The INVESTMENT COLLECTIVE

INVESTMENT MARKET UPDATE

ISSUE 67 SPRING 2018

MESSAGE FROM MANAGER

Many clients would not know that my family runs an Air BnB.

With my aging mother suffering from dementia, we originally built a granny flat where we could look after her. I'm very proud of the eight years we put into looking after Mum, and I am forever in debt to my wife Sandra, who treated Mum as her own and cared for her in a way that could only be described as saintly.

The years following Mum's death were difficult for me and it took some time before the matter of the spare unit downstairs became important enough to do something about. Before kids, running a BnB had been a longstanding topic of conversation, and we had stayed in some great ones. Now, with the reach of the internet, and the systems and marketing available through Air BnB, the vacant unit eventually saw us dusting off long-forgotten dreams.

So here I am at home sitting on the back deck, enjoying one of Rockhampton's balmy spring evenings. The smell of Aerogard makes me reminisce of teenage crabbing trips, and from the lower level patio, the laughter of guests is carried on the still air. The guests, one of whom is chronically ill, sound carefree. Just for a while, they are having fun. We contributed to that, by providing a nice, comfortable environment at a reasonable price.

And I sit with my beer musing that it's just like work. Isn't that why staff at The Investment Collective come to work? To help clients have fun? Or at least to help provide a level of comfort that things are going to be OK in retirement, or that things are otherwise being looked after? Running the Air BnB is more demanding than might be evident at first glance. The guests are always lovely, but ensuring every hair is removed from sheets and towels demands a commitment to the cause and an eye for detail. As much as I like people, I find putting myself out there demanding, particularly when my innate drive is to be sociable or to "help", when I also know that people value their privacy and often harbour all sorts of hurt, which must be carefully negotiated, or maybe not broached at all.

And that is the second parallel. Whether financial advice or business consulting, there's a lot of thought that goes into it. In any meeting, people have their own take on things. Sometimes we have to insist on logic, or not buy into emotion, or conversely, delve into emotional reserves normally only the domain of those closest. There are things we must not mention, but also no matter how difficult, things that must be raised. Like a mother protecting a child, I have in a couple of cases even had to shout at people in danger of doing something really stupid (and in these two cases, one listened and is out of the woods, and the other is broke).

The thing I can say without hesitation, and regardless of the sensationalist communications arising from the Royal Commission, is that our staff are professionals. People who won't put clients' interests and therefore the interests of the business ahead of their own have to leave. It may seem harsh, but despite the challenge, we manage that actively.

On the other hand, we also expect something from our clients. We expect them to appreciate our efforts, to accept that from time to time we will make honest mistakes and that when we do, we'll simply "get it sorted". The act of paying us never gives a client the right to become abusive, overbearing or bullying - not even if these behaviours result from the whispers of sons, daughters, spouses, close friends or an ill-informed media. When this happens we know now, it's a no-win situation and we have to exit our clients. Disputes take up too much time. They lower morale in the office. They steal from the efforts due to other clients.

And so, there it is. Clients expect to be able to achieve their goals; to have fun. We expect clients to appreciate the effort that goes into that. Royal Commission or not, surely that's not unreasonable.

David French
Managing Director

Don't pay a 'lazy tax' on your home loan!

You've no doubt heard the news that 3 of the 'big 4' banks have increased their variable home loan rates. Westpac was the first to increase their rates, despite the RBA keeping rates on hold at 1.5% since August 2016. Westpac announced on 30th August that their variable home loan rates will increase by 0.14% effective 19th September due to the increase of costs to source funding on the wholesale markets.

The major banks have been making the usual noises about absorbing these higher funding costs in the hope that they would ease over time, and the need to pass on these costs to customers.

ANZ and Commonwealth Bank followed suit on 6th September by announcing that their variable home loan rates will also increase. ANZ will increase its variable home loan interest rates by 0.16% effective 27th September in both owner occupier and investment mortgages. However, ANZ will exclude customers in drought declared areas of regional Australia. CBA will increase its rates by 0.15% from 4th October.

The headline rates for Westpac, ANZ and CBA are as follows:

WBC

- Standard variable Owner occupier Principal and Interest rate to increase to 5.38% p.a.
- Standard variable Owner occupier Interest only rate to increase to 5.97% p.a.
- Standard variable Residential Investment Principal & Interest rate to increase to 5.93% p.a.
- Standard variable Residential Investment Interest only rate to increase to 6.44% p.a.

ANZ

- Standard variable Owner occupier Principal and Interest rate to increase to 5.36% p.a.
- Standard variable Owner occupier Interest only rate to increase to 5.91% p.a.
- Standard variable Residential Investment Principal & Interest rate to increase to 5.96% p.a.
- Standard variable Residential Investment Interest only rate to increase to 6.42% p.a.

CBA

- Standard variable Owner occupier Principal and Interest rate to increase to 5.37% p.a.
- Standard variable Owner occupier Interest only rate to increase to 5.92% p.a.
- Standard variable Residential Investment Principal & Interest rate to increase to 5.95% p.a.
- Standard variable Residential Investment Interest only rate to increase to 6.39% p.a.

NAB is yet to increase their rates, but many industry experts suggest that it is only a matter of time.

If you, or your friends or family have a home loan via one of the major banks, it would be well and truly worth the time spent to review your arrangements to ensure that the loan offers a competitive rate with low fees.

Banks traditionally rely on "inertia" in the event of raising home loan rates. It is estimated that approximately 80% of home loan customers won't do anything and will continue to pay the higher repayments. This is simply a 'Lazy Tax.' For example, the ANZ rate increases will add about $40 a month to a $400,000 home loan.

Just to provide an indication of the rates available via some of our lenders, here's some comparisons for you to consider:

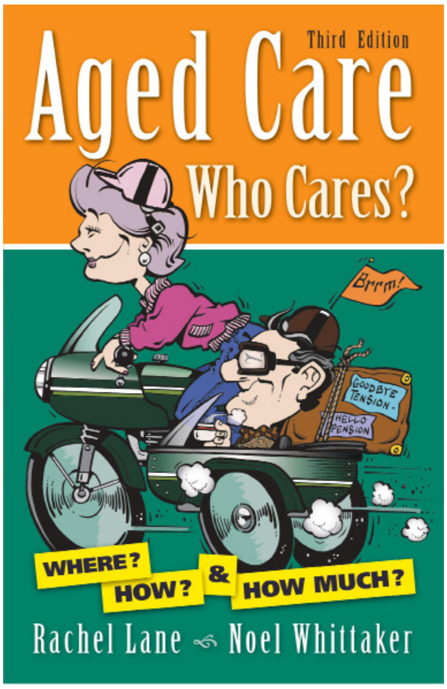
- Standard variable Owner occupier Principal and Interest rate 3.68% p.a.
- Standard variable Owner occupier Interest only rate 3.99% p.a.
- Standard variable Residential Investment Principal & Interest rate 3.97% p.a.
- Standard variable Residential Investment Interest only rate 4.29% p.a.

These reduced rates could save you THOUSANDS of dollars over the life of your home loan.

Please contact us today for a confidential, cost and obligation free discussion about your home loan. We would also be happy for you to refer your family or friends so we can also assist them to locate a cost effective home loan which suits their needs.

Scott Plunkett
Risk Adviser/Mortgage Broker

Aged Care Who Cares? - Book Review



Aged Care Who Cares? by Rachel Lane & Noel Whittaker

My Rating: ★★★★★

Plot

With the growth of the ageing population, aged care advice is needed today more than ever. The complexity surrounding aged care means it can sometimes be overwhelming and confusing for you and your loved ones. Aged Care Who Cares? is a guide for people looking to secure the best possible outcome for aged care. The information contained in the book helps you choose an option that not only meets your financial needs and objectives but also considers your emotional wellbeing.

Review

Aged Care Who Cares? is broken up into 4 different sections:

- Care at Home
- Retirement Communities
- Residential Aged Care
- Funding your Care

Given around 75% of care provided is done so at home, I've decided to concentrate this review on Section 1, Care at Home.

<u>Home Care Packages</u>

I found this to be the most interesting topic which probably stems from my own experience with aged care. My grandmother (70) still works full time and is only just beginning to consider retirement now. At present, she has no interest in moving into a retirement village or aged care facility and wants to stay in the family home as long as possible. Lane and Whittaker discuss the different types of home care available and the merit of each. These include; Home Care Packages (HCP), Commonwealth Home Support Programme (CHSP) Veterans' Home Care (VHC) / Community Nursing and Private Care.

My grandmother's doctor recently referred her for an Aged Care Assessment Team (ACAT) which is key to accessing most government funded aged care services. The purpose of an ACAT assessment is to determine the level of care you need. The assessor will speak to you about your day to day activities, the things you are comfortable doing yourself and things you may need assistance with. ACAT assessments remain valid indefinitely unless a time restriction has been applied to it. As with any government service there is a waiting period to receive an ACAT assessment. If you are lucky, you will be assessed relatively quickly; however, if it is during the season of Aged Care (typically November to April) the wait period can be quite extensive. During these months, family come to visit. They see the change or detrition in their loved ones and take action to get them assistance. This then creates a surge in the need for ACAT assessments and the waiting begins.

As highlighted by Lane and Whittaker, there are four levels of Home Care Packages. Level 1 offers support to people with basic care needs, while level 4 offers support to people with high care needs. Although my dear Nan has been assessed and ACAT have determined her level of care required, she now needs to join the National Prioritisation Queue with over 100,000 other Australians who need home care. The queue basically works on a get what you're given basis. You can opt for a lower level package while waiting for your approved package level. That is, if you are assessed to be a Level 4, which is the highest Level of Care and a Level 1 Care Package is available next, you will be assigned a Level 1 Package. Think of it like having a broken leg in the emergency department. You wait and wait to receive some relief but all the nurse can offer you is a Panadol. You take it because that is all that is on offer. You still have a broken leg and you still aren't getting the care you need. That is the unfortunate position 40,000 consumers are in.

Granny Flats

I was surprised to learn that granny flat arrangements aren't as straightforward as people think. What springs to mind is a small flat or self-contained unit built on your children's property but that isn't always the case. In the eyes of Centrelink, a granny flat interest or right is where you pay for the right to live in a specific home for life. You can't be a legal owner of that home and it is not part of your estate when you die. So, a granny flat arrangement is any kind of dwelling such as a room or living area in an existing home, not just those typically referred to as granny flats.

Lane and Whittaker touch on a few key considerations when entering into a granny flat arrangement.

Generally speaking, the amount you pay for a granny flat right or life interest should be market value. This payment can be the exchange of assets, money or both assets and money.

For example, you could transfer:

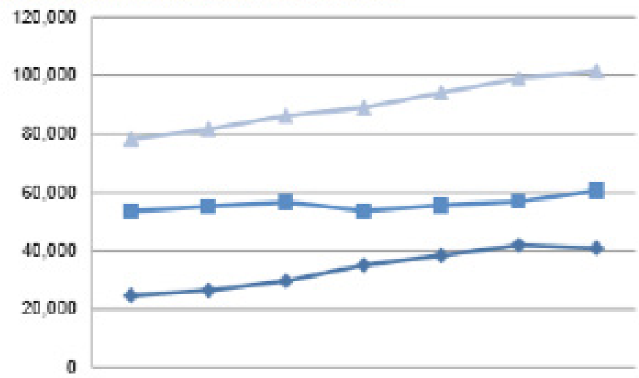
- Ownership of your home but keep a lifelong right to live there or in another private property.
- Assets, including money, in return for a lifelong right to live in a home.

Table 3: Total number of consumers on the national prioritisation queue, by level of approval and state and territory of residence as at 30 September 2017

State/Territory	Level 1	Level 2	Level 3	Level 4	Grand Total
NSW	71	7,342	6,874	20,246	34,533
VIC	54	7,257	3,610	10,642	21,563
QLD	44	3,806	3,662	11,794	19,306
WA	11	1,362	1,351	7,184	9,908
SA	12	1,543	2,033	7,786	11,374
TAS	3	577	516	1,295	2,391
ACT	3	341	217	1,067	1,628
NT	1	105	67	262	435
National	201	22,424	18,434	60,449	101,508

Note: National total may include incomplete records requiring further address information.

Chart 2: Number of consumers on the national prioritisation queue, over time



	31-Mar	30-Apr	30-May	30-Jun	31-Jul	31-Aug	30-Sep
All consumers awaiting approved level package	78,331	81,683	86,294	88,904	93,960	98,898	101,508
Consumers not assigned a home care package, awaiting approved level	53,632	55,269	56,680	53,750	55,623	56,907	60,615
Consumers assigned an interim (lower) level package, awaiting approved level	24,699	26,414	29,614	35,154	38,337	41,991	40,893

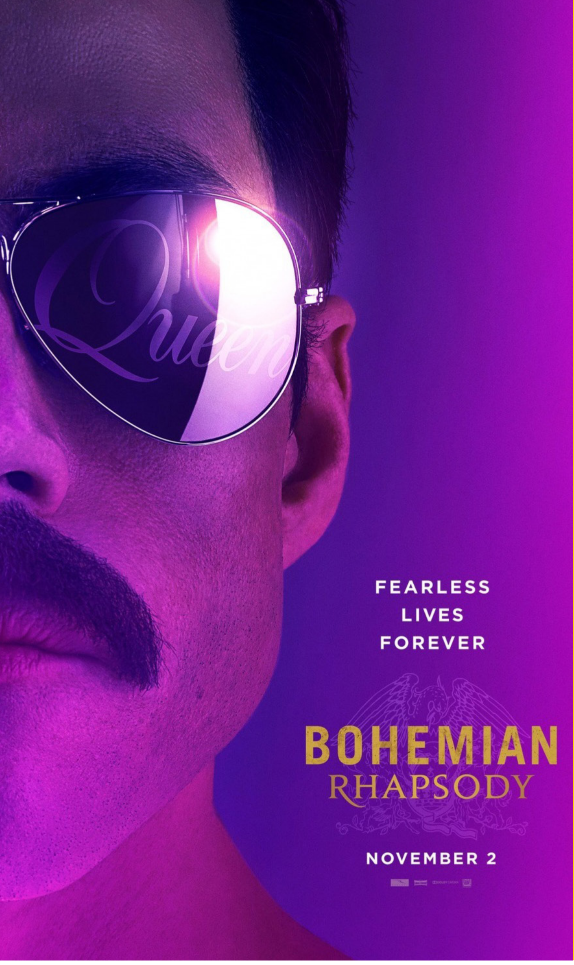
Centrelink have deemed that if you pay less than $207,000 under your granny flat arrangement then you are not a home owner. You will receive rent assistance, but the granny flat will count towards your assets under the asset test. If you paid more than $207,000 you are a home owner, no rent assistance is afforded but the asset is exempt from asset tests.

It is important to ensure that you do not pay too much or too little when entering into a granny flat arrangement. If you pay too much, you can invoke Centrelink's gifting rules where you give away an asset without getting something of at least equal value in return. The extra amount you have paid for the granny flat then becomes a deprived asset which impacts on your entitlements.

Recommendation

Aged care can be very tricky to navigate but Lane and Whittaker have done well to simplify it as much as possible. There are a number of options available to retirees, each with their own complexities. I recommend this book for those who wish to explore Aged Care options for themselves or loved ones. As always, if you have any questions about your finances or require help with navigating the aged care system, please speak with your adviser.

Jodie Stewart
Financial Adviser



Movie Night!

On Friday 2nd November, please join us at a private screening of

BOHEMIAN RHAPSODY

Please contact our office for more details and to RSVP.

Investment Update

APA Takeover Bid

APA is widely held in our portfolios. It is a good, well run business that basically moves gas around Australia. It also owns a few gas fired power stations and a wind farm.

In June APA received a takeover bid from a Hong Kong based consortium CK Infrastructure Ltd. The offer was to buy the shares for a cash amount of $11 per share, a 30% premium to the market price before the announcement was made.

In order for the takeover to proceed it will need approval from the ACCC, Foreign Investment Review Board (FIRB) and lastly the shareholders.

The first hurdle has been cleared and the ACCC has given their blessing for the acquisition of APA but the approval is conditional. APA will need to divest some of their gas pipelines and storage facilities in Western Australia. The ACCC had stated that the purchase of all of APA's gas assets in Western Australia would have substantially lessened competition in that geographical area and as such the Parmelia, Goldfields and Kalgoorlie Pipelines will need to be sold.

The FIRB is the next hurdle and up until a few weeks ago I would have been reasonably confident that approval would have been granted. The change in leadership within the Liberal Government has alienated many liberal voters, there is a chance that a Labour Government will be in power next year, and their views on foreign ownership of Australian companies will be different. Especially when the company exhibits some monopolistic qualities.

Reading through the bidders statement I can't see the magic words, ''Best and Final Offer'' so there is room for CKI to come back with a higher offer should another player enter the scene and make a superior offer. Senior Management have done a roadshow across the USA and Canada to try and flush out a competing offer and although no one has come forward as yet I'm sure that there are other players in the infrastructure space that will be watching proceedings closely.

The offer has been endorsed by the Directors of APA group and they have recommended that shareholders accept the offer provided that no other bidders come out of the woodwork. In terms of the price offered by CKI, compared to the relatively recent sale of Duet, it seems fair and reasonable.

Ian Maloney
Share Trading Manager

Compliance Update

Australian Financial Services Legislation requires that we have formal processes for handling complaints from clients. These processes include an Internal Dispute Resolution process and require that we are a member of an ASIC-approved, External Dispute Resolution organisation. Up until now, we have been a member of the Financial Ombudsman Service, known as FOS. On 1 November 2018, FOS, along with the Credit and Investments Ombudsman and the Superannuation Complaints Tribunal, became the Australian Financial Complaints Authority (AFCA). Details on how to access the services of AFCA are available on their website www.afca.org.au

Mental health is no joke

One in five Australians aged 16-85 experience a mental illness in any year. As the awareness for mental health conditions increases, so does the claims for life insurance. Mental health is fast becoming one of the highest claimed conditions for Income Protection and Total & Permanent Disablement. As a result of this, insurance companies are looking to put exclusions or loadings (additional premiums) on life policies for clients who have a history of this condition.

Some of my clients have expressed their concerns about mental health exclusions saying they're a doubled edged sword. Clients feel as they're being punished for seeking treatment from their GP but weren't aware of the impact it would have on obtaining life insurance in the future. Keep in mind that not all mental health disclosures will be treated the same.

Case Study 1: Jess sought treatment from a psychologist when her father died. She attended six sessions as per her mental health treatment plan provided by her GP. She is now applying for cover 5 years later.

Outcome: The likelihood of Jess obtaining a mental health exclusion is slim as this would be considered a 'life event' and she has not received further treatment for any other mental illness conditions.

Case Study 2: Daniel experienced some anxiety at age 19 when he was attending university. Daniel spoke to his GP and was referred to a mental health treatment plan however he did not attend these sessions. At age 31 Daniel spoke to his GP again about suffering depression after receiving a redundancy at work and was again referred to a mental health treatment plan and this time he attended his sessions. Daniel is now 33 and is applying for cover.

Outcome: Due to Daniel's history of mental illness (anxiety and depression) and given the short period since his last episode, it is likely the insurance company would apply a mental health exclusion. There may be room to renegotiate these terms in 3-5 years if Daniel's mental health continues to stay well, however this would be at the discretion of the insurance company.

To some this may seem unfair but insurance companies are aware that over 50% of people diagnosed with depression may relapse into a depressive state and it is most likely to return within three years of the first episode.

If you've suffered from mental health problems in the past and are looking to obtain life insurance, you should keep in mind the following:

- Make sure you disclose all mental health issues. You have a legal obligation when applying for cover to disclose all health conditions, you would be in a far worse position if you don't disclose this condition.
- Know exactly what you're covered for. If the insurance company decides to put a loading or exclusion on the policy, make sure you have a good understanding of what this means.

Above all, speak with your adviser. Advisers have the advantage of having a relationship with the insurance company and can therefore assist you in receiving the most favourable terms.

If you or anyone you know is suffering from any mental health issues, please speak to your GP or contact Lifeline on 13 11 14 or Beyond Blue on 1300 22 4636.

Amy Gill
Risk Adviser

Centrelink Q & A

In my dealings with Centrelink I often get asked many questions about a client's Age Pension or Health Care Card when their circumstances change. Below are some Questions and Answers that I would like to share with you. By all means if your queries have not been addressed below, please contact your Advisor and together we will find a solution.

Anthony

Question:

I thought that the primary home is exempt from a means test and not regarded as an asset. I live and travel in my motor home, yet it is on my records as an asset and I am being paid my pension accordingly. I claim rent assistance only on very rare occasions when I have to pull into a caravan park. Could you please enlighten me on this?

Answer:

If a Centrelink customer resides in a mobile home, campervan, caravan or a boat which they own (or are purchasing), they are considered a homeowner and the mobile home is an exempt asset as long as they do not own another residence and are only travelling for less than 12 months. Rent Assistance can be paid if you are paying site or mooring fees.

Amanda

Question:

Could you please advise the current amount above which Centrelink must be notified when there is a change in financial assets?

Answer:

Centrelink should be advised if the assessable assets you hold increase or decrease in value by $2000. The exceptions are listed shares and units in managed investments. You only need to advise a change in the number of shares or units held. Centrelink will update their value whenever you change the number of shares held, and every March and September. Any changes to your circumstances always contact your advisor to be on the safe side.

Amy

Question:

I went on a 6 weeks cruise overseas on 4th July this year. I was sure that I had met all Centrelink's requirements to ensure that I still received my Age Pension whilst away.

I returned on 16th August and realised my Age Pension was suspended. How could this happen? Can this be reinstated?

Answer:

Prior to going overseas always let us know when you are going and when you will return as there are rules that will affect your payments and concession card whilst overseas. We will advise Centrelink on your behalf provided you inform us before you travel overseas to avoid any payment suspensions. If you decide to be outside of Australia for more than 6 weeks your Age Penson will be changed and your pension supplement will reduce to the basic rate and your energy supplement will cease. We can call Centrelink on your behalf and get your payment reinstated. If you leave Australia permanently, the changes to your payments will take effect on the day you leave the country.

Pardis Hudson
Financial Services Assistant

Welcome Billy!

In September, we welcomed Billy Boyle to the team! Billy is our new Asset Manager.

Welcome Kristy!

In September, we welcomed Kristy Gear to the team! Kristy joined the compliance team, as Manager of Training and Business Support.

Staff

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David French	Managing Director
Sue Dunne	Senior Financial Adviser
Dean Tipping	Financial Adviser
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Rebecca Smith	Reception/Admin Support
Pardis Hudson	Financial Services Assistant
Nicole Retallack	Financial Services Assistant
John Phelan	Compliance Manager
Bronwyn Nunn	Compliance Support Officer
Kristy Gear (NEW!)	Manager- Training & Business Support
Katrina Tearle	CHESS Administrator
Natasha Kuhl	Portfolio Administrator
Cheryl Walton	Bonds Administrator
Billy Boyle (NEW!)	Asset Manager
Christine King	Bookkeeper
Sandra French	Bookkeeper
Mandy Noud	Bookkeeper
Caitlin Toohey	Social Media & Marketing Officer
Sam Farley	Communications Officer
Dylan Tyler	Undergraduate Trainee
Yolanda Haveo	Undergraduate Trainee
Shelby Davis-Hill	Scanning Officer

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Joshua Scipione	Financial Adviser
Stephen Coniglione	Financial Adviser
Scott Plunkett	Risk Adviser/Mortgage Broker
Morgen Harris	Risk Adviser
Amy Gill	Risk Adviser
Michelle Su	Reception/Admin Support
Sharon Pollock	Manager- Client Services and Paraplanning
Tracey Briggs	Financial Services Assistant
Hannah Smith	Financial Services Assistant
Daniel Trajkoski	Financial Services Assistant
Ian Maloney	Manager Share Trading
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