

meritum news

EXCELLENCE IS NOT A SKILL. IT IS AN ATTITUDE ~ Ralph Marston



Welcome to meritum news. I hope you enjoy the articles and find them interesting and informative. If you have any feedback, questions, or would like to review your financial plan, please feel free to contact me.

What does the recent market volatility mean for investors?

Portfolio Specialist John Owen discusses what's causing the current market volatility and how MLC is managing their portfolios for customers.

What's causing the market volatility?

There are a number of factors worth noting. Very low interest rates and central banks injecting cash into economies has contributed significantly to the strong market returns we've seen in recent years. However, for some time central banks have been either suspending or winding back their stimulus programs. One way of winding back stimulus is by raising interest rates again – the US Federal Reserve has lifted interest rates eight times over the past three years.

It has been an ongoing concern for us that when this artificial stimulus comes to an end, markets would suffer.

Also playing into sentiment is uncertainty created by President Trump's trade war and the impact on global economic growth, particularly China's growth. Lending (credit) growth around the world is also showing signs of weakness.

Even though global growth continues and the US economy remains strong, there are fears the company earnings cycle may have peaked and company profitability from here could be under pressure.

The Australian share market has felt the brunt of the recent falls. The weakness of the big 4 banks in the wake of revelations at the Hayne Royal Commission hasn't helped.

It's highly uncertain how all these factors will affect financial markets and the economy over the next few years; and this uncertainty has contributed to the share price volatility in recent days.

Putting the market weakness into some perspective, at the time of writing the S&P 500 Index, after falling 5% so far this month, is now back at the level it was early in July.

You may also recall we experienced a significant bout of share market weakness in February this year, only to have the market recover over following months.

How does the recent market volatility impact the funds I invest in?

If your funds are invested in shares, movements in the value of share markets will affect your investment value.

Share markets have risen strongly in recent years, helping deliver solid returns to investors. For example, the Australian share market (measured by the S&P/ASX200 Accumulation Index) returned 11.3% pa in the seven years to 30 September 2018 while the global share market return (measured by the MSCI All Countries World Index, hedged to Australian dollars) was 15.4% pa in the same period. It's quite normal for share markets to ease back after a period of such substantial growth.

In all periods of volatility, markets act irrationally and our active managers are doing exactly what we expect of them, looking to take advantage and buy good investments at cheaper prices than they could prior to the volatility, which helps lay the foundations for long-term growth.

If possible, you should continue to focus on how you're progressing towards your longer-term goals. If you were invested during the period of strong returns in recent years you may be pleased with your longer-term returns despite the recent volatility. It's also realistic to expect that often investments that produce higher returns and growth in value over long periods tend to be more volatile in the short term.

Should I be selling my investments now?

While market downturns are generally unpleasant, they are to be expected as uncertainty will never disappear from investment markets.

As you can see in the following chart, Australian and global share markets have eventually bounced back from numerous down times, including the GFC in 2008. Clearly there's truth in the adage: "Stocks take an escalator up, and an elevator down" – gradually rising over many months and years but only take a few days to fall.

By selling your investments immediately after a significant fall you're not only taking losses, you're reducing your chances of making your money back should markets recover.

The reality of investing in share markets is that we need to accept some risk when seeking returns that will outpace inflation in the long run.

I'm retired or close to retirement, what should I do?

It's not always easy to ignore what's happening to your investments when there is negative news and markets are volatile. While history has shown us the share market does bounce back, it may be swift or it may take years.

If possible, you should continue to focus on how you're progressing towards your longer-term goals. However, if the recent market volatility has unsettled you to the point where you would prefer to reduce your exposure to riskier assets or protect some or all of your capital, there are some solutions available. We recommend you discuss solutions with your financial adviser.

What is MLC doing to protect its customers from the impact of the market volatility?

The market has been overlooking the potential risks of rising interest rates and reduced central bank stimulus for some time, so risk management has been uppermost in our mind. We've believed for some time that where possible, it's appropriate to 'defensively' position our multi-asset portfolios - MLC Inflation Plus, MLC Horizon and MLC Index Plus portfolios. For example we've been holding more cash than normal, carefully selecting derivatives for the portfolios to improve risk control and provide diversification, and investing in alternative assets and strategies that provide returns that are not reliant on share markets.

Our focus on managing risk and searching for ways to help reduce the impact of significant negative returns on our multi-asset portfolios may not prevent negative returns in weak share market conditions but our caution should provide some insulation.



Source: FactSet, Global Shares (unhedged): MSCI All Countries World (Gross, \$A) Index, Australian Shares: S&P/ASX 200 Total Return Index. Returns are total returns with dividends reinvested. Past performance is not a reliable indicator of future performance.

How to transition to retirement

Find out how to transition into retirement easily. We've given you a few tips to help you towards the next stage in your life – retirement.

As you get closer to retirement, you will start to wind down and want to work less without compromising your lifestyle. That's where a Transition to Retirement Pension (TRP) could work for you. It could help you through the next stage of life when you're not quite ready to give up working yet.

Work less for the same income

If you want to ease into retirement by reducing your hours and working part-time, you can maintain your lifestyle by using some of your super to top up your income through a TRP. The key benefit of the strategy is to draw income from the TRP to replace the employment income. The taxable portion of pension payments you draw from your super (between preservation age and 59) is taxed at your marginal tax rate with a 15% rebate. If you're 60 or over, the pension payments you receive will be tax free (if paid from a taxed fund).

Another strategy is to retain your current employment arrangement (e.g. continue working full-time) while maximising the amount you can concessionaly contribute to your super account. Similarly, income payments drawn from the TRP can replace the income contributed to your super.

You should seek advice from your financial adviser or a tax agent if you are considering a TRP, to make sure it works for you.

When can you start a TRP?

You can start a transition to retirement pension as soon as you reach your preservation age:

| Your date of birth | Preservation age |
|----------------------------|------------------|
| Before 1 July 1960 | 55 |
| 1 July 1960 – 30 June 1961 | 56 |
| 1 July 1961 – 30 June 1962 | 57 |
| 1 July 1962 – 30 June 1963 | 58 |
| 1 July 1963 – 30 June 1964 | 59 |
| After 30 June 1964 | 60 |

How much you can withdraw and how payments work

You'll need to draw a minimum amount of 4% a year from your TRP (increasing to 5% when you reach age 65). You'll be limited to taking a maximum of 10% a year of your account balance in pension payments until you meet a full condition of release. This could be either permanently retiring, reaching age 65, or ending an employment arrangement after age 60.

From 1 July 2017, any income earned on investments in your TRP account is taxed at up to 15% (including capital gains). Once you meet a full condition of release, you'll need to notify your fund. The earnings in your pension will become tax free once you meet one of the full conditions of release.

Is a TRP right for you?

If you're under 60, the pension income may affect payments like Family Tax Benefit or Child Support.

Understanding what's best for you and keeping up with regulations can be complex, so it's important to seek advice from your financial adviser or a tax professional to find out if the TRP is right for you.

We can help

For more information contact your financial adviser.

Eight ways to boost your fitness in retirement

If you've said goodbye to full-time work and hello to retirement, it's time to put physical fitness at the top of your priority list and start enjoying the next phase of your life. What's your fitness regime?

People tend to give plenty of thought to ensuring their finances are in good shape at retirement but what about the health and fitness of the body carrying you through that time of life?

The statistics are a little alarming. According to the Victorian Government's Better Health research, only about one in 10 Australians¹ aged over 50 exercise enough to gain any cardiovascular benefit. Plus, there's evidence that about half of the physical decline associated with ageing may be due to a lack of exercise, from reduced muscle mass and balance issues to joint problems, high blood pressure and disease.

The message is that, as you age, it's more important than ever to be physically fit. For people aged 65 and over, at least 30 minutes of moderate intensity exercise a day, combining aerobic and muscle strengthening exercises, is the advice from the government's HealthDirect site². Your brain will thank you, too, with a recent study³ from the University of Melbourne highlighting the importance of exercise in keeping your grey matter healthy.

No matter what your fitness level, there are ways to get (and keep) moving to reap the benefits of exercise – from building a healthier, stronger body to boosting your mood and brain function.

There's plenty of support available if you need ideas to get more active and have fun at the same time. Remember, the best exercise is the one you enjoy doing. We've put together a list of our top eight suggestions. Just make sure you take care and consult your doctor before embarking on any new exercise program.

1. Stairway to fitness

Got some stairs at your local park or at home? Several studies⁴ have revealed the benefits of including the simple act of walking up and down stairs for fitness and well-being – from boosting cardiac health and bone density to warding off diabetes. Start off with 10 minutes a day and work your way up and down to 30 minutes.

2. Walking your best friend

Having a dog when you retire can be one of the best things to do for yourself. As well as encouraging you to exercise, studies show that just having a dog around helps people relax, reduces stress, speeds up recovery after illness, and reduces blood pressure and cholesterol levels. Don't (or can't) have a dog? Perhaps consider walking someone else's. Of course, if you can't access a furry friend just walking is one of the most accessible ways to boost your fitness. Just make sure it's at a brisk pace to get the benefits!

3. Dance your way

Dancing is a great way to keep active, offering many physical and mental benefits. There's a style for everyone, from ballroom and line dancing to salsa and even belly dancing. Not only can you burn up the calories while you're burning up the dance floor, it's beneficial for the joints and balance, as well as helping keep your grey matter in shape⁵.

4. Mow like you mean it

There's a workout just waiting for you in your own back yard. Mowing the lawn with gusto with any type of push mower will soon raise a sweat and counts towards the total activity you should get each week. If you'd like a more peaceful experience, opt for an electric mower over a fuel one, and for a more vigorous session (that's also environmentally friendly) you could even go old-school with a manual reel mower.

5. Lifting weights

More and more weight training benefits for older people continue to emerge – from keeping muscles strong to improving brain function⁶ – and there are many ways to incorporate this strengthening activity into your life, whether at home or at your nearest gym. According to the experts, you should do specific strength exercises two or three times a week.

6. Row your boat

Getting out on the water can be exhilarating and an effective way to get your body working. Whether it's dragon boats or rowing boats, kayaks or stand-up paddle boards, older Australians are flocking to maritime activities. The Australian Dragon Boat Federation says it has 5,750 registered adult participants, with the 50-plus age group making up more than half that. Many local paddling clubs offer 'come and try' sessions so you can test the waters first.

7. HIIT: Not just for the young

HIIT, or high-intensity interval training, is a form of exercise that's been getting lots of attention, with researchers uncovering big benefits for older adults particularly. Mayo Clinic researchers studied the effects of HIIT on people over the age of 65, for example, and discovered some age-related deterioration of muscle cells had actually been reversed⁷. A HIIT workout involves alternating between a high and low level of exercise. The best news is the experts say just a few short periods of this style of session a week will get results.

8. The water's fine

Swimming is great for people of all ages but especially older adults. It can be as physically challenging as you want to make it and is easy on the joints. It's also been shown to help increase balance⁸, thus reducing the chance of falls. Swimming works many muscle groups at once and you can even specifically target different groups of muscles by using different strokes. A dip in the pool could also include water aerobics and water resistance exercises to take advantage of water's ability to reduce joint pain while also increasing muscle strength. It's also good for the soul – just lie back and have a float.

Go well on your journey to getting your body moving more, increasing your fitness and hopefully having some fun at the same time, but remember that you should get your doctor's or health care professional's advice before starting on any new physical activity program to make sure it's right for you and your needs.

1. <https://www.betterhealth.vic.gov.au/health/healthyliving/physical-activity-for-seniors>
2. <https://www.healthdirect.gov.au/physical-activity-guidelines-for-older-adults>
3. <https://pursuit.unimelb.edu.au/articles/how-much-exercise-keeps-our-brains-healthy-as-we-age>
4. <https://www.thenational.ae/lifestyle/wellbeing/a-look-at-the-many-benefits-of-stair-climbing-1.609166>
5. <https://www.frontiersin.org/articles/10.3389/fnagi.2017.00059/full>
6. <https://sydney.edu.au/news-opinion/news/2016/10/25/increasing-muscle-strength-can-improve-brain-function--study.html>
7. <https://www.mayoclinic.org/why-interval-training-may-be-the-best-workout-at-any-age/art-20342125>
8. <https://academic.oup.com/aje/article/180/8/830/2739186>

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