

from the office of **Robert Latimer**

13 Diana Dve, Blackburn North, 3130 Ph (03) 9814 9333

Authorised Representative and financial planner with Dover Financial Advisers P/L AFSL: 307 248 ABN: 87 112 139 321

Email: info@partnerfinancialgroup.com.au

Budget Background

Having read the budget summaries and listened to all the media commentaries, you could be forgiven for thinking that in the wake of all the outrage, the sky was falling, or the country was teetering on the edge of bankruptcy.

Naturally, the Federal Budget will impact different groups in different ways, and of course there's still the issue of what might actually be passed through parliament at the end of the day.

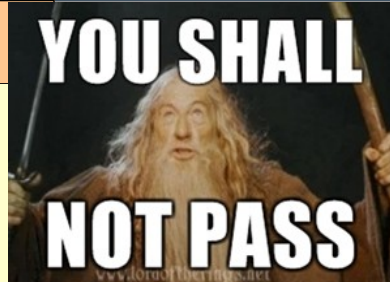
On the topic of the "national debt crisis"—giving us an **NDC** to add to our **GFC**—which appears to lie at the core of the push to reign in Government spending, a recent article by BT's Chris Caton helps put things in perspective ...

Economic Update

Thoughts on the Federal Budget 2014/15

How the world has changed. Two years ago, the previous Government promised to achieve a surplus in the current fiscal year (2013/14). Now, a deficit of \$49.9 billion is forecast.

How could this possibly have happened?



Commenting on the Mid-Year Economic Fiscal Outlook (MYEFO) which came out in December last and looked at a range of things including deficits and debt, Chris Caton continues ...

The message of the MYEFO didn't end there; deficits were projected for the next decade, with Federal government debt outstanding more than doubling from its current level, to \$667 billion. Much has been made of this figure. Let me just say that the whole argument that Australia has too much Government debt, and that it is impoverishing us and/or our children, is economic nonsense. The fact is that our government debt level, measured relative to the size of the economy, is less than one-quarter of the average for the developed world (See below)

New penalty regime for SMSF trustees

For some, a Self Managed Super Fund (SMSF) can be a good thing — enabling them to buy their office or factory, or exert greater management control.

For others, it's an unnecessary complication more akin to a ticking time bomb.

Setting up a SMSF means that members also take on the role of "trustee" — the one who is responsible to ensuring tax law and the many regulations relating to superannuation are obeyed (...and you thought it was the accountants final responsibility?!)

The penalties for "getting it wrong" are many and varied and currently include:

- make fund non-complying for tax purposes (ie tax of 45% levied on fund)
- apply to the court for civil or criminal penalties to be imposed
- accept an enforceable undertaking in relation to a breach
- disqualify a trustee of an SMSF.

Recent changes have seen the introduction of a new penalty regime, giving the ATO the flexibility to impose penalties that better reflect the nature and seriousness of the breach.



There are three components to the proposed penalty regime:

- Administrative penalties
- Rectification directions
- Education directions

Faults and breaches will attract Penalty Points, with some examples shown below:

Failure to prepare financial statements
Penalty Points 10 Penalty \$1,700

Lending to members and relatives
Penalty Points 60 Penalty \$10,200

Failure to keep t'ee minutes for 10
Penalty Points 10 Penalty \$1,700

Failure to notify ATO of signif. adverse event
Penalty Points 60 Penalty \$10,200

Failure to provide ATO with information
Penalty Points 5 Penalty \$850

etc etc etc

Source: Based on info from www.ato.gov.au

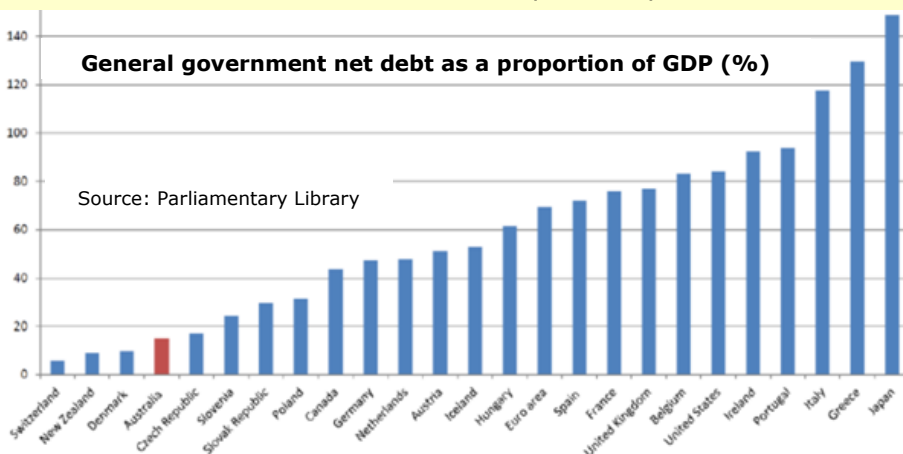
Jargon Buster

FISCAL - relating to government revenue, spending, taxes and debt. Eg Fiscal Policy

GDP - Gross Domestic Product is the market value of all officially recognized final goods and services produced within a country in a year, or over a given period of time

General government net debt as a proportion of GDP (%)

Source: Parliamentary Library



Take a tip from me...

The first clue actually came two years ago. At that time, in my Budget summary, I referenced a sensitivity analysis carried out by Deloitte Access Economics. This showed that if you tweaked Australian and global growth forecasts moderately (downwards) and assumed a substantial but believable decline in commodity prices, the wafer-thin surplus projected for 2013/14 could become a deficit of \$36 billion in the blink of an eye. All of these tweaks happened! This analysis turned out to be remarkably prescient; take a bow, Chris Richardson.

Source: BT Federal Budget Update 2014

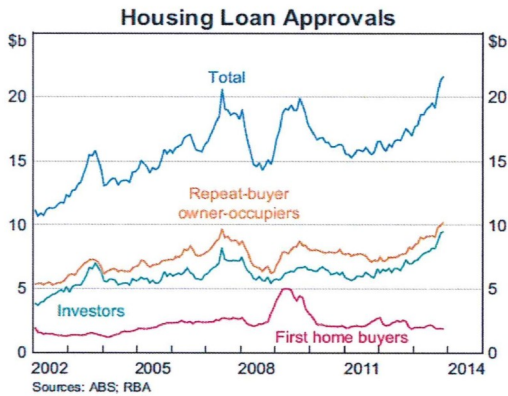
... don't pick the teams "Tigerspots" selects each week. The alias itself is an indication of how little Rob (oh...I've said too much) knows about his beloved Richmond and football in general. Congratulations—at least at this mid-season stage to Eugene McConville (1st), FJH22 (2nd), Tiger (3rd) Catastrophy19 (4th) and B1 (5th). As big Harry B used to say ... "It's a funny game football", so it'll be interesting to see if today's winners can hold on.



Every graph tells a story ...

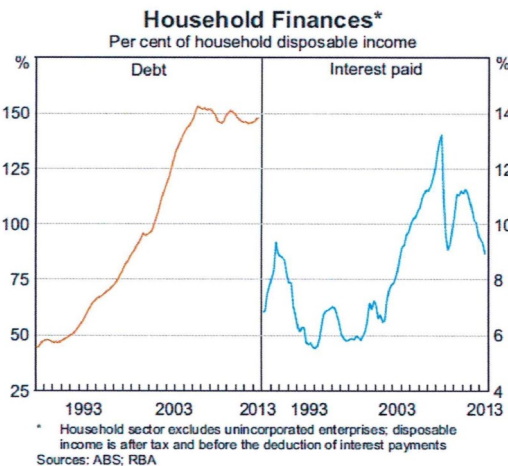
Some see them as just squiggly coloured lines, but as graphs go, these are real beauts. Starting with Housing Loan Approvals (below) see how **First Home Buyers** (the red line) have all but flat-lined, except for a brief blip early in the GFC; confirming what we all know that it's tough buying your first house. Then, in the same graph, see how **Investors** and **Repeat-buyer Owner-Occupiers** have moved back into the market since 2011, proving the old adage that "money makes money".

Moving onto the next graph we see a threefold increase in the level of **Household Debt** (that's what you and I owe on credit cards, mortgages, loans etc) over the past 20 years, or so, and the **Interest Paid** on this debt initially dropping (due to the recession and the effects of falling interest rates) and then climbing in line with the rising debt. The fall in interest paid by households in recent years due no doubt to further interest rate falls on the back of the GFC.



Lastly, we turn to the **Unemployment Rate** graph which shows a peak in 1992 at more than 11% - when average home mortgage rates had fallen to around 10% pa from their peak of 17%pa just three years before (yes, young-folks, that's 17%!). By around 2006 we then see unemployment down to around 4% on the back of a buoyant economy, rising sharply following the GFC, as you'd expect. And if ever a link between unemployment and debt was needed, here it is. As one goes down, the other goes up—and vice versa.

Source: Based on ABS & RBA Data

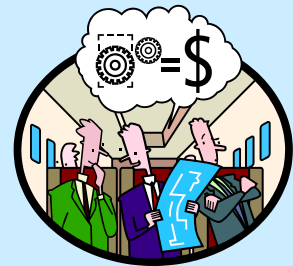


I need to know

Fiscal Drag

This is where the government's net fiscal position (spending minus taxation) fails to cover the net savings desires of the private economy, also called the private economy's spending gap (earnings minus spending and private investment). The resulting lack of aggregate demand leads to deflationary pressure, or drag, on the economy, essentially due to lack of state spending or to excess taxation.

Or to put it another way ... the process by which rising incomes draw people into higher tax brackets, so that their real incomes may fall; this acts as a restraint on the expansion of the economy.



Quantitative Easing (QE)

Usually central banks try to raise the amount of lending and activity in the economy indirectly, by cutting interest rates. Lower interest rates encourage people to spend, not save. But when interest rates can go no lower, a central bank's only option is to pump money into the economy directly. That is quantitative easing.

The way the central bank does this is by buying assets - usually government bonds - using money it has simply created out of thin air. The institutions selling those bonds (either commercial banks or other financial businesses such as insurance companies) will then have "new" money in their accounts which then boosts the money supply. It was tried first by a central bank in Japan to get it out of a period of deflation following its asset bubble collapse in the 1990s.

This increased demand for the government bonds pushes up their value, thereby making them more expensive to buy, and so they become a less attractive investment. This means that the companies who sold the bonds may use the proceeds to invest in other companies or lend to individuals, rather than buying any more of the bonds. Simple as that really ... ?



Source: www.bbc.com/news/business

Tired, listless, lacking motivation?



There are times when you just don't feel motivated — the pace of life and the demands of constantly being on the go, sometimes making it hard to find "time out" to recharge the batteries. Here are some tips for motivating yourself when you really must get that thing done:

Make yourself comfortable. If you have work to do, a document to write, or a task to complete, do it in comfort. If you are feeling relaxed and comfortable it is not as hard to motivate yourself to do what you need to do. Feeling relaxed helps eliminate feelings of resentment or lethargy - after all, you are doing it on your terms.

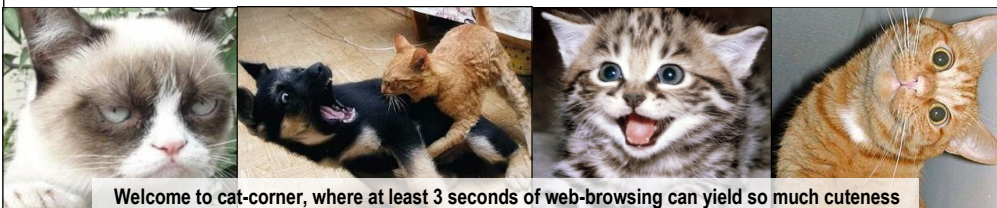
Think of your big picture. Why do you need to complete this task? Why did you under take it in the first place? Remembering what your end goal is will often help you get out of the rut and refocussed on what there is to gain.

Be honest with yourself. Why are you really unmotivated? What's going on for you in the rest of your life that may be affecting your ability to work at your peak? Perhaps it is your diet, or even that you need to exercise? Sometimes listening to that inner voice and taking an honest look at where you are can mean you change what's not going well. This change can often give you the motivation to get back on track and achieve your goals.

Failing all of the above, there's always that timeless advice from the man himself ...

"Never put off until tomorrow what you can put off indefinitely"

Source: Based on blog by Vanessa Stoykov, 27/3/2014, No More Practice



Welcome to cat-corner, where at least 3 seconds of web-browsing can yield so much cuteness