



The Australian

Australian Expat Investment & Taxation News

A new bi-monthly issue of **The Australian** from **Imperium Capital**.

This document will be made available on our website australiaexpat.com.au/imperium-capital.biz

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Currency View



0.7580 +0.0046(+0.61%) CCY - As of July 12, 2016 12:02AM EDT



Continued its rally last week as the RBA left interest rates unchanged and despite lower numbers out of Australia and improvements in U.S. employment data. The week began with the rate gaining on Monday as the United States observed a bank holiday and Australian Building Approvals declined -5.2% m/m compared to an expected decline of -3.6%. Tuesday saw the rate decline after the RBA left the benchmark Cash Rate unchanged at 1.75%. In the RBA's Rate Statement noted that, "Financial markets have been volatile recently as investors have re-priced assets after the UK referendum. But most markets have continued to function effectively. Funding costs for high-quality borrowers remain low and, globally, monetary policy remains remarkably accommodative. Any effects of the referendum outcome on global economic activity remain to be seen and, outside the effects on the UK

economy itself, may be hard to discern.” On Wednesday, the pair rallied after making its weekly low of 0.7407 as the FOMC released their Meeting Minutes, as well as mixed U.S. trade and manufacturing data. The rate then lost ground on Thursday after positive U.S. employment numbers. The rate then made its weekly high of 0.7471 on Friday despite better than expected U.S. Non-Farm Payrolls. AUD/USD closed at 0.7566, with a gain of +0.9% from its previous weekly close

Commentary Data are the latest available as at 12 July 2016

Stock Market Update



John Goodlad Interview by **Darren J. Casson**
*Senior Adviser at Imperium Capital &
Director of Australian Expatriate Services Pty Ltd*

2016 Financial Year

I began by asking him about the performance of Australian shares over the 2016 Financial Year. "The Australian Stockmarket basically went sideways for the year" said Goodlad. "Fears about a hard landing for the Chinese economy as evidenced by its own stockmarket gyrations, and more recently of Brexit meant that the market spent a lot of the year below its 1 July starting point." That being said the All Ordinaries Accumulation Index which includes all distributions finished the year in positive territory. And, with interest rates at record lows, investors certainly outperformed cash."

Outlook for 2016/17

Goodlad sees these same low interest rates as providing a strong buffer for the market over the year ahead. "Investors are for instance choosing to buy a Bank stock which offers strong dividends as against parking excess funds in a deposit in the same bank!" says Goodlad. While Australia's banking stocks face regulatory and low growth headwinds, they have fallen 20% or more from their highs and Goodlad notes that all of the majors have "Accumulate" recommendations based on Hartleys Research.

Investment Strategy

There are always "headwinds", says Goodlad "But Australia is now in its 25th year of uninterrupted growth" and investors can benefit by increasing their exposure to this market. Indeed he finds that many expatriate investors are directing funds to the local stockmarket in the light of a low Australian dollar and as an alternative to a highly charged residential property market.

Goodlad's approach is, as ever, to accumulate quality companies, buying any dips and ensuring there is diversification of industry classes with any investment portfolio.

In addition to the major banks, Lend Lease (**LLC**) is his preferred major property/developer company.

He has been recommending WAM Capital Ltd (**WAM**) to investors for several months. This company specialises in mid cap Industrials and also provides a strong fully franked yield of 5.6%. The same group has just listed the Wilson Leaders Fund (**WLE**) and Goodlad sees this as an excellent way to access the Australian market at current levels.

He continues to back the resources space and the energy sector. There is a strong view that the worst is behind us and he is happy to buy **BHP** in the teens and Woodside (**WPL**) in the 20s.

Traders: Gold and Lithium

In the last newsletter, Goodlad tipped Gold and Lithium shares as the trading sweet spot. This is still continuing with many shares appreciating by 50 - 500%! While his advice is still to be nimble and apply stop losses, there are still a number of shares that suit shorter traders and midterm "bulls".

Hartleys latest research on these companies is available via John Goodlad or your AES advisor.



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Tax & The Aussie Expat

AUSTRALIAN BUDGET 2016-17 MAJOR CHANGES TO AUSTRALIA'S SUPERANNUATION SYSTEM



Background

Superannuation is one of the three pillars of Australia's retirement income system. Together with the Age Pension and savings outside of superannuation, it supports Australians in their retirement years. In the latest budget, the Coalition government has radically changed Australia's two trillion dollar superannuation system, casting off high income earners who have for years relied on super as their primary savings vehicle.

The changes announced in the budget 2016-17, which must be passed by parliament before they take effect, include a lifetime limit on after-tax contributions, a limit on the amount of money that can be transferred into tax-free private pensions and the watering down of transition to retirement arrangements.

Included in the changes is that the annual after-tax super contribution limit of \$180,000 will be replaced by a lifetime cap of \$500,000, which will take into account all non-concessional contributions made since 1 July 2007.

From July 2017, persons aged 65 years and over will be allowed to transfer a maximum of \$1.6 million into a tax-free private pension (where currently there is no limit) and the annual pre-tax super contribution cap will fall to \$25,000 (down from \$35,000 for individuals aged 50 years and over and \$30,000 for those under 50 years of age).

The SMSF Association estimates that between 150,000 and 200,000 people have already reached the new \$500,000 lifetime limit for post-tax contributions. The high income earners in this category will be barred from making any further voluntary contributions into super altogether. Individuals on a salary of more than \$230,000 per year will reach the lower \$25,000 annual pre-tax contributions limit through compulsory contributions alone.

It is also estimated that by 1 July 2017 more than 100,000 retirees may be forced to transfer amounts in excess of \$1.6 million from their pension to an accumulation account, where a 15 per cent tax will be levied, however withdrawals will still be tax-free.

Calculations suggest that a retiree with two million dollars in a pension account will pay an extra \$3,600 in tax a year, while an individual with five million dollars will pay \$30,600.

Further, individuals exploiting transition to retirement ('TTR') pension arrangements to minimise their tax and build up after-tax contributions in super will need to look elsewhere. The combination of introducing a 15 per cent earnings tax on TTR pensions and the \$500,000 lifetime after-tax contributions cap will render them a poor strategy for wealthy savers.

On the upside, individuals will be allowed to make additional contributions where they have not reached their pre-tax annual cap amounts on a rolling five-year basis, although they will be prevented from doing so if they already have more than \$500,000 in super.

People between the ages of 65 and 74 will no longer be required to satisfy a work test to make super contributions. A tax rebate for low income earners will effectively be maintained and anyone under the age of 75 will now be allowed to claim a tax deduction for personal contributions up to the \$25,000 concessional cap.

This is for general information only and should not be relied upon for individual circumstances. Should you wish to discuss your tax residency or have any queries relating to the above article please contact: **Craig van Wegen** (craigvanwegen@pinnaclegroup.com.au) or **Nora Fairbanks** (norafairbanks@pinnaclegroup.com.au) at the **Pinnacle Advisory Group**.

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John Goodlad owns shares in many of the companies mentioned in this report.

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