

KeyPlay Financial Services' 2018 Christmas Newsletter

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Hello and welcome to the 2018 Christmas edition of the KeyPlay Financial Services' Newsletter. We wish you a Happy Christmas for 2018 and a safe and healthy New Year 2019 – how quickly they come and go. It really is amazing.

This year has been a hectic one in the Financial Services' industry - headed by the events of the Royal Commission - which is set to hand down its Final Report in February 2019.

Already as a result of the Royal Commission, we have seen huge changes (especially around compliance and regulation issues), with the prospect of further to come after February.

However, what the Commission (and the politicians) need to be careful of - is that they do not throw the baby out with the bathwater. As with all walks of life, the actions or inactions of the minority ruin it for the majority. There are many good people working in this industry and as such, a measured approach should be taken with any recommended changes so as to avoid an adverse impact on the availability of financial advice for Australians.

The Royal Commission's work has already led to huge industry changes including improved business practices and the establishment of compensation payments to clients for poor service/practices where applicable. Maybe the Commission has achieved enough already?

There are estimates that anywhere between 20% to 50% of Financial Advisers across the country could leave the industry within 3 years - due to the proposed education and further regulation changes. If this was to happen – think of the experience that would be lost and the clients left without help and support. Common sense needs to prevail but I am not too confident that common sense is that common these days!

With anticipation, we will see what 2019 brings and in the meantime, we wish you a Merry Christmas - 2018 and a safe and healthy New Year 2019 and we thank you for your support in 2018.

Market Outlook:

Peter Switzer is a leading Australian Financial commentator and one that I believe has some of that "hard to find" common sense. A recent article from him points to the Australian sharemarket regaining some lost ground over the next month and into the New Year.

Peter said that "uncertainty about what Commissioner Hayne (from the Financial Services Royal Commission) will recommend to punish the banks, insurers, financial planners and other money industry players, and then on top of that - what Scott Morrison and Bill Shorten promise to do as a consequence ahead of an election, are holding back our stock market".

"The financial sector accounts for 30% of the stock market in Australia, so the uncertainty hovering over the likes of the big four banks, AMP and other big name finance operations has to be a huge headwind hurting stocks.

However, with the Trump trade war headwind with China contained to a virtual breeze for three months, it seems likely that our stock market can and should start climbing higher.

Also, history says we are moving to the best half of the year for stocks performance and recent history has vindicated the chart below, which shows the months May to October average returns of only 0.95%, while from November to April the pay-off of being long term investors is 10.69% over the period 1998-2012".



Source: CNBC.

On top of this, Peter thinks the case for better performance ahead is the fact that the third year of a presidency tends to be the best out of the four years that a president influences the stock market.

There are always market concerns and now is no exception. Oil prices, Brexit, a China slowdown and other external issues such as overvalued “FANG” “stocks in the USA – (the “FANG” stocks are Facebook, Amazon, Netflix and Google (now Alphabet, Inc.)). These have all brought share prices down but as well the US / China trade war has directly or indirectly affected US tech sales, growth in China and even the demand for oil.

Progress with the negotiations on trade between the USA and China has to be a big plus for stocks - so if the Australian market fails to bounce, then it will be down to the Royal Commission.

“The Royal Commission with its accomplices (APRA and the RBA) have already taken the heat out of the Sydney and Melbourne property markets via loan stinginess for Chinese and property investors, as well as tougher lending rules for nearly all borrowers who have the guts to ask a bank for a loan nowadays”!

Thank God the rest of the economy, especially business, is doing well. And with infrastructure spending and investment looking solid, Peter says there is good reason to believe that stocks should trend higher over December and into early 2019.

Recent data on the economy supports this view:

- Owner occupier housing loans rose by 0.4% in October to stand 7% higher over the year – the weakest growth rate for almost three years. But loan growth is still positive and compares to really boom house price years.
- Business loans rose by 0.6% in October after a similar rise in September. Annual growth lifted from 4.4% to 4.7% – the strongest pace of growth in 21 months.
- Loans and advances by non-bank financial intermediaries rose by 10.3% over the year to October, down from an 11-year high of 11.3% in September.
- None of the above is consistent with house price collapse talk, thankfully.
- The closely watched gauge of business plans to invest showed up as an 11.3% upgrade in investment between the third and fourth estimates – the strongest upgrade in 19 years.
- NSW business investment rose to a record high of \$8.3 billion in the September quarter, while Victorian investment of \$5.7 billion was a 7½-year high.
- Services sector investment hit a record high of \$73.6 billion for the year to September.
- While construction work done fell by 2.8% in the September quarter (only the second decline in the past two years), in the year to September, construction work done was at record highs in NSW, Victoria and South Australia.

- Despite house price collapse talk, the ANZ-Roy Morgan consumer confidence rating rose by 0.7% to 118.6 in the past week. The index is well above the average of 114.2 held since 2014, and above the longer-term average of 113 held since 1990.
- In the year to October 2018, the Budget deficit stood at \$2,345 million, down from the \$3,379 million deficit in the year to September. The rolling annual deficit is the lowest for over 9½ years!
- Petrol has fallen 22.7 cents over the past four weeks – the biggest equivalent decline in a decade.

All the recent positive signs pile on top of an economy growing at 3.4% and unemployment is a low of 5%, which is the best rate since April 2012!

What Peter fears most about the economy right now are all the negative and scary headlines that tell us what MIGHT happen rather than all the good stuff that is actually happening.

As Franklin Delano Roosevelt often referred to by his initials, “FDR” warned in the Great Depression: “The only thing to fear is fear itself.”

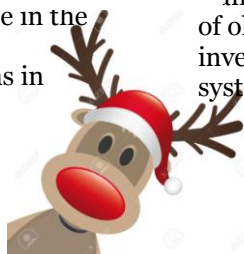
The one point I would add though is that countries across the globe have HUGE amounts of debt – and in Australia our Government has a DEBT of over half a trillion dollars. This is the real area of concern for me and one day it has to come home to roost.

Inquiry into proposal to remove ‘refundability’ of franking credits:

The refund of franking credits is a task that we undertake for many of our clients each year and the refunds received are a welcome boost to the budget for many. However Mr Shorten has proposed that he will ban these (for non-tax payers) if he wins the Federal Election set for possibly May 2019.

The House of Representatives’ standing committee on economics has announced that it will launch an enquiry into the policy proposal by the Opposition to end the practice to those who otherwise have no tax liability. This proposal, at face value, would seem to adversely impact the income of lower and middle-income earners, including retirees and potentially Self Managed Super Funds in retirement pension phase.

The committee will investigate and report on several issues, including an analysis of who receives franking credits and their impact on lowering tax bills, the impact of the removal of refundable franking credits especially on the finances of older Australians who may have to adjust their investments, implications on fairness in the tax system including removal of double taxation, and



the impact of any exemptions or carve-outs from the proposal both on equity and complexity grounds.

It must be pointed out that at this time, this is only a policy proposal of the Opposition; details remain to be finalised and are subject to change as various interested parties provide feedback and commentary. The Opposition would have to gain government to have any chance of introducing this proposal and would then have to pass enabling legislation through both Houses of Parliament.

Dividend imputation or “franking credits” was introduced to remove the double taxation of company dividends that otherwise occurred, ie tax paid at the company level and again on the dividend received by the shareholder or investor. Currently where the taxpayer’s tax liability is zero or less, the franking credit can be refunded as cash to the shareholder.

Broadly, the Opposition’s proposal would retain the dividend imputation concept but limit the credit to only reduce or offset the shareholder’s tax liability. Therefore, cash refunds of unused franking credits would no longer be available.

Although I commend any Government that looks to tighten the “spending belt” - I think that this is not an appropriate avenue to do so. Many of our clients in receipt of the Age Pension look forward to receiving their franking credit refunds each year to just help them meet their ongoing expenses. These are the people that should not be penalised for supporting Australian companies by holding the shares either directly or in a Managed Investment Account.

I hope that before we see a Federal election in 2019, that this proposed change will be forsaken.

The State of Play in the Trade War:

From day to day we hear of the Trade War between the USA and China. One day it is causing concerns for financial markets then the next it isn’t. So what is the up to date position?

Mr Trump has just agreed to not raise tariffs on \$200 billion worth of Chinese imports from 10% to 25% in January as he had previously threatened, according to a White House statement. In exchange, the U.S. and China will work toward a deal within 90 days — a timeline that many experts have said is too short given the complicated issues surrounding the tariff fight.

So, the next crucial date to watch for clues on where the trade war is heading may be just around the

corner — way before the end of the 90-day period that U.S. President Donald Trump and Chinese President Xi Jinping have agreed on to withhold further tariffs. That crucial date is December 18th.

On December 18th, China marks the 40th anniversary of its economic reforms, which is an occasion Beijing could use to emphasise its commitment to transform its economy, noted Scott Kennedy, from the Centre for Strategic and International Studies. "If that day or week goes by with no major new announcements, then we know that for sure there's not a possibility that the Chinese want to use this as an opportunity to change the direction of their economy and industrial policies," Kennedy told CNBC. If that happens, the tariff fight between the U.S. and China will certainly re-escalate at the end of the 90-day period, he added.

So the saga goes on – hopefully (the “not-too common” common sense prevails.

Bitcoin (BTC) Cryptocurrency smashed:

The value of Bitcoin has been smashed in 2018 falling from a high in December 2017 of approx. USD \$20,000 to currently approx. USD\$3,800.

After several months of low price volatility, it appeared that the cryptocurrency markets were going to make an eventful upward turn in November. Part of the influx of investment was driven by Bitcoin Cash, as buyers anticipated the minting of new coins following its “hard fork” on November 15 (which is when a single cryptocurrency splits in two).

However, the opposite occurred, and Bitcoin plummeted in value in the hours leading up to the split and dragged most of the market with it. Instead of providing a resurgence to market prices, the “forking” of Bitcoin Cash into Bitcoin ABC and SV created a strong degree of investor uncertainty which in turn led to falling prices. The two camps, helmed by cryptocurrency figureheads Roger Ver and Craig Wright, created an all out war - which drew the wrong kind of attention for the cryptocurrencies and led to a general fire sale for the market.

Bitcoin plummeted alongside “altcoins” (the alternative cryptocurrencies launched after the success of Bitcoin), and nearly USD\$100 billion was wiped from the market capitalisation in less than two weeks. While Bitcoin watched a steady erosion in price throughout 2018, falling from an all-time high of USD\$20,000 at the end of last year to a stable point around USD\$6500 mid-year, the bottom then fell out of the currency in November.

Bitcoin dropped to USD\$3500, with nearly all analysts predicting a bleak outlook for the recovery of cryptocurrency prices into next year—and beyond.

Remember when all the talk was about Bitcoin? As we always say to investors: *"Beware the fast dollar"*.

Interest Rates on HOLD (still)!:

At its December Meeting, the Reserve Bank of Australia has kept the official cash rate at a record low and reiterated its economic growth forecasts, but is keeping a close eye on the stumbling east coast housing markets.

The decision at the December board meeting means the cash rate has been on hold at 1.5% for two whole calendar years, last moving in August 2016.

The RBA said it still expects the economy to grow by 3.5% this year and next, but Governor Philip Lowe hinted at concerns over the potential impact of falling Sydney and Melbourne house prices.

Dr Lowe also noted "some signs of a slowdown in global trade, partly stemming from ongoing trade tensions" between the US and China.

The RBA has repeatedly signaled the cash rate is not likely to change for some time.

Joke Corner:

George and his wife Bessie went to the local fair every year. This was their "big" event of the year. In fact, it was the closest thing they ever had to a vacation. And each year George would say to Bessie, "I sure would like to ride in that there crop dustin', acrobatic airplane." And each year Bessie would say, "I know George, but that airplane ride costs ten dollars. And ten dollars is ten dollars."

After many years, George and Bessie went to the fair as usual, and George said, "Bessie, I'm 81 years old. If I don't ride that airplane this year, I may never get another chance." Bessie replied, "George, that there airplane ride costs ten dollars. And ten dollars is ten dollars."

The pilot overheard them and said, "Folks, I've seen you here year after year. I know you've been wanting to ride in my airplane all that time. I also know that money is pretty important to you, and you don't part with it lightly." "Tell you what, I'll make you a deal. I'll take you both up for a ride. If you can both keep quiet for the entire ride, and not say one word, I won't charge you a thing. But if you say even one word, it'll cost you ten dollars."

George and Bessie agreed. They got in the plane and took off. The pilot did all kinds of twists, turns, rolls, and dives, but he didn't hear a peep from George or Bessie. He tried his fastest upside roll and it was still quiet from the back.

When they landed, the pilot looked at George: "Well, I don't believe it George, I did everything I could think of to get you to yell, but you didn't."

George replied, "Well, I was going to say something when Bessie fell out....." "But, ten dollars is ten dollars."

Scammers fleece Australians out of \$800,000 in one month as fake calls surge:

Scammers are one of my **HUGE pet hates** and as long as I continue to hear of people being scammed – I will continue to warn our clients of the dangers.

Last month ALONE - Australians were conned out of more than \$800,000 - as a "tsunami" of scam phone calls threatened people with arrest if they did not hand over their personal details. New figures from the Australian Taxation Office reveal more than 37,000 scam attempts were reported just last month.

One elderly person has been fleeced of more than \$236,000 since June. This is so WRONG.

"While phone scams are the most common at the moment, scammers are constantly changing tactics," ATO Assistant Commissioner Kath Anderson said. One scam that has ramped up in recent weeks involves a phone call with a robotic voice recording demanding you call back, with the threat: "If we don't hear from you - we have to issue an arrest warrant under your name and get you arrested."

(I received this call myself. As with ALL unsolicited calls – do NOTHING – just hang up. Never call back numbers or engage in conversation).

Other scams include people pretending to be from the ATO, with the call showing a fake local phone number to give the impression it is legitimate, when in fact it is from an overseas call-centre. "The ATO does not project our numbers using caller ID," Ms Anderson said. "You can be confident that if there is a number displayed in your caller ID, it isn't the ATO."

The ATO reports emails and SMS scams are also circulating, with more than 6,000 people handing over their personal or financial details to scammers since July. Ms Anderson said the ATO does contact

people by phone, email and SMS, but said there were some telltale signs it might be a scam.

She said the ATO will NOT:

- Will NOT Use aggressive or rude behaviour, or threaten arrest, jail or deportation.
- Will NOT request payment of a debt via iTunes, pre-paid visa cards or cryptocurrency.
- Will NOT request a fee in order to release a refund owed to you.
- Will NOT send you an email or SMS asking you to click on a link to provide login, personal or financial information, or to download a file or open an attachment.

The consumer watchdog, the Australian Consumer and Corruption Commission, said the voicemail threatening arrest had surged in recent time. "We have seen a tsunami of these calls happening ... many people are quite shaken by this," ACCC deputy chair Delia Rickard said. "Scams like this are organised crime, they have whole call-centres overseas which are just constantly doing them.

How to protect yourself from scams:

- If you receive a phone call or email out of the blue from someone claiming to be from the Centrelink or the Australian Taxation Office telling you about an arrest warrant, hang up.
 - If you have any doubts about the identity of any caller who claims to represent a government department, hang up. If concerned contact a family member or us.
 - Never send money via wire transfer to anyone you do not know or trust.
 - Never give your personal, credit card or online account details over the phone unless you made the call and know exactly what you are doing.
 - If you think you have provided your account details to a scammer, contact your bank or financial institution immediately.
- You can report scams and get information at www.scamwatch.gov.au

The ATO's dedicated scam reporting line is 1800 008 540.

Christmas / New Year hours:

Our office will be closed from 3PM on Thursday 20th December 2018 and will re-open at 9AM on Monday 7th January 2019 with a skeleton crew!

Full staff numbers will be back from the 21st January 2019.

iTunes scam: Why fraudsters are demanding payment with vouchers:

Police are warning people to be alert to scammers demanding payments for things in the form of iTunes vouchers after an 80-year-old Perth woman was tricked out of \$4,000.

Another woman in Victoria lost more than \$46,000 in another scam, with the offenders requesting the victim purchase iTunes gift cards and relay the gift card codes over the phone.

Here's what you need to know about the scams.

What's happening? There are a number of scams taking place, asking people to make payments over the phone for things such as taxes, hospital bills, bail money, debt collection, and utility bills.

Acting consumer protection commissioner David Hillyard said iTunes vouchers in particular were becoming scammers' currency of choice.

Why are they doing this? Typically, the victim receives a call, with the scammer suggesting an urgent payment needs to be made by purchasing iTunes gift cards from a retailer. In some cases, the victims are told they are facing criminal charges.

According to Apple, which has issued a warning about these scams, the victim is then asked to pay by sharing the 16-digit code on the back of the card with the caller over the phone.

"By the time these scams are reported to us, the cards have already been on-sold or redeemed by the scammers," the Australian Taxation Office's assistant commissioner, Janine Clark, said.

"The scammers don't need the actual physical card. They just need the gift card number."

Why are they using itunes gift cards?

Australian Consumer and Competition Commission (ACCC) deputy chairwoman Delia Rickard said there were a number of reasons they were using the iTunes gift cards.

"They are untraceable and instant. Also the traditional method of transferring funds via Western Union and other banks — is becoming more difficult with consumer awareness," Ms Rickard told the ABC.

Is it widespread? Ms Rickard said it was incredibly widespread. "From the end of May, 2017 to July 23, 2017 we've had 465 reports to the ACCC," she said.

"A total of \$359,000 has been lost in two months alone and that could be higher because not everyone who has been scammed will report it."

Is this a recent scam? No. Ms Rickard said it had been around for a while, with scammers posing as ATO and Centrelink agents to target "vulnerable clients".

Who are these scammers? The ACCC said the scammers were largely from overseas. "But that's not to say there aren't some here in Australia," Ms Rickard said.

PLEASE make sure that you and people you know never get caught in one of these scams. Make others aware of the threat of scams and always be vigilant.

The King's Highway:

Once upon a time, a King had a great highway built for the people who lived in his kingdom. After it was completed, but before it was opened to the public, the King decided to have a contest. He invited as many of his subjects as desired to participate. *The challenge was to see who could **travel the highway the best**, and the winner was to receive a box of gold.*

On the day of the contest, all the people came. Some of them had fine chariots, some had fine clothing and fancy food to make the trip a luxurious journey. Some wore their sturdiest shoes and ran along the highway to show their skill. All day they travelled the highway. However, each one when they arrived at the end, complained to the King about a large pile of rocks and debris that had been left almost blocking the road at one point, had got in their way and hindered their travel.

At the end of the day, a lone traveler crossed the finish line warily and walked over to the King. He was tired and dirty, but he addressed the King with great respect and handed him a small chest of gold.

He said, "I stopped along the way to clear a pile of rocks and debris that was blocking the road. This chest of gold was under it all. Please have it returned to its rightful owner."

The King replied, "You are the rightful owner." "Oh no," said the traveller, "This is not mine. I've never known such money." "Oh yes," said the King, "you've earned this gold, for you won my contest." ***"He who travels the road best is he who makes the road better for those who will follow."***

The Importance of Annual Reviews:

The importance of making sure that you keep up with your Annual Reviews cannot be over-emphasised.

When it comes to your retirement and your future - you can't just set it and forget it. Life changes and so do taxation, Centrelink and investment rules along the way. Failing to regularly re-evaluate your position including the legislation changes, how you are invested and how those investments are performing could see you not achieving the goals you are aiming for.

This can be especially true in times such as now when we have potential legislation changes mooted (such as with the Franking Credit Refunds, and Capital Gains Tax and negative gearing)- in addition to the volatility in sharemarkets.

Therefore – make sure that when you receive the Annual Review Information from us in say April 2019 – that you provide the requested information and lock in a Review date that suits you.

It could be said that our Annual Review is akin to spring-cleaning your house. As with the house, at our Review - it is a time to clear away the cobwebs, check for unexpected cracks in the structure and make any appropriate adjustments if required.

What has happened in your life and any changes or plans that have arisen are also a huge part of these Reviews – so make sure that you prioritise your Review in 2019.

Until next year – thank you for your support, and a Merry Christmas and safe and healthy New Year 2019 to you - from all of us at KeyPlay.

Tony

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