INSIDE

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FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

Review of 2020, Outlook for 2021 – From Pandemic to Recovery

Key Points

- 2020 was dominated by the coronavirus pandemic but shares saw okay returns on the back of policy stimulus and vaccine optimism – resulting in constrained but positive returns for balanced growth super funds.
- For 2021, the combination of massive policy stimulus and the prospect of vaccines allowing a return to something more normal by end 2021/early 2022 should see a decent rebound in economic growth.
- This plus lower interest rates is likely to see solid returns from share markets but poor returns from bonds. Australian shares are likely to be relative outperformers.
- The main things to keep an eye on are: coronavirus and vaccines; China tensions; inflation; as well as the hit to immigration in Australia and its impact on home prices.

2021 – recovery

Just as 2020 was dominated by the pandemic and this determined the relative performance of investment markets and stocks, 2021 is likely to be dominated by the recovery. This in turn will have a profound effect on investment markets. There are four reasons for optimism.

First, massive fiscal and monetary stimulus is still feeding through economies with very high saving rates indicating pent up demand that can be spent once confidence improves, which will also help offset the wind down of some support measures like Job Keeper in Australia.

Second, news on vaccines is positive. While uncertainties remain, by the end of 2021 or early 2022 there is a good chance the world will be approaching a degree of herd immunity.

Third, a new US President in Joe Biden should usher in a period of more stable and expert based policy

In particular, it will likely head off a return to trade wars that could have wreaked havoc in 2021. A more diplomatic US approach to resolving differences with China could also help Australia move down a path to resolving its own differences with China.

Finally, Australia along with NZ has navigated 2020 remarkably well, controlling coronavirus far better than most comparable countries and seeing its politicians and institutions work well together. It also led to structural reforms that may help future growth (e.g. property tax reform in NSW, IR reform nationally).

The combination of vaccines, policy stimulus and pent up demand is expected to see a supercharged cyclical rebound in global GDP of around 5.2% and 4.5% in Australia in 2021. This is likely to see strong double-digit rebounds in profit growth.

Inflation is likely to remain weak, reflecting still high levels of spare capacity which in turn means interest rates will remain low. Whilst this is not good for those relying on bank interest, it benefits the household sector as a whole (with debt exceeding bank deposits) & corporates, eases the servicing of high public debt levels and makes shares cheap. So, in a way we remain in the sweet spot of the investment cycle with improving growth but low rates. In Australia, the cash rate is expected to end 2021 at 0.1% but there is still a risk of more quantitative easing.

WHAT TO WATCH?

The main things to keep an eye on in 2021 are as follows:

- **Coronavirus and vaccines -** problems with vaccines or their deployment could result in ongoing waves of new coronavirus cases & slower recovery than we are assuming.
- **US Politics -** A democrat victory in Georgia's January 5 US senate elections would risk more of a leftward tilt under Biden, although conservative Democrat senators will limit this. Trump could also try to throw a spanner in the works.
- **China tensions -** we expect a shift to a diplomatic approach here but there is a risk of misjudgement on either side which could start to slow our longer-term economic growth rate.
- **Inflation -** we are assuming it remains weak but if it rebounds faster than expected it will mean faster increases on bond yields and downward pressure on asset valuations.
- **The hit to immigration in Australia -** it is hard to see 700,000 less immigrants out to mid-2023 having no impact on inner city Sydney and Melbourne property prices.

Source: AMP Shane Oliver

Small Business CGT Concessions: Goal posts moved on vacant land and active assets

Businesses wanting to claim CGT concessions for active assets may find hope in a recent Full Federal Court decision on a long-contested vacant land case.

In 2007, the Administration Appeals Tribunal ruled that vacant land on which two shipping containers had been placed for storing business records did not qualify as an "active asset" for the purposes of the CGT small business concessions.

The AAT said that is could not accept that "the allowance of passively storing old records in two containers placed on a property can be regarded as using the land in the course of carrying on a business". (that is, as an "active asset", which is one of the conditions required to access the concession). However, following a recent decision of the Full Federal Court, the same conclusion may not be reached today.

In the recent case, the taxpayer sold adjacent land next to his home, which he used for storing work tools, work vehicles, equipment and materials for his building, bricklaying and paving business. The land also contained two large sheds, had a two-metre high brick wall and was gated. In addition, the taxpayer visited the land several times a day in between jobs to collect tools or other items to use in jobs.

In overturning the earlier decision to not allow the small business CGT concession to apply to the situation outlined above, the Full Federal Court unanimously held that the land was an "active asset" on the basic of a plain meaning of the legislation – namely, whether the asset was "used in the course of the carrying on of the identified business".

In doing so, it also emphasised the CGT small business concessions "should be constructed beneficially rather than restrictively in order to promote the purpose of the concessions "and that the relevant legislation does not require the use of the asset to take place within the day-to-day or normal course of the carrying on of a business.

The decision of the Full Federal Court now raises the strong prospect (if it did not already exist) that a business that purchases any form of real property (for example, vacant land or strata-titled space) to store and access business records would qualify for the concessions.

Job Keeper - Extension Period 2

Since the first extension of Job Keeper payments ended on 3 January 2021, you may now be eligible for the Job Keeper scheme extension to 28 March 2021 (extension period 2).

To qualify for extension period 2, businesses will have to meet the following eligibility criteria:

- Business was being carried on in Australia on 1 March 2020
- Business employs eligible employee/s or business participant/s for the fortnights you are claiming the Job Keeper payments for
- Have a 30% reduction in turnover for the December 2020 quarter compared to the December 2019 quarter.

If your business meets the above criteria then you may be eligible for the Job Keeper extension payments as per the below:

Applicable rate	Extension period 1 (December 2020 Quarter)
Higher rate	$1,000 per fortnight
Lower rate	$650 per fortnight

Please note that the applicable rate will be determined, as shown in the table below, by assessing the number of hours worked by each employee during the 4 weeks prior to 1 March 2020 or 1 July 2020 (whichever is higher).

Applicable rate	Total hours of work for the 4 weeks prior to 1 March 2020	Total hours of work for the 4 weeks prior to 1 July 2020
Higher rate	More than 80 hours	More than 80 hours
Lower rate	Less than 80 hours	Less than 80 hours

WINNING THE MONEY MIND GAMES

Success in generating long-term wealth has a lot to do with awareness of the tricks money can play on your mind. *How many of these do you recognise?*

Money and emotion are strongly connected. Purchases often mean something to us personally. They broadcast our identity. They make us feel special. They reward us for hard work. But in the background, behind our most basic reasons for spending or saving, our mind plays further tricks. If you become aware of these tricks then the added clarity will benefit your wealth generation.

1. Bigger is better

Consider the purchase of a new car. You have just spent $35,000, so when the salesperson offers you a special deal – a $700 upgrade pack including a towbar, carpet mats and alloy wheels – it seems like a bargain. But would you happily go out today and spend $700 elsewhere? How many grocery trips does that represent? And many of us will grab the opportunity to buy a $100 item that has had its price slashed to $50. But if a $5000 item is discounted to $4950, then the $50 saving is not nearly as attractive. Remember that a dollar is always worth a dollar, no matter how much or how little the related purchase happens to be.

2. Discounted = good value

It is increasingly rare to see a price ticket that is not marked down. But is the $130 jacket, marked down from $210, actually better value or better quality than the $100 jacket in the shop next door? Ignore the higher price (known as an 'anchor', intended to make the discounted price seem cheap) and consider the actual value. This works in several other situations. For instance, many restaurant menus offer a high-priced entrée and main to make the other options seem cheap. And in your local electronics store, the fancy $500 toaster is only really there to make the $140 toaster seem like a bargain.

3. Gifted money is not worth investing

You receive money as a gift so instead of adding it to your savings, investment or retirement fund, you put it straight into the spending budget. Your mind is de-valuing the money, because it was a gift. In other words, you didn't have to work for it, so it is somehow of less value or not worthy of investment. But if you regularly invest a specific percentage of your income then consider investing the same percentage (or more) of gifted money.

4. Small change is of little value

How much small change do we leave lying around or in a container or the glove box, then happily spend it on little things without a second thought? But consider that a small money box for children can easily hold $400 in gold coins and suddenly that small change becomes a very real driver of financial change. The same goes for small pay rises, which may not seem to make any difference right now but can make a very real difference over the long term.

5. Money buys happiness now

Buying something today produces a very measurable result. Saving for the future and putting money into superannuation or investments is difficult to quantify in terms of lifestyle. So make it quantifiable, figure out your average monthly expenditure and buy future months of happiness with your savings and investments.

6. Reduced mortgage repayments represent a saving

In an environment of falling interest rates, many home owners have been offered a drop in mortgage repayments. That is great for our household budgets, right? But consider that if you drop your repayments, you will spend more on the mortgage in the long run and will lose more money in interest, as you take longer paying off the mortgage compared to keeping your repayments at the same level.

Should you wish to discuss any aspect of the information contained in this document, please contact your Financial Planner

Phone: 1300 375 357

Email: admin@corefinancialservices.com.au

Perth: 45 Ventnor Avenue, West Perth WA 6005

Melbourne: Level 23, Collins Street Melbourne, VIC 3008

Sydney Level 24, Three International Towers 300 Barangaroo Avenue Sydney NSW 2000

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