Spring 2024

Welcome to Spring, a season that might be motivational for personal, business and financial renewal. We hope you enjoy the sunshine and warmer weather.

Global stock markets – including the ASX – largely stabilised by the end of August after a turbulent month.

It was a rocky start when markets everywhere fell after news of high unemployment figures in the US and an interest rate move by Japan's central bank. Despite the dramas, the S&P/ASX 200 closed 1.28% higher for the month marking a gain of just over 10% for the 12 months to date.

A slight drop in inflation figures – down to 3.5% in July from 3.8% the previous month – had investors checking the Reserve Bank's reaction but most economists agree there's no chance of an interest rate cut this year. The RBA's not forecasting inflation to get to its preferred levels until late 2026 or early 2027.

While the cost of living has dropped ever so slightly (and partly due to $300 federal government rebates on electricity bills), wages have risen. The Australian Bureau of Statistics reports that wages rose by 4.1% in the year to June. It means that wages are now keeping up with the cost of living.

The good news from the markets and inflation data contributed to a small upswing in consumer confidence although there's still much ground to recover after the losses caused by Covid-19.

Lowe Lippmann Wealth Advisers
Level 7, 616 St Kilda Road
Melbourne VIC 3004

PO Box 130
St Kilda Vic 3182
P 03 9525 3777
E info@llwa.com.au
W www.llwa.com.au

INVESTING CYCLES - Lessons from the Magnificent 7

When it comes to investing in shares, it's often said that time is your friend.

The data shows that investing small amounts consistently over time and riding out the ups and downs of the market by holding onto your investments for the long term, can produce a healthy return.

Over the past two decades, the top 500 US companies averaged a 10 per cent annual return and Australia's S&P ASX All Ordinaries Index recorded an average annual return of 9.2 per cent.[i]

Those returns have been delivered despite some catastrophic events that sent the markets plummeting including the dot-com bubble crash, the Global Financial Crisis, and the effects of Covid-19.

It takes grit to hold on as the markets plummet, but the best way might be to avoid the hype and tune out the 'noise'. It can be a trap checking prices every day and week, causing heightened stress and anxiety about your portfolio, a recent example being the mid-2024 Microsoft outage which briefly impacted investor confidence. We can help you maintain a longer-term view, so it you have any concerns give us a call.

The cycle of endless phases of good and bad times are a constant for markets. Most cycles follow a pattern of early upswing, after the market has bottomed out followed by the bull market, when investor confidence is strong and prices are rising faster than average. Then the market hits its peak as prices level out before negative investor sentiment drives a bear market. Finally, the bottom of the cycle is reached as prices are at their lowest.

There are also certain seasonal market cycles that may be helpful in buying and selling decisions. Note, though, that there are always exceptions.

In Australia, April, July, and December have tended to be the strongest months on the All Ordinaries Index. But these patterns have weakened a little over time, with lower average gains in April, July, and December more recently. Performance is usually the lowest in June.[ii]

November and April have been the strongest months for US shares for the past 30 years, with average monthly gains of 1.9 per cent and 1.6 per cent respectively.

The Magnificent Seven

The performance of Nvidia and the Magnificent 7 is a real-time lesson in market dynamics and cycles.

Despite the rise and rise of seven US technology stocks in the past 18 months – known as The Magnificent 7 – their price pattern has, more or less, followed these seasonal cycles.

The seven stocks – Nvidia, Alphabet, Microsoft, Apple, Meta, Amazon, and Tesla – returned more than 106 per cent in 2023 alone.[iii]

In the first half of 2024, their prices rose around 33 per cent on the US S&P 500 index while the rest of the index increased by only 5 per cent.

But another story has been emerging in recent months. The Magnificent 7 has now become the Magnificent 3, thanks to intense excitement around artificial intelligence (AI). Nvidia, Alphabet and Microsoft leapt into the lead on the index, doubling the performance of the other four.[iv]

Nvidia has been the market darling, with its price almost tripling in 12 months. But prices have been volatile at times. A correction in June knocked the company from the biggest in the world, a title it held briefly before the plunge, to number three after Microsoft and Apple.

Some describe the activity as a bubble that is due to burst at some time in the future. We saw the bubble deflate a little with the mid 2024 global outage which spurred a rotate out of tech stocks. But others say the Magnificent 7 stocks remain undervalued and have further to go.

Either way, be wary about getting caught up in the hype that surrounds rapidly rising prices.

Keeping a cool head and taking the time to understand what you are investing in, and the potential risks will help you stay focussed on your long-term investing goals.

Get in touch if you'd like to discuss your investment portfolio and to review in the context of your long-term investment goals.

i https://www.vanguard.com.au/personal/learn/smart-investing/investing-strategy/the-real-value-of-time

ii https://www.asx.com.au/blog/investor-update/2024/the--best--and-the--worst--months-for-shares

iii https://www.vanguard.com.au/personal/learn/smart-investing/investing-strategy/investing-in-the-magnificent-seven

iv https://www.abc.net.au/news/programs/kohler-report

When we dream of an overseas holiday, our minds often drift to iconic landmarks, bustling cities, and well-trodden tourist paths. While these destinations have their allure, travel to popular destinations is booming and comes with challenges so there are advantages to venturing off the beaten track and seeking out the hidden gems.

Travel is booming – and creating some headaches

It's no secret that we Aussies love to travel outside our own country. Last year nearly 10 million of us headed overseas, marking a 12 per cent increase from the previous year, and this year is shaping up to continue the trend.[i] And it's not just us enjoying getting out there and travelling the world, global figures anticipate international travel will soon exceed pre-pandemic levels and surpass 2 billion for the second time ever.[ii]

That adds up to a lot of people out there travelling and some popular destinations are showing the strain with skyrocketing prices, excessive queues, damage at historical sites and environmental impacts all being felt.

Tensions are high in some areas with tourists in Barcelona, Spain recently doused in water by frustrated locals and authorities in the historic city centre of Florence banning new short-term holiday rentals to try to relieve some of the pressure of over-tourism.

Taking the road less travelled can help areas suffering from over-tourism and support those communities who would welcome more visitors.

Supporting communities that need it

Tourism plays a significant role in the economic growth of many communities around the world and there are many places that would really benefit from the tourist dollar. The money you spend as you travel can contribute meaningfully to local economies and help support small businesses, artisans, and entrepreneurs, ensuring that future generations can continue to enjoy unique destinations.

But there are plenty of less altruistic reasons to seek out the hidden gems when you travel though.

Authentic Encounters

One of the lovely aspects of traveling to less touristy places is the opportunity to immerse yourself in local cultures. Away from tourist hotspots, communities maintain their unique traditions, cuisines, and ways of life. Imagine strolling through a market where locals gather to sell fresh produce, handicrafts, and homemade delicacies, or stumbling upon a hidden café where the owner shares stories of their town's history. These encounters create lasting memories and offer a genuine glimpse into the daily lives of people from different corners of the world.

Unspoiled natural beauty

Nature enthusiasts will find bliss in exploring destinations that are off the typical tourist radar. Picture deserted beaches with powdery sand and crystal-clear waters, hiking trails winding through lush forests, or breathtaking untouched landscapes. Whether you're seeking solitude in nature or hoping to capture stunning photographs without a sea of selfie sticks in the background, less touristy places often boast natural beauty that remains unspoiled and awe-inspiring.

Affordable adventures

Traveling to less touristy places can also be kinder to your wallet. Accommodation, dining, and activities in popular tourist hubs tend to come with inflated price tags due to high demand. In contrast, destinations that are yet to be discovered by the masses often offer more affordable options. You might find charming family-run guesthouses, budget-friendly eateries serving local dishes, and reasonably priced excursions that allow you to stretch your travel budget further.

Destination dupes

Doing a little homework can point you in the direction of alternatives to popular destinations.

For example, instead of Venice – which is literally sinking under the weight of tourism – consider visiting the town of Trieste, an old port town by the Adriatic Sea. If you are after stunning beaches and clear aqua water, Palawan in the Philippines is a good alternative for the Maldives. Or for an alternative to over touristed St Tropez in France, Turkey's Bodrum coast offers comparable glamour and affordable luxury. Doing a little research can uncover similar destinations that offer the experience you are seeking, with all the benefits and none of the problems of the overhyped placed.

While the allure of ticking off the list of famous places is understandable, exploring less touristy places offers a wealth of unique experiences to the visitor, and benefits the local communities. So, the next time you plan an overseas holiday, think outside the square of the obvious destinations, and discover the hidden gems.

i https://www.travelweekly.com.au/article/cato-reveals-new-trends-with-australias-10m-international-travellers/

ii https://www.vanillaplus.com/2023/12/14/85311-2024-international-travel-boom-predicted-surpassing-2-billion-trips/

To sell or not to sell is the question for moving into aged care

Moving into residential aged care can trigger a range of emotions, particularly if it involves the sale of the family home.

What is often a major financial asset, is also one that many people believe should be either kept in the family or its value preserved for future generations.

Whether or not the home has to be sold to pay for aged care depends on a number of factors, including who is living in it and what other financial resources or options are available to cover the potential cost of care.

It also makes a difference if the person moving into care receives Centrelink or Department of Veterans Affairs payments.

Cost of care

Centrelink determines the cost of aged care based on a person's income and assets.[i]

For aged care cost purposes, the home is exempt from the cost of care calculation if a "protected person" is living in it when you move into care.

A protected person could be a spouse (including de facto); a dependent child or student; a close relative who has lived with the aged care resident for at least five years and who is entitled to Centrelink income support; or a residential carer who has lived with the aged care resident for at least two years and is eligible for Centrelink income support.[ii]

Capped home value

If the home is not exempt, the value of the home is capped at the current indexed rate of $201,231.[iii]

If you have assets above $201,231 – outside of the family home – then Centrelink would determine you pay the advertised Refundable Accommodation Deposit (RAD) or equivalent daily interest rate known as the Daily Accommodation Payment (DAP), or a combination of both.

The average RAD is about $450,000. Based on the current interest rate of 8.36% [note – this is the rate from July 1] the equivalent DAP would be $103.07 a day.

Depending on your total income and assets, you may also be required to pay a daily means tested care fee. This fee has an indexed annual cap of $33,309 and lifetime cap of $79,942.

This is in addition to the basic daily fee of $61.96 and potentially an additional or extra service fee.

There is no requirement to sell the home to pay these potentially substantial costs, but if it is a major asset that is going to be left empty, it may make sense.

Other options to cover the costs may include using income or assets such as superannuation, renting the home (although this pushes up the means tested care fee and can reduce the age pension) or asking family to cover the costs.

Centrelink rules

For someone receiving Centrelink or DVA benefits, there is an important two-year rule.

The home is exempt for pension purposes if occupied by a spouse, otherwise it is exempt for up to two years or until sold.

If you are the last person living in the house and you move into aged care and still have your home after two years, its full value will be counted towards the age pension calculation. It can mean the loss of the pension.

Importantly, money paid towards the RAD, including the proceeds from a house, is exempt for age pension purposes.

Refundable Deposit

As the name suggests, the RAD is fully refundable when a person leaves aged care. If a house is sold to pay a RAD, then the full amount will ultimately be paid to the estate and distributed according to the person's Will.

The decisions around whether to sell a home to pay for aged care are financial and emotional.

It's important to understand all the implications before you make a decision.

Please call us to explore your options.

i https://www.myagedcare.gov.au/understanding-aged-care-home-accommodation-costs

ii,iii https://www.myagedcare.gov.au/income-and-means-assessments