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Dear Friends

And now – for some uncertainty…

As a voter, and with the election behind us, I had hoped there would now be a period of stability for Australia. On the other hand, as an economist, I recognise that we are at the mercy of the prevailing global winds.

The classic warning signs that we are likely to face a recession are hard to ignore. Interest rates and cost of living pressures (particularly food prices) are increasing, with wages growth at best, sluggish.

Described in the Murdoch media as potentially ruinous, rising energy costs could well be the straw that (temporarily) breaks the camel's back where the economy is concerned. Nevertheless, there are levers available to our government which would alleviate such a drastic outcome, particularly with Australia being a net energy (and food) exporter.

We should not fear this next phase; it is part of a healthy cycle. As I always say, it is in the 'down' times that financial planners have the ability to add value for their clients. It is why we have in place the 'Marinis Buffer' to protect our clients against financial shocks in the income draw-down phase. For those in accumulation phase, remember too, you will be buying 'discounted' shares which will rebound to help grow your portfolio significantly in the future.

There is an analogy that a recession is like the process of pruning a garden – it cuts off the dead wood to foster future healthier growth.

Perversely, while we are all feeling cost of living pressures, watching interest rates increase and inflation return – as I write, the Australian economy is booming. Due temporarily to the surge in prices for our coal, iron-ore, and agricultural products (as global shortages are exacerbated by Russia's invasion of the Ukraine) this situation should go some way to beginning to pay down our massive COVID-19 debt.

At the micro-economic level – as a result of legislation enacted by the previous government – there is also the exciting outlook for the Super Guarantee, which will move to 10.5% of salary from 1 July 2022, with further increases of 0.5% on 1 July each year until it reaches 12.0% in 2025. I would not be surprised to see Mr Albanese eventually increase this roll out to 15.0%, which incidentally, is the level our politicians and public servants have been paying themselves for some time!

I anticipate a return to more normal conditions by the start of 2024… but I would warn that those of us who study the 'dark art' of economics also favour the 'get out of jail' term **"Ceteris Paribus"** – loosely translated from the Latin "if all things stay the same…"

But as anyone over 25 years of age knows, that is never the case.

Uncertainty prevails for now. As South Australian band Redgum reminded us in their 1983 album entitled *'Caught in the Act'….* ***"It'll be all right in the long run."***

And One More Thing:

The comments below are extracted from my recent contribution to Alan Kohler's Eureka Report. Whilst the subject matter and strategy will not be relevant to everyone, the article demonstrates how financial planning really can be beneficial, regardless of your personal situation.

"Dividend streaming – a little known bonanza for private business owners

One of the great revelations for business owners is the realisation that they can run their private company as an additional tax-free income stream".

This statement comes with the qualification that 'they' are a) a retired couple aged between 60 – 64 who have each maxed out their superannuation Transfer Balance Cap (TBC) of $1.7 million; and b) each has established an Account Based Pension (ABP) providing tax exempt income at the usual 'minimum' rate of $68,000 pa each.

They could, I suggest, live quite comfortably on their combined minimum pension payments of $136,000 pa, with this income increasing in line with the prescribed age based minimum ABP payment amounts.

If that were the end of the story, there would be no need to lodge personal tax returns. As their ABP income of $68,000 is tax exempt, they have nil taxable income.

If, however, the couple has no other taxable income from assets or investments other than (for the sake of this example) $2 million invested in their private company, they can also pay themselves very tax effectively, fully franked dividends from their company, as required".

To read the rest of the article please click here.

A reminder:

If you plan to make an additional contribution to your superannuation this financial year, act immediately. The practical deadline is 20th June, not 30th.

Media:

If you would like to see my latest contributions to the national superannuation and retirement savings discussion, please click here.

As always, if I or any of my team can be of assistance to you, please don't hesitate to contact us on (08) 8130 5130 or email admin@marinisgroup.com.au.

Yours sincerely

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