ISSUE 1 | VOLUME 2 | 2019

Financial *focus*

ADDRESSING THE NEEDS OF INDIVIDUAL INVESTORS AND PLANTING THE SEEDS FOR A SECURE FUTURE.

Selling the house can be the best way to boost your Super. But it's not just as simple as putting the money in your super account. Here are some Tips to consider….

The Downsizer Contribution

From 1 July 2018, people over the age of 65 who sell their home may be eligible to make a downsizer contribution. This is a non-concessional contribution to superannuation that does not count towards your other contributions caps. The maximum contribution is $300,000.

So, here are some interesting Tips on the Downsizing Contribution:

Tip 1- you must have had an interest in the home for at least 10 years prior to the sale. That doesn't mean you had to own it for the whole 10 year period.

Tip 2- Main residence doesn't mean you are living it now. But you must have treated the property as your main residence at some time during the 10 year period in which you had an interest

Tip 3 – You must be aged 65 years or older when making the Downsizer Contribution. There is no upper age limit. You could be 64 at the time of sale and still be eligible as long as you are 65 when you contribute.

Tip 4 – The maximum contribution is $300,000 per person OR the sale value of the house. For example, if you sell a jointly owned house for $500,000 the maximum you could contribute is $250,000 each.

Tip 5 – The Downsizer Contribution must be made within 90 days of the change of ownership of the eligbile property.

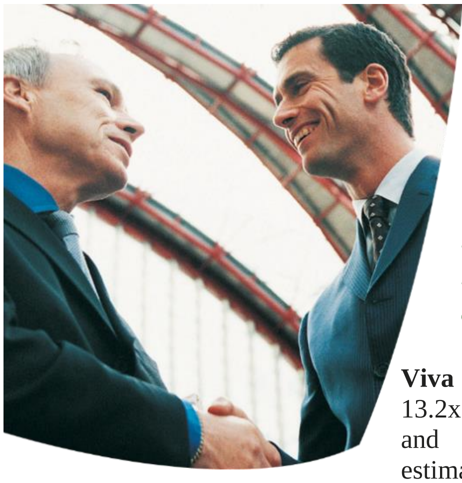
Tip 6 – Beware! It will impact your Age Pension because your main residence is exempt from the means testing, but the value of you super is not.

Tip 7 – You are still subject to the Transfer Balance Cap which limits the amount of super you can place in to pension mode. That cap is $1.6m.

The Downsizer Contribution is a useful way to move more money in to super once you have retired. However, it's important to consider how it impacts your broader situation prior to making the contribution but with a 90 day limit, you need to act quickly.

STOCK WATCH

Webjet (ASX: WEB) is one of Australia's leading online travel booking companies. It achieved 25% organic operating earnings growth in 2018 and will have additional earnings from its new Destination of The World acquisition. UBS suggest WEB could achieve 17% growth in the 2019 year. With consensus targets averaging $16.49 and trading on 20x earnings, many analysts would suggest there is plenty of value to be had when compared to its peers.



December Market Update

Fear. Uncertainty. Rising interest rates globally. Falling house prices locally. Trump & trade wars. It all became too much. How low will it go?

Last quarter we mentioned it was time to beware of Mr. Market and ruminated on Warrant Buffets famous quote

"be fearful when others are greedy and greedy when others are fearful".

Well, the Fear is here.

How far it goes, we don't know. While Price/Earnings ratios can be misleading (i.e. if earnings are falling, P/E should always be low) it can also be a good quick view indicator of where value exists. So lets do a quick check in:

Super Retail (SUL) – P/E 8x Cash Div Yield 7%. Sales up ~2.5-3%

National Australia Bank – P/E 10x. Cash Div Yield 8.1% Earnings were down though and it's a tough environment for banks.

Rio Tinto – P/E 10.5x Cash Div Yield 5.7% But earnings are expected to decline.

Viva Energy (VEA) P/E 13.2x Cash Div yield of 5.4% and Earnings growth estimated at 24% (although I think that's ambitious).

Challenger (CGF) P/E 14x Cash yield 4.7%. Earnings Growth 6%

> "In the short run, the market is a voting machine."
>
> BENJAMIN GRAHAM

All of those company's are trading at, or well below the markets long-term average of 14x. It shows the emergence of value in the current market. But the trap is to be aware. RIO at 10x with declining earnings estimates jumps to 11x next year where, say, Super Retail, falls to 8.9x or Viva which falls to 11x because their earnings should still grow.

A rapidly falling market is tough to watch and while it may appear some shares become cheap, it may not be the case.

We espouse looking for opportunites and going against the fear. Buy when it's hardest.

But it is still important to buy good (and I'm not saying RIO is bad either).

Another view is **REA Group** (REA). It is still trading at the high P/E of 30x. But in context, the company is forecasting growth 18% in 2019 and at 30x earnings, it's close to its cheapest valuation (based on P/E) in 10 years. It's like a "once in a decade sale" - unless you believe it can't achieve it's earning growth.

This is an opportunity. We don't know how low the market will end up falling. We do know businesses will keep trying to make a profit. And that is what we're buying.

Be bold. Be Patient. Be rewarded.

Buy when everyone is fearful.

Loan Market

A **quick note** from the world of home loans:

1. Westpac, ANZ & CBA are all have very generous cash back offers for new refinances; and
2. Bankwest reduced their variable rates.

Rates can go as low as 3.7% on owner occupied home loans (obviously, other lending conditions apply) so it's probably worth checking how your rate compares and giving us a call

We are noting far more scrutiny in applications and applications taking longer to process as a result.

SMARTER INVESTING: Experience vs. Discipline

Don't follow the heard

It's human nature to follow the heard. If everyone else is selling, then I should too.

In periods of intense fear and at times whens everyone talks about "uncertainty" buyers stop buying, and sellers will take any price.

In our experience, times are ALWAYS uncertain.

Benjamin Graham summed up it so well when he said, "In the short run, the market is a voting machine but in the long run, it is a weighing machine".

At them moment, the heard is voting for low prices. It will overshoot – sending prices too low.

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