyment are the front and back of the coin of value in life. You can't have one without the other. Trying to live a one sided life is why so many 'successful' people are not happy, or not nearly as happy as they should be," Mr Bird says.

"You cannot get the full value from life without both achievement and enjoyment. Focusing on achievement and enjoyment every day in life helps you avoid the 'As Soon As Trap', the life dulling habit of planning on getting around to the joys of life and accomplishment 'as soon as….'"

5 tips to achieving greater balance

1. Make time every day for things that make you feel good, like exercise.
2. Limit time wasting activities and people.
3. Unplug from technology for set periods of the day.
4. Be prepared to change and let some things go to create space.
5. Take small steps – balance takes time to get right.