

KeyPlay Financial Services' 2017 Winter Newsletter

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Hello and welcome to the 2017 Winter edition of the KeyPlay Financial Services' Newsletter.

A US publication "The Street" ran a funny story recently about one of its Millennial (young) reporters visiting a Kmart store for the very first time in her life.

What she found was a sad place with barely a shopper or employee in sight. "The store was dingy, dirty and disorganised, far worse than the Sears store I recently visited that I thought was a horror show. Plus, the location was poorly stocked, despite the fact that I arrived around 9a.m., only one hour after it opened," reporter Lindsay Rittenhouse wrote.

Writing recently in *The New York Times*, American journalist and economist Marc Levinson describes the decline of the once iconic Sears company, which owns Kmart, in stark terms: "Blood is running in the retail aisle."

Sears' troubles are extensive. Levinson says its management had to recently tell investors "substantial doubt exists related to the Company's ability to continue as a going concern." It has closed more than 500 of its Sears and Kmart department stores across the US over the past five years, leaving it with about 1,500 stores. That still might not be enough to save it from retail oblivion.

Sears is not the only major US chain closing stores in the face of shrinking profits and patronage. In the past decade household names in the US like J.C. Penney and Macy's have been shuttering stores and slimming their exposure in order to maintain a respectable share market facade.

Retail is a volatile industry, so fluctuations in fortune can be expected, but retailers were hit hard by the GFC and the subsequent moderation of consumer sentiment and by the generational shift to online shopping. That reporter who visited the Kmart store probably does a lot more of her shopping online than in-store, which

might explain why she had never stepped foot in a Kmart.

Retail in the US has been in violent flux for almost a decade now. Online shopping has totally transformed retail for both stores and customers alike, leaving scores of retailers scratching their heads about how to reach customers in this brave new world and what those customers actually want.

Online retail has grabbed some of that market share but what has also emerged is what some call 'omni-channel' or 'multi-channel' retail, which is a shorthand way of saying you have to reach your customer wherever they may be — in-store, on smartphones, tablets, social media, online marketplaces, etc. All of these new channels that have emerged have made it easier for customers to shop, but a lot harder for traditional retailers to meet those new expectations and to work out how they can optimise and harmonise all those new channels.

Bricks and mortar is not dead; it has just become one of the channels retailers can use to connect with customers. Even Amazon, a retailer that has come to symbolise the power of online, is making limited forays into physical stores through its recent acquisition of boutique grocer Whole Foods and by opening physical bookstores. It recognises great stores still have the power to attract shoppers and provide an experience.

The situation is not that different in Australia. We might not have the population densities that have propped up the giant US retailers for so long, but plenty of overseas retailers (ALDI, H&M, Costco to name a few) have in recent years recognised Australia as a stable and potentially fruitful place to trade.

We've also seen our share of retail casualties: Dick Smith, Masters, as well as a raft of smaller, specialist chains. In addition to the list of dearly departed stores, there are also the many chains limping along and trying to stay relevant against

savvy online competitors and shiny foreign names. This is before we even get to the 'digital monster' lurking just over the horizon, Amazon.

These are definitely challenging times for Australian retailers. But the smart ones will also see the potential for massive rewards, if they can prove their value to customers.

Tony

Police Warning On Scam- AGAIN!!

There are people out there who have no respect for you and only want to steal your money. They ring you and try to con you and there is **only ONE way** to handle unsolicited phone calls – that is ALWAYS to just hang up. The consequences of not doing so can be huge.

The latest scam has seen the Sunshine Coast police issue a warning over an elaborate phone scam that has hit Australian shores after doing the rounds worldwide. The “can you hear me?” phone scam has been prolific in the United States and UK since early this year.

A call is made to a business or home number and once the person answers the scammer simply asks “can you hear me?” several times, to which most people answer with “yes”. The scammer then records the “yes” response and ends the call.

The response can then be used to authorise payments on the victim's behalf thanks to voice recognition technology. Unfortunately, disputes against fraudulent charges are difficult to pursue, given it is the victim's voice used to confirm the transactions.

Sunshine Coast Police said anyone who had received calls of this nature had “serious and legitimate reasons to be concerned”.

Police advice to combat this phone scam is - as I always say: if you receive a “can you hear me?” phone call (OR ANY SCAM PHONECALL) – just hang up - don't respond. These are the times that you do NOT have to be polite!

Superannuation Changes 1 July 2017:

Changes were made to super on 1 July 2017 that affect super contributions and the way super and retirement income is taxed. Here we explain how

the changes may affect you, whether you are contributing to super, about to retire or already retired.

Low income earners (people earning less than \$40,000):

Spouse super contributions: If your spouse earns less than \$37,000 pa and you make a contribution to their super, you can claim a tax offset equal to 18% of the contributions, up to \$540. Even if they earn up to \$40,000, you could still be entitled to a partial super tax offset. Other restrictions apply, however this change allows couples to get greater benefits from adding to each other's super.

Low income super tax offset (LISTO):

Eligible taxpayers that earn up to \$37,000 a year get an additional super contribution from the Government, equal to 15% of before tax (employer and salary sacrifice) super contributions, up to \$500. This is called the low income super tax offset (LISTO).

Carry your super cap forward : A new 'carry forward' rule for before tax (concessional) contributions has been introduced that can help you catch up on before tax contributions later. If you've had time out of the workforce, work part-time or have irregular work patterns and have contributed less than your before tax (concessional) cap, you can rollover the unused portion of your concessional contribution cap for up to 5 years, allowing you to make additional contributions in future years.

High income earners (people earning more than \$250,000):

Higher income earners may be affected by a reduction in both before and after tax contribution limits, and it is important to check that you are within the allowable limits if you are in this group.

If your combined income and super contributions exceed \$250,000 you may have to pay extra tax on the excess, this is known as Division 293 tax. Previously you had to be earning above \$300,000 but this was reduced in July (from the previous \$300,000 threshold to now \$250,000), meaning more higher income earners will have to pay extra tax.

People who want to make extra super contributions:

Tax deductions for personal super contributions: Self-employed people and those that earn less than 10% of their income from salary or wages, can claim a tax deduction for any contributions they make to super. The contributions are then treated as 'before tax (concessional) contributions'. On 1 July 2017, the 10% rule was removed, making it easier for more people to make use of their concessional contributions cap.

Before tax super contributions (concessional): On 1 July 2017, the concessional contributions cap reduced to \$25,000 for everyone. This means the amount of contributions you can make that are concessionally taxed (including Employer contributions on your behalf) has reduced. However, from 1st July 2018, those with total super balance of up to \$500,000 will be able to 'carry-forward' any unused concessional contributions cap on a rolling 5 year basis. This means carried forward amounts will expire after 5 years.

After tax super contributions (non-concessional): The after tax contributions cap has reduced from \$180,000 to \$100,000 per year. You will still be able to bring forward up to three times the cap to make larger one-off contributions, if you are under age 65 and have not reached the new transfer balance cap. However, the full benefit you bring forward may not apply if your total super balance is close to the balance transfer cap, (of \$1.6 million).

Government super co-contributions: Low income earners who make after tax contributions to super may be eligible for a Government co-contribution payment into their super. This is calculated at 50 cents for every dollar you contribute (up to \$500). If you earn less than \$36,813 the maximum co-contribution is paid with the amount of the co-contribution reducing as your earnings increase up to \$51,813 per year (before tax).

In addition to the previous co-contribution eligibility requirements, you must now also have a total superannuation balance at the end of the previous financial year of less than the transfer balance cap (\$1.6 million) and not have exceeded your after tax contributions cap. For example, if you have made personal after tax contributions

and have satisfied the current co-contribution eligibility requirements, but have already reached your transfer balance cap, then you will no longer be entitled to a Government co-contribution.

All sound simple and straight forward?!

Why Bunnings prices are so damn clever:

(This article was published by Jason Murphy, a Melbourne-based economist. Jason has worked at the Australian Treasury, the Ministry of Finance of the Republic of Nauru, and the Australian Financial Review). I thought it was an interesting summary on the Bunnings marketing strategy.

Bunnings is more than a gigantic hardware store. Its canyon-esque aisles whisper to you of self-reliance and ruggedness, if not quite suggesting a log cabin of your own construction then at least the sort of Barbecue a man can be proud of. Once you're over about 26 it seems to slowly turn into a refuge, a bit like Thoreau and his woods. There's always a sausage sizzle out the front on weekends and it has become an Australian institution.

Never mind that it is based on an American big-box retailing model, or that it has only been a national chain since 1994, after it bought out McEwans hardware, closed most of the outlets, then sold itself to mega conglomerate Wesfarmers. The reason there are now around 280 Bunnings nationwide is that the store is so good. We don't begrudge the many hours spent lost in its chasms and nooks. It's like that because it is cheapest. Right? A tentative Google suggests, um, well, - At Bunnings, \$34.99 but Online, \$27.50!

There are three big tricks that Bunnings uses to reinforce the widely-held belief they are so cheap.

1. They often choose prices that to the first glance look odd. For example, they sell hammers for \$8.45, \$37.97, and \$62. Apparently the theory is a range of irregular and specific numbers make customers think the price has been ratcheted down as low as it possibly can be. Rather than having all the prices in the format \$X9.99, the prices imply Bunnings takes the trouble to price everything at its minimum.

2. Using people from the stores in the ads. (I thought they might be actors but the internet says

no. There are 33,000 staff so I guess some must be able to pass a screen test). The point is, this is signaling. Bunnings has ads on during high-rating shows – they are not stinting on their marketing budget. But if they deploy great cinematography and a highly polished vibe, like you might see in a car ad, it creates the impression they are wasting money on ads. Instead the ads look cheap and cheerful. The same motivation is behind “The Good Guys” using their staff in ads even though they too are a heavy-hitting national chain. (Baker’s Delight use their staff in ads to signal something else – that the bread is made by real people, not a factory.)

The signaling effect even flows through to the way stores are designed. Here’s Cotsco founder Jim Sinegal talking about his store’s budget vibe. *“We try to create an image of a warehouse type of an environment ... I once joked it costs a lot of money to make these places look cheap. But we spend a lot of time and energy in trying to create that image.”*

3. “Lowest Prices guaranteed” / “Lowest Prices are just the beginning.” This slogan seems to have moved away from using the word “guarantee” recently. But the claim is still a strong one. The only way Bunnings can get away with it is their price-beat guarantee: “Find a lower advertised price and we’ll beat it by 10%.” That is an extremely clever business plan. While anyone might think they could mock up an ad that offers something very cheaply and trick Bunnings into giving them a deal, the reality is the store would happily accept being tricked to get the benefits of such an offer. They would probably rather more people took them up on the price-beat guarantee.

Let me explain: The effect of the price-beating offer is to permit price discrimination. They can sell things at a higher price to people that don’t bother shopping around, and at a lower price to those that care about price. That means they charge different prices to different types of people, just like a hotel or airline does, maximising yield.

But the real killer of a price guarantee is the way it discourages other chains from discounting and promoting. Why would I put an ad in the paper telling everyone Cordless Drills – Now 30% Off!? I know customers can and will still go to Bunnings. Offering to beat advertised prices is very close to being anti-competitive behavior, as it can cause all firms to raise prices.

“While a store with price matching guarantees has no fear of losing customers to rivals’ price cuts, it has every incentive to raise its own price to charge a higher price to its loyal customers. It is an anti-competitive tactic that warns competitors not to attempt to steal market share by undercutting prices.”

So, Bunnings is like any other retail operation, playing clever psychological games to disguise healthy mark-ups.

It had earnings of \$900 million on revenue of \$7.7 billion last year, and contributed 26% of Wesfarmers earnings before tax, etc. Wesfarmers is currently working on “conversion of the property pipeline into trading locations at a higher rate than historically achieved” in order to help Bunnings contribute even more to its annual profits, which were, last year \$2.2 billion.

Centrelink update:

We have attended an update on the future of how Centrelink sees itself working going forward and the picture is not a pretty one for those who do not have computer access and skills.

It appears that all Centrelink applications will need to be completed via ONLINE applications and already we have helped clients with the new process.

The process requires each person to have a personal MYGOV login – from where the application process is conducted. To have a personal MYGOV login each person must have an individual email account – which is a prerequisite for the MYGOV account. (Couples cannot use the same email address).

In addition all new applications must have full birth certificates as one of the proof of identity requirements. (Many people only have birth extracts – which are now no longer accepted). Full Birth Certificates are obtained via the Births Deaths and Marriages registry and the most efficient way to do so is via their website. Again the necessity for computer access and knowledge!

Lindsay Vanstan (our KeyPlay Centrelink expert) has just returned from holidays travelling the Australian outback – and is obviously thrilled (not!) with the changes that have occurred in his absence! He will be undertaking the necessary homework to bring himself up to date with the

changes so he can efficiently help people with applications going forward.

We foresee that instead of completing paper applications with clients – we will be completing online applications with clients.

Preparing clients for the online application will become the most important part of the process. We will need to ensure that clients have all the required information including up to the date of application account balances – so that the application submission can be completed on that day in the one session.

Australian and World Share Price Indices:

The Reserve Bank provides a monthly updated Chart Pack on its website that summarise macroeconomic and financial market trends in Australia and also information about developments for our main trading partners.

From this month's Charts - the Australian and World Share Price graph shows markets to be at a very interesting stage.

(The **red** line is the US S&P 500 index, the **black** line is the Australian ASX 200 index and the **blue** line is the MSCI World index (the MSCI World Index captures large and mid cap representation across 23 Developed Markets (DM) countries).



What is striking is the strong outperformance of the US market which has never in its history been this high. Up until around 2011 - the 3 markets were all pretty much correlated but since that time the US market has bolted north.

It will be interesting to monitor this Chart going forward to see if the other markets outperform

and close the gap on the US market or if the US market retreats.

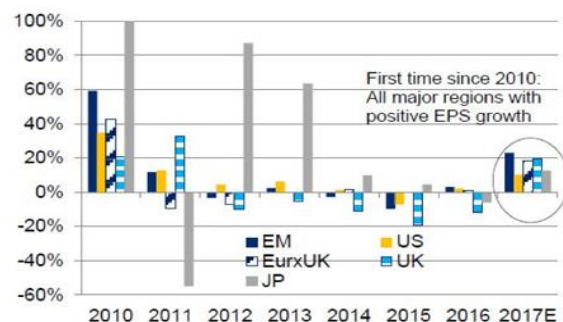
But is there evidence to suggest that these markets can go higher? Respected Australian commentator Peter Switzer thinks there is. He noted that CNBC in the US recently ran with the headline: “The global economy is doing something it hasn't done in 7 years and that has Wall Street excited.”

Now you don't need to be Warren Buffett to work out that if Wall Street is excited, it should be good for our stock market, our super funds and even our economy.

The big story, is all about a “global synchronous recovery” that has got Wall Street bulls (positive investors) even more optimistic.

According to Citi Research: “All major markets will report strong earnings growth in 2017” and this is the first upturn of this kind since 2010.

The chart below shows that EPS (or “earnings per share”) for the world's big companies are heading in the right direction. It's kind of saying that another big negative that came out of the GFC is being righted.



Source: Citi Research, Factset

What Peter also likes is that economies and markets are doing well without the help from Donald Trump's policies, apart from some financial system deregulation. But this good story can only get better, if Mr Trump could get a tax policy win ASAP.

Next year, there'll be mid-term elections in the USA and the President and the Republicans know they'll be caned if they don't pull off some big wins for the economy. If they do pull off some good policy options, that will add to this already pretty rosy economic and market story.

And this is good news for the Aussie economy as a big supplier to the world economy, jobs, stock prices and our super funds.

However, unfortunately, no one knows which way the markets will go and how the Charts will look in 12 months. Let's hope we do see the markets perform strongly and close the gap on the US line.

The Shifting Income Suburbs:

In Melbourne, the leafy inner-east area long enjoyed the city's top median household income. But during the past five years that changed. The 2016 census, released last month, showed the median income in the inner east statistical district, which takes in Kew, Hawthorn and Camberwell, had been surpassed by Melbourne's bayside inner south.

Households in the inner south statistical area, which includes Brighton and Hampton, had a median annual household income of \$92,924 – about \$1800 more than the inner east.

The ageing of the population, especially the gradual departure of the Baby Boomers from the workforce, has underpinned these shifting income patterns.

The Boomers – born between 1946 and 1961 – began to move into retirement during the past decade. The post-retirement behavior of that large demographic cohort will have major economic consequences.

In the past a significant share of retirees headed for coastal retreats but now many are choosing to "occupy the crease" in desirable city neighbourhoods. And of course, people are living longer than ever.

It's no surprise retirees are choosing to remain in amenable, well-located suburbs near lively cultural centres and world-class healthcare. But that trend will help drive complex economic changes at the local level.

As suburbs get older their expenditure patterns will change and that will alter what local services are available along with the character of shopping centres and high streets. As people live longer in neighbourhoods close to central business districts (and other job hubs) there will be less opportunity for younger workers to locate there.

More young workers locked into long commutes will put further stress on urban transport networks and increase political pressure for high-density housing developments in well-located suburbs. The city regions that are renewed by young high-income earners are likely to attract economic activity and jobs, possibly at the expense of areas where household incomes are in relative decline. Nothing is straightforward is it?

Joke Corner: The Dad asked his daughter if she'd seen the newspaper. She told him that newspapers are old school and people don't have them these days. She said that people now use "tablets" and handed her Dad the iPad. "Smack"

- the fly didn't stand a chance!

AND - A young man thought his neighbors were quite nice people and always went out of his way to say hello.....But then they put a password on their Wi-Fi! So no more need to say hello and to be polite to them!

Finally, Until next time – keep safe.

Tony

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