Financial **Focus**

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Welcome to Financial Focus. 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.

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Enjoy our Autumn 2018 update
Any queries please contact us - we'd be happy to help

Upsize your retirement with downsizer contributions

Legislation has passed that will enable people aged 65 or over to make additional super contributions of up to $300,000 per person from the proceeds of the sale of their home from 1 July 2018.

These are known as 'downsizer contributions' and they can be made on top of the existing contribution caps, without having to meet certain contribution rules and restrictions.

The opportunity

The downsizer contribution rules remove some of the barriers that prevent or restrict the ability to make super contributions at age 65 or over.

Provided certain other conditions are met (see below) those eligible will be able to contribute up to $300,000 per person (or $600,000 per couple) from the proceeds of selling their home on or after 1 July 2018.

The contributions won't count towards the concessional (pre-tax) or non-concessional (after-tax) contribution caps and there is no maximum age limit. Also, the 'work test' (for people aged 65 to 74) and the 'total super balance' test won't apply.

Key requirements

There are a number of conditions that will need to be met to be eligible to make downsizer contributions, including:

- The individual must be aged 65 or over at the time the contribution is made.
- The property must have been owned by the individual or their spouse (but not necessarily both) for at least 10 years prior to the disposal.
- The contract for sale must be entered into on or after 1 July 2018.
- The property must qualify for the main residence capital gains tax exemption in whole or part, so properties held purely for investment purposes won't qualify.
- The contribution must be made within 90 days of the change of ownership.

- An election needs to be made to treat the contribution as a downsizer contribution.
- No tax deduction can be claimed for the contribution.

Other conditions may also apply. For more information, please visit the ATO website at **www.ato.gov.au**

Key considerations

There are some key issues that should be considered when assessing whether making downsizer contributions could be a suitable strategy, including:

- The property being sold to fund the contributions doesn't have to be the current home. It can be a former home which meets the requirements. Also, a new home doesn't need to be purchased.
- Once contributed, downsizer contributions will count towards the 'total super balance' which could impact capacity to make future contributions.
- Downsizer contributions can't be transferred into a tax-free 'retirement phase income stream' if the 'transfer balance cap' has been used up. The transfer balance cap is $1.6 million in 2017/18.
- If the transfer balance cap has already been used up, the contribution must remain in the 'accumulation phase' of super, where investment earnings are taxed at a maximum rate of 15%.
- Money held in the accumulation or retirement phase of super is assessed for both social security and aged care purposes.

Could you benefit from downsizer contributions?

If you are thinking about selling your home after 1 July 2018, your financial adviser can help you decide whether making downsizer super contributions is a suitable strategy for you and assess other options.

Is bias affecting your decisions?

Understanding how bias works can help us to think more clearly about our decisions.

Psychologists call it 'cognitive bias'. These biases may be affecting your investment decision-making process and limiting your potential to make different choices.

Explaining different 'cognitive biases' and their effects

Human beings can never be completely objective in their decision-making. Everything we experience is filtered through a lens of our own likes and dislikes, experiences and beliefs. This creates what psychologists call 'cognitive bias' – errors in thinking that can limit our ability to make rational decisions, including decisions about our investments.

It may not be possible to avoid all biases, but simply acknowledging that they exist and then making an effort to take them into account can reduce their effects.

Here are a few of the most common cognitive biases and their potential effect on investment strategies.

Recency bias: being influenced by recent events

Our memory tends to put emphasis on things that happened recently, which means new information can seem more useful than older information. Investors with recency bias tend to be strongly influenced by how well the market has performed in the recent past and behave as though this is bound to continue. If the market has been strong, they're likely to take more risks. If it's been weak, they might panic and sell low.

A long-term view presents a more realistic picture. For example, history tells us that markets eventually rally after a fall, yet someone with a recency bias might sell off their shares in a recession and miss out on an opportunity for longer-term gains.

A bias towards herd behaviour: the fear of missing out

When hordes of people are rushing to snap up a particular investment, it's hard to believe they could all be wrong. It can also be hard to live with the fear of missing out. Yet the bursting of the internet bubble in 2000 showed just how dangerous this behaviour can be.

Investors who follow the herd tend to sell frequently in order to invest in the latest trend. But, by the time they invest, it could be too late to benefit and the leaders might already have moved on. They might also miss out on mid- to long-term gains on their original investment. Potential profits could also be eroded by the cost of so many transactions.

It's important to do thorough research and seek advice before jumping on an investment bandwagon.

Familiarity bias: staying with what you know

It's a well-known saying but 'Better the devil you know' isn't always true for an investor. Staying within the comfort zone of a particular location or type of investment, such as domestic shares, could mean missing out on significant benefits elsewhere. Lack of diversification could also increase exposure to possible losses.

Hindsight bias: thinking the future is predictable

With the benefit of hindsight, a past event can appear much more predictable than it was. Investors with hindsight bias tend to believe that if they or their advisers had only paid more attention they could have avoided a disappointing outcome. This can lead to frustration and sometimes even the belief that if a past event was predictable, the future must be, too – and overconfidence and risk-taking can result. Making a conscious effort to review past events impartially can help put gains and losses into perspective.

Anchoring or confirmation bias: overlooking contradictory information

It's very common for people to pay close attention to information that supports their beliefs and to overlook any that doesn't. When they're considering investments, it can cause them to ignore relevant facts, make dubious investments and hold on to a losing investment for too long. That's why it's important for investors to search out and test contrary opinions.

A bias towards avoiding loss

Also known as regret aversion, this is the desire to avoid the feelings we experience when we realise we've made a poor decision. The fear of loss can make investors excessively risk-averse. Some overconfident loss-averse investors may be so reluctant to accept they've made an unfortunate choice that they "throw good money after bad" in an attempt to salvage a losing investment. It helps to focus on overall performance rather than specific losses or gains.

Three ways to keep biases at bay

1. Try to identify any biases that might affect your decision-making.
2. Do thorough research before making a decision and be open to information that challenges your assumptions.
3. Seek professional financial advice.

Business trends and innovation: what the future has in store

What will the new year bring in the world of business trends? Whether it's health or agriculture, hyper local advertising or self-trained artificial intelligence, here's what's in the crystal ball.

"I want to put a ding in the universe." "If you can dream it, you can do it." "What is now proved was once only imagined."

So said Steve Jobs, Walt Disney and William Blake and, while they were all speaking at their own points in history, their thoughts on the notion of innovation are timeless. It's personal yet universal, impossible yet achievable, creative yet scientific. It's about breaking norms, seeking the unimaginable, and being comfortable with the uncomfortable.

Here are five trends in innovation set to affect Australian businesses and industry sectors, and those with an interest in how new thinking is shaping the future.

Business: human-machine collaboration

Innovation is changing the shape of the workforce. Technology has made the gig economy possible (such as Uber and Airbnb) and, already, almost a third of working Australians are freelance. Now Artificial Intelligence (AI) is making rapid inroads into white-as well as blue-collar jobs.

McKinsey has found that about half the activities people are paid to do globally could theoretically be automated, but less than five per cent can be fully automated. That means human-robot interaction could be big news in the future, with the most successful companies tapping into both sets of skills and abilities. Whether it's an AI algorithm performing laborious research for a lawyer or a human monitoring the output of a robot production line, 2018 will see the continuing evolution of humans working with machines to provide better, cheaper services for customers.

We may also see:

- personalisation strategies to ensure marketing messages reach a specific target audience
- increasing use of gamification – online gaming elements – to train and motivate staff
- much more purpose-driven marketing, as more millennials switch brands to one associated with a cause.

Health: speeding towards personalised treatment

On a good day, a doctor might read as many as five research papers. IBM Watson™ can read about two million a minute and scan for relevant clinical trials at the same time.

Watson is one of the new breed of cognitive supercomputers disrupting everything from banking to space exploration. In medicine, Watson's extraordinary ability to review and summarise huge quantities of data is helping doctors diagnose complex conditions faster and identify highly-personalised treatment plans. Cognitive supercomputers also learn continuously from their interactions – self-trained artificial intelligence (AI) algorithms can already predict heart attacks more accurately than guidelines created by human specialists.

Now a fixture at hospitals such as New York's Memorial Sloan Kettering Cancer Center, cognitive computers have the potential to transform the health sector on a global scale with personalised, integrated, high-quality care.

We may also see:

- mobile technology building more effective communication pathways between providers and their patients
- patients collecting and sharing their own data to strengthen their relationship with healthcare providers
- more real-world evidence data (information collected outside a clinical trial) used to direct the right drugs to the right patients at the right time.

[1] Includes the Medicare Levy.

Agriculture: IT graduates on the farm

Agriculture technology, or AgTech, continues to be a story to watch. As NAB's General Manager of Agribusiness Khan Horne said recently: "The role AgTech plays in the global Agricultural sector will continue to grow in importance as the United Nations' Food and Agriculture Organisation (FAO) estimate that food production capacity needs to increase by 70% to meet projected global population growth over the next 20 years."

Yet as Horne also points out in NAB's new Backing Rural Australia report, cost and a desire to see proven results before committing have constrained uptake of technology on the land. Many Australian farmers are still unable to access the internet capacity they need to support new technologies while others lack the right skills.

So, will we perhaps see technologists moving to the bush? Agribusiness firm Ruralco has said it's finding it easier to attract graduates now that technology in agriculture is firmly on the radar. We could see more city-born tech-savvy graduates making rural Australia their home – as long as the way is cleared for them to put innovation to work in boosting cost-effective production.

We may also see:

- greater collaboration between farmers to strengthen Australia's competitiveness in exporting 'clean and green' products
- growing interest in the export of knowledge, skills, experience and technology to help improve productivity in developing countries
- yet more affluence in Asia, driving even more export growth.

Finance: a good way to invest

If current trends continue, impact investing could be worth almost $1 trillion by 2020. Unlike other ethical investments which take a 'do no harm' approach, impact investing is about doing positive good – having a measurable social and environmental impact as well as achieving a financial return.

JBWere's report Socially Responsible Investing: Value and Values describes the four characteristics that define this kind of investment: intentionality; investment with return expectations; range of return expectations and asset classes; and impact measurement. The report also points out that responsible investments now represent more than half of all professionally managed assets in Australia, with growth of 249 per cent between 2014 and 2016.

However, there are obstacles to overcome – particularly the need for more accessible and reliable data. Innovative approaches such as #ShareYourData, which aims to consolidate and process data from across the impact investing space, could drive impact investing into the mainstream. This can be done by improving disclosure, transparency and the quality of measurements around both the scope and returns of investments.

We may also see:

- higher numbers of young people turning to investing
- virtual reality moving out of games consoles and into business in the shape of improved teleconferencing, corporate educational tools and training for intricate and highly-skilled tasks such as surgery
- the rise of edge computing as the cloud proves too slow for the likes of autonomous cars, robots and drones.

Small Business: business moves to mobile

In 2018, Americans will spend more than $200 billion online. More than 70 per cent of those transactions will be mobile and, as more millennials discard their desktops, the percentage will continue to rise – so how can retailers make the most of this growth in online and mobile spending?

The Progressive Web App (PWA) is a Google innovation that gives shoppers the slick and streamlined experience they enjoy on a desktop for a much lower cost than the alternative – a specially-created native app. PWAs give retailers more opportunities to upsell through special offers and promotions, and they can also help boost conversion by removing pain points that come between customers and a sale. There's no time wasted on downloads and, with a checkout on a par with desktop, users are less likely to abandon their trolleys in frustration. Google recently announced that PWAs can now integrate with native/web payment apps, so 2018 could see customers making one-tap payments through providers including Android Pay, Samsung Pay, Alipay and PayPal.

We may also see:

- a stronger focus on hyper local advertising – promotions targeted to a customer's precise location
- more live, one-on-one communication with customers via social messaging apps
- a greater shift towards video content, particularly live video, as customers seek 'authentic' relationships with brands.