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June 2017 Quarter In Review

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Legislative changes

In an article published on line on 25 April, the AFR reported that retirees who downsize by selling the family home are likely to be offered exemptions from new limits to be placed on superannuation, but it is unlikely the sale proceeds will also be quarantined from the age pension assets test. This is exactly what happened. From 1 July 2018, Australians aged 65 years or older will be able to make a non-concessional (after-tax) contribution into their super account of up to \$300,000 from the sale proceeds of their family home if they have owned the property for at least 10 years. The increased superannuation will be reflected in the assets test and through deeming the income test for Social Security benefits.

The Government continues to inch its way to a solution to the need for longevity protection seeking comments on the concept of Comprehensive Income Products Retirement (CIPRs). The intention is that superannuation funds will be able to offer “default” pensions with some sort of annuity protection without having to consider individual's circumstances.

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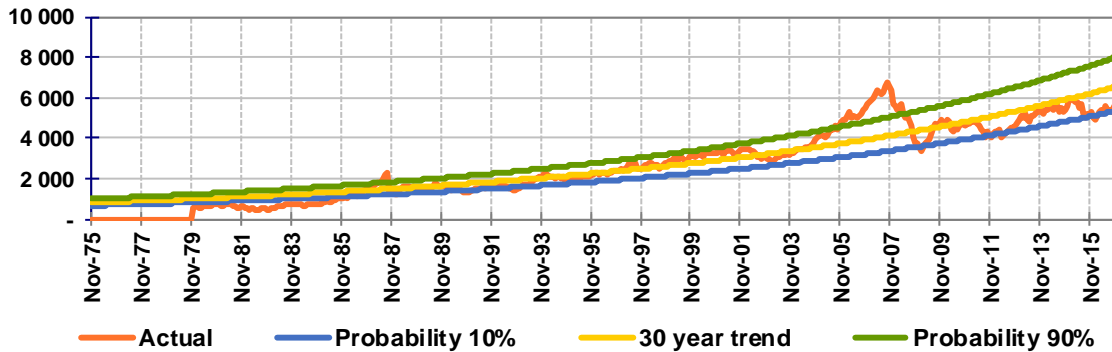


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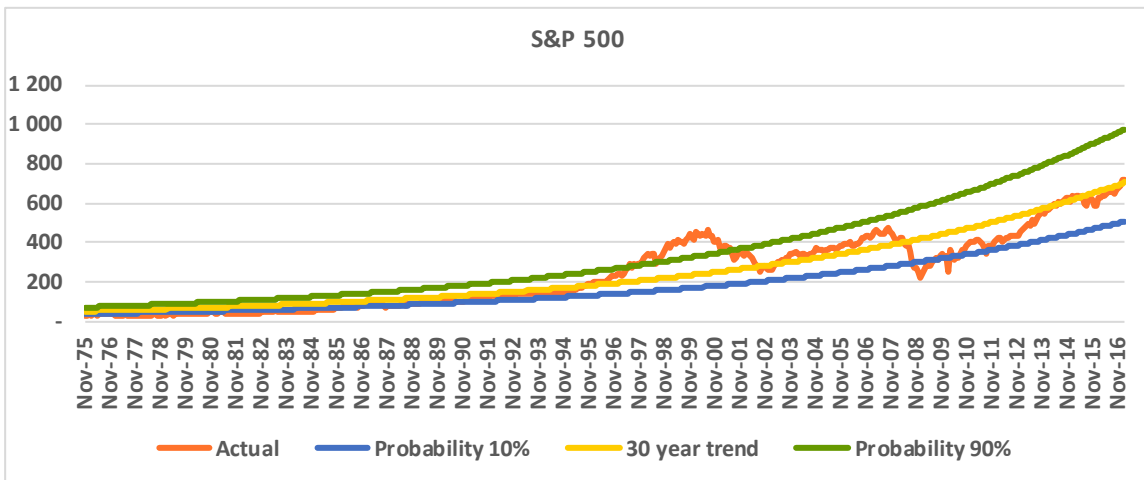
Markets and trend lines

The following charts show, respectively, the best fit of constant compound growth in the Australian and United States of America broad market indices together with some statistically derived probability percentiles. On this statistical basis, the US market is marginally above its 30 year trend and the Australian market is one standard deviation below that trend. On other measures, however, the US market, in particular, is high.

S & P ASX 200



S&P 500



On 2 May the AFR reported a Macquarie Research prediction that the ASX 200 could hit 10,000 within a decade but over hyped as it ignores the power of compound growth. An increase of 2/3 over 10 years implies growth of 5.2% per annum - neither small nor explosive.

Economic milestones

Hardly a milestone, more a mere pebble, but the [Timber Offsite Construction conference in Melbourne](#) discussed the use of timber products in buildings up to 25m high.

CoreLogic announced that its housing price index increased 0.8% in the June quarter. This reflects continued tightening of lending conditions through the quarter as authorities seek to slow, but not burst, the housing bubble.

The importance of cyber security was emphasised when the “Wanna Cry” ransomware struck around the ides of May.

The AFR reported that Brisbane apartment builder CMF Projects has called in administrators in what could be the first sign of a shake out in the cooling apartment market.

The builder, which has completed at least a dozen high profile apartment projects in Brisbane, is the first builder of any real significance to go into administration in a market where the number of planned apartment developments has dropped significantly.

During the quarter USA hedge fund, Elliott Associates, acquired a stake in BHP and launched a campaign seeking major changes in the company. This is not the first time a hedge fund has sought to bring about change in a company and profit from that change, but it is proves size is no protection.

While the IMF announced that the global economy was at a turning point after the disruption of the GFC, it also had to contend with increased protectionism and indeed dropped its pledge to fight it.

The AFR reported on 19 April 2017 the proposed abolition of 457 visas. They will be replaced with Temporary Skill Shortage visas in March 2018.

During the quarter, the Fair Work Commission announced a small reduction in penalty rates for public holiday work in the retail and hospitality sectors, generating much community angst and highlighting the personal effects and hence difficulty of industrial relations reform. The Opposition pledged to reinstate them.

Economic and market statistics

The following table shows key economic and market statistics.

		Now	1 year ago	3 years ago	7 years ago
S&P /ASX 200- Australia	Jul 17	5,721	5,562	5,633	4,494
Annual change to latest date			2.9%	0.5%	3.5%
S&P /ASX 200 dividend yield	Jul 17	4.20%	4.31%	4.26%	4.04%
S&P /ASX 200 P/E ratio	Jul 17	14.60	16.50	17.10	19.50
Topix- Japan	Jul 17	93.40	76.30	74.40	49.00
Annual change to latest date			22.4%	7.9%	9.7%
S&P 500- US	Jul 17	748.1	658.2	584.7	333.6
Annual change to latest date			13.7%	8.6%	12.2%
GDAXI- Germany	Jul 17	12148	10426	9167	5925
Annual change to latest date			16.5%	9.8%	10.8%
Average weekly earnings \$	Dec 16	1,533	1,501	1,437	1,227
Annual change to latest date			2.2%	2.2%	3.2%
Consumer price index	Jun 17	110.70	108.60	105.90	95.40
Annual change to latest date			1.9%	1.5%	2.1%
Unemployment	Jun 17	5.65%	5.80%	6.10%	5.20%
Gross domestic product \$ m per quarter	Mar 17	423,935	416,749	396,690	354,473
Annual change to latest date			1.7%	2.2%	2.6%
RBA cash rate	Jul 17	1.50%	1.75%	2.50%	4.50%
3 year Commonwealth bond	Jul 17	1.95%	1.52%	2.64%	4.59%
10 year Commonwealth bond	Jul 17	2.64%	1.93%	3.47%	5.14%
USD/AUD	Jul 17	0.80	0.75	0.93	0.90
Annual change to latest date	Jul 17		6.2%	-5.0%	-1.7%

Other peoples' ideas



Market and journalistic doyen, Robert Gottliebsen wrote

Summary: Self-managed super funds are highly exposed to the Australian property sector, with many having used borrowings to buy in, and now there are early signs the apartments market has started to slip.

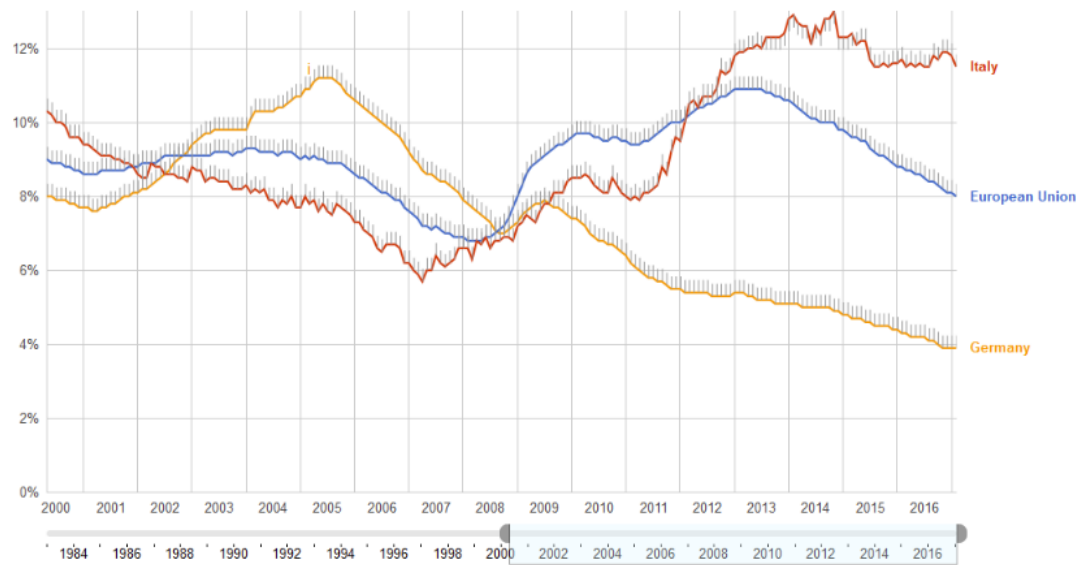
Key take-out: Those SMSFs who have used borrowings to buy residential property, particularly apartments, may see their retirement strategies suffer a setback if there is a larger price correction.

[Read more](#)

Beta Shares' economist David Bassanese has written under the headline "*Move over Macron: Italy could boost European stocks and sink the Euro*" that Italy may be next anti establishment vote. He produced this chart showing the wide discrepancies in unemployment

s

Unemployment rates: Italy, Germany and the European Union



[Read more](#)

A timely quote from the 1975 commissioned Asprey Review of Taxation published with the permission of www.SuperGuide.com.au.

“21.9. Finally, and most importantly, it must be borne in mind that the matters with which the Committee is here dealing involve long-term commitments entered into by taxpayers on the basis of the existing taxation structure. It would be unfair to such persons if a significantly different taxation structure were to be introduced without adequate and reasonable transitional arrangements.”

The quote was repeated in an article in <https://www.superguide.com.au/the-soapbox/super-changes-grandfathering-rules>

The article was written by opponents of the recent pension cap legislation, Jack Hammond QC, founder of Save Our Super, and Terrence (Terry) O’Brien, a retired Treasury official, and raises the issue of the balance between the Government’s right to legislate and individuals’ expectation of continuity in matters of long term planning.

The future of banking technology is summarised starting about 90 seconds into [this presentation](#) by Adrian Lovney, the CEO of the company creating the new “payments platform” for the Australian banking industry. The video summarises Mr Lovney’s presentation to the Financial Services Institute of Australia.

Products

The march of innovation of index funds continues with the launch of RAFI™ index based funds. These are weighted using a composite of fundamental factors, including total cash dividends, free cash flow, total sales and book equity value. Prices and market values are not determinants of the index weights. Consequently the indices are less prone to excessive concentration arising from market fads, which can result in over-exposure to individual companies, sectors or countries.

[Read more.](#)

The decision of a fund manager to liquidate the Altair Australian share fund and return funds to investors caused surprise in markets when announced in late May. Media interest shifted and the SMH reported *“The fund manager who shocked the market by closing his Altair Asset Management funds and returning the cash to investors, citing an imminent property calamity and market correction, is embroiled in a dispute surrounding his mother’s share portfolio.”*

Online investments continued to appear with bricks and mortar LESF formerly Qld Law Society superannuation announcing the on line “Grow Super”. One innovation involved is the ability to make non concessional contributions with round ups from small purchases. Less innovative is the ability to direct 15% of investments to “trendy” investments, like tech and start ups, sustainable and ethical investment options, property and green options.

On 22 May 2017 the AFR reported on the purchase by the Australian Chamber Orchestra Instrument Fund, of an Amati cello was bought last year for \$US1 million (\$1.4 million) from J&A Beare, a London-based fine instrument dealer.

The ACO Instrument Fund is a managed investment fund established for wholesale clients only. The investment objective of the Instrument Fund is to achieve long term capital gains from investing in specified high quality stringed instruments to be loaned to the ACO for use by its players.

Conflicted remuneration issues continued to bubble away with the AFR reporting that *“Hairdressers and football clubs are sharing in nearly \$70 million of commissions paid by lenders for promoting their mortgage offerings to potential borrowers, a more than five-fold increase in the past three years, according to analysis by the Australian Securities and Investments Commission.*

Clippers and clubbers are typically paid upfront commissions of about 0.5 per cent of the loan for a tip that results in a deal for the lender, which is equivalent to what full-time professional mortgage brokers earn, its analysis shows.”

The AFR also reported on efforts to make bank remuneration less linked to sales writing *“Banks could be forced to sell financial products manufactured by competitors under new powers to be given to the corporate regulator. Australian Securities and Investments Commission chairman Greg Medcraft said the move could break down the economics of cross-selling and force banks to sell their wealth operations.”*

Politics

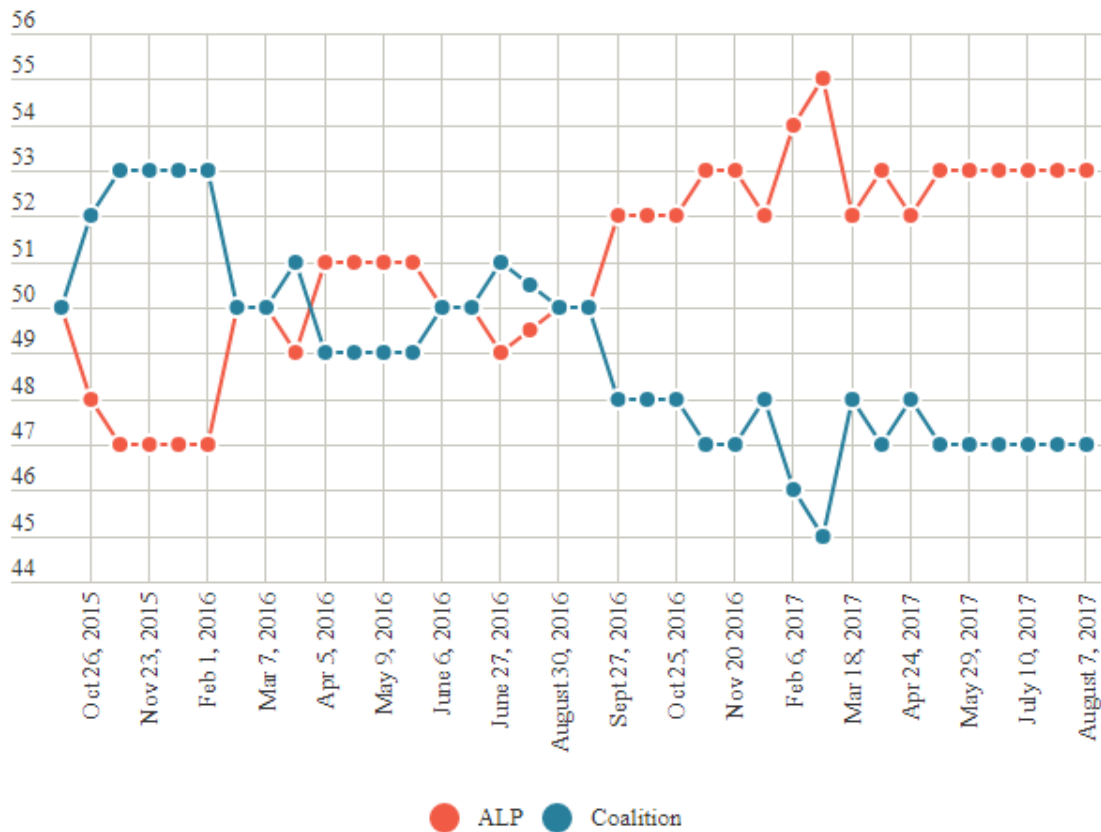
The May French presidential election run off excluded the major parties and saw a 66:34 win for the more conventional candidate Emmanuel Macron over Marine Le Pen.

Former Labor leader and sometime columnist, Mark Latham, has joined the Liberal Democrats. Mr Latham would need 2% of the vote to be elected to the NSW upper house, according to political consultant Glenn Druery.

During the quarter the UK held a snap election resulting the loss of the Conservative party’s majority but its retention of government and Anies Baswedan won Jakarta Governorship in a religiously charged election.

The following chart from theaustralian.com.au/national-affairs/newspoll tracks two party preferences.

Based on the preference flow at the July 2016 federal election.



Courts

AFR 2 May 2017 reported that Fair Work Ombudsman found an accounting firm liable for “wilful blindness” in failing to question below award pay rates. In a precedent-setting decision, the Federal Circuit Court has held an accountancy firm was liable for an employer's underpayments because it failed to make inquiries into whether minimum conditions were being met.

Legal experts have called the ruling a "game changer" and say payroll managers and advisers now risk fines even they do not have direct knowledge that their actions constitute a breach.

In May the High Court rejected an appeal by giant energy multinational Chevron against a decision in favour of the Australian Tax Office in connection with cross border intra

company loans. This is a major win in the continuing multipronged fight for “fair tax” of multinationals.

Andep news

At the end of the quarter, Andep moved to bigger premises from the 8th to the 13th floor of 251 Adelaide Terrace.

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