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The Rich Life Vol 78

As February kicks off and with the summer holidays behind us, many of us are settling back into our regular routines and it's time to turn our focus to the year ahead.

Cooling inflation and a strong economy with relatively low unemployment has sent investors back to Australian shares, with the S&P/ASX 200 hitting an all-time high on the last day of January. It was up by more than 12% since the end of October 2023.

Annual CPI for 2023 was 4.1%, much closer to the Reserve Bank's target of between 2% and 3%. CPI in the December quarter was the lowest since March 2021 and below market expectations. The unemployment rate remained steady at 3.9% in December.

However, prices for most goods and services are still rising and the fall in discretionary spending is taking retail sales with it. Retail turnover fell 2.7% in December after a fall of 1.6% in November.

The falling inflation figures and the expectation that the RBA would hold interest rates saw a drop in the Australian dollar, which is also coming under pressure from a strengthening US economy.

Oil prices, at the mercy of a contraction in Chinese economic activity and the crisis in the Middle East have steadied with Brent Crude at just over $80 a barrel.

While the iron ore price halted its rise in January with a rapid dip mid month, it's since climbed back, defying expectations.

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Investing **mistakes** to **avoid**

Investing successfully and improving your investment portfolio can be as much about minimising mistakes as trying to pick the 'next big thing'. It's all about taking a calm and considered approach and not blindly following trends or hot tips.

Let's delve into some of the most prevalent investment mistakes and look at the principles that underpin a robust and successful portfolio.

Chasing hot and trending shares

Every so often there are industries or shares that are all over the media and you may begin to worry that you are missing out on something. Jumping on every trend is like trying to catch a wave; you might ride it for a bit, but you're bound to wipe out sooner or later. That's because the hot tips and 'buy now' rumours often don't pass the fundamentals of investing test.

The key is to keep a cool head and remember that the real winners are often the ones playing the long game.

Not knowing your 'why'

What would you like your investment portfolio to achieve? Understanding your motivations and goals will help you to choose investments that work best for you.

If you want to build wealth for a comfortable retirement, say 20 to 30 years down the track, you can afford to invest in riskier investments to play the long-term game. If you have already retired and plan to rely on income from your portfolio, then your focus will be on investments that provide consistent dividends and less on capital growth.

Timing the market

Timing the market involves buying and selling shares based on expected price movements but at best, you can only ever make an educated guess and then get lucky. At worst, you will fail.

As the world-renowned investor Peter Lynch wrote in his book *Learn to Earn:* "Far more money has been lost by investors trying to anticipate corrections, than lost in the corrections themselves".[i]

Putting all the eggs in one basket

This is one of the classic concepts of investing but it's worth repeating because, unless you are regularly reviewing your portfolio, you may be breaking the rule.

Diversifying your portfolio allows you to spread the risk when one particular share or market is performing badly.

Diversification can include different countries (such as adding international shares to your portfolio), other financial instruments (bonds, currency, real estate investment trusts, exchange traded funds), and industry sectors (ensuring a spread across various sectors such as healthcare, retail, energy, information technology).

Avoiding asset allocation

While diversification is key, how do you achieve it? The answer is by setting an asset allocation plan in place and reviewing it regularly.

How much exposure do you want to diversify into defensive and growth assets? Within them, how much should be invested in the underlying asset classes such as domestic shares, international shares, property, cash, fixed interest and alternatives.

Making emotional investment decisions

The financial markets are volatile and that often leads investors to make decisions that in hindsight seem irrational. During the COVID-19 pandemic, on 23 March 2020 the ASX 200 was 35 per cent below its 20 February 2020 peak.[ii] By May 2021, the ASX 200 crossed the 20 February 2020 peak. Many investors may have made an emotional decision to sell out during the falling market in March 2020 but then would have missed the some of the uplift in the following months in.

Seeking out quality and trustworthy financial advice can help to minimise investment mistakes. Give us a call if you would like to discuss options for growing your portfolio.

i https://worth.com/from-the-archives-fear-of-crashing/

ii https://www.rba.gov.au/publications/bulletin/2022/mar/australian-securities-markets-through-the-covid-19-pandemic.html

TAX CHANGES:

How will they impact you?

Prime Minister Anthony Albanese has announced proposed changes to address ongoing cost of living pressures with all 13.6 million Australian taxpayers receiving a tax cut from 1 July 2024, compared to the tax they paid in 2023-24.

Now is the time to assess what it means to your hip pocket and what implications it may have for end of financial year planning as a result of the new rules, due from 1 July 2024.

The Federal Government has recently announced changes to the third stage of a series of tax reforms introduced by the previous Coalition government almost six years ago which were designed to deliver tax cuts to most, simplify the tax system and protect middle income earners from tax bracket creep.

The proposed changes

The new rules will see the current lowest tax rate reduced from 19 per cent to 16 per cent and the 32.5 per cent marginal tax rate reduced to 30 per cent for individuals earning between $45,001 and $135,000.

The current 37 per cent marginal tax rate will be retained for those earning between $135,001 and $190,000, while the existing 45 per cent rate will now apply to income earners with taxable incomes exceeding $190,000.

In addition, the low-income threshold for Medicare levy purposes will be increased for the current financial year (2023-24).

A single taxpayer with a taxable income of $190,000 paid $59,967 tax in 2023-24. Under the revised rules, they will now pay $55,438 tax, a tax cut of $4,529. While still a reduction in tax paid, this compares with the $7,575 tax cut received if the original Stage 3 tax cuts had proceeded.

On the other hand, low-income earners will receive a bigger tax cut under the revised rules.

A single taxpayer with a taxable income of $40,000 who paid $4,367 in tax in 2023 24, would have received no benefit from the original Stage 3 tax plan, but will now receive a tax cut of $654 under the revised rules.

Implications for investment strategies

For high-income earners, the key take-away from the government's new changes to the tax rules is you will now receive a lower amount of after-tax income than you may have been expecting from 1 July 2024.

This reduction makes it sensible to revisit any investment strategies you had planned to take advantage from your larger tax cut to ensure they still stack up.

For example, the smaller tax cut for some may impact the effectiveness of property investment.

Investment strategies such as negative gearing into property or shares, however, may become more attractive. Particularly for investors close to the new tax thresholds and looking for opportunities to avoid moving onto a higher tax rate.

Timing expenditure and contributions

Investors considering repairs or maintenance for an existing investment property should revisit when these activities are undertaken. Depending on your circumstances, this expenditure may be more suitable in the current financial year given the difference in tax rates starting 1 July 2024.

Selling an asset liable for CGT also needs to be reviewed to determine the most appropriate financial year for the best tax outcome.

Other investment strategies that may need to be revisited include those involving making contributions into your super account.

If you are considering bringing forward tax-deductible personal super contributions, making carry-forward concessional contributions, or salary sacrificing additional amounts before 30 June, you should seek advice to ensure the timing of your strategy still makes sense.

If you would like help with reviewing your investment strategies or superannuation contributions in light of the new rules, contact us today.

i https://treasury.gov.au/sites/default/files/2024-01/tax-cuts-government-fact-sheet.pdf

What happens if you **exceed your SMSF caps?**

The rules around making some types of super contributions have been relaxed in recent years, so it's worth exploring the different opportunities available to you before making a large contribution.[i]

What are contribution caps?

Given the tax-effective environment of Australia's super system, there are annual limits on how much you can contribute each financial year.

The two main types of contributions are concessional (before-tax) and non-concessional (after-tax) contributions.

Concessional contributions include employer Super Guarantee contributions, salary sacrifice and personal tax-deductible contributions, with the general contributions cap for 2023-24 being $27,500. In some situations, you may be permitted to contribute more if you have unused cap amounts from previous financial years.

If you're a SMSF member, you may be able to make a concessional contribution in one financial year and have it count towards your concessional cap in the following financial year.

Non-concessional contributions cap

If you use after-tax money to make a super contribution, this is classed as a non-concessional contribution and there is no tax payable when the contribution is paid into your super account.

The general non-concessional contributions cap in 2023-24 is $110,000 provided you meet all the eligibility criteria, such as your Total Super Balance being below your personal limit. Your personal cap may be different.

If you're age 55 or older, the once-only downsizer contribution cap is $300,000 per person ($600,000 for a couple). These contributions from the sale of your main residence don't count towards your annual non-concessional cap.[ii]

Exceeding your contribution caps

There are different rules for super contributions that exceed the annual caps, depending on the type of contribution.

If you go over the annual concessional cap, your contribution is counted as personal assessable income and taxed at your marginal tax rate, with a 15 per cent tax offset to reflect the tax already paid by your super fund. Your increased assessable income may also affect any Medicare levy, Centrelink benefits and child support obligations.

The excess contributions can be withdrawn from your super fund, but if you choose not to withdraw them, the excess is counted towards your non-concessional contributions cap.

If you don't or can't elect to release excess contributions, you could end up paying up to 94 per cent in tax.

Exceed your non-concessional cap

Contributions exceeding your annual non-concessional (after-tax) cap are taxed at 45 per cent plus the 2 per cent Medicare levy. This is in addition to the tax already paid on this money.

Before the ATO applies this tax, you are given the opportunity to withdraw the excess non-concessional contributions, plus a notional amount to reflect the investment earnings.

You pay tax on the notional earnings just like personal income, less a 15 per cent offset.

Withdrawing excess contributions

Like most things to do with tax and super, the process for withdrawing excess contributions is fiddly.

If you have an excess concessional contribution, the ATO sends you a determination letter with details of what you need to do, plus an income tax notice of assessment.

You have 60 days to decide whether to have the excess concessional contribution refunded by the super fund and tax deducted by the ATO, or to pay the tax personally and leave the contribution in your account.

Refunding excess non-concessional contributions

For excess non-concessional contributions, the ATO assumes you wish to have your excess contributions and notional earnings refunded in order to avoid paying 47 per cent on them.

The default process is the ATO automatically issues a release authority to your fund and directs it to deduct the additional tax owing and return the leftover amount to you.

If you wish to nominate a specific fund from which the refund should be paid, or leave the excess in your account and pay the tax personally, you must make an election within 60 days of the initial notice.

Call us today to assess how the super contribution caps may affect you.

i https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/super/growing-and-keeping-track-of-your-super/caps-limits-and-tax-on-super-contributions/restrictions-on-voluntary-contributions

ii https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/super/growing-and-keeping-track-of-your-super/caps-limits-and-tax-on-super-contributions/concessional-contributions-cap#ato-Ifyouexceedyourconcessionalcontributionscap

Securing your passwords online

We spend a lot of time online and don't often think about the risks involved. Yet if we are not careful, we can make ourselves vulnerable to criminal activity such as hacking, phishing, and identity theft.

The annual Cyber Threat Report announced in 2023 a 23% year-on-year increase in cybercrimes in Australia, amounting to a cybercrime reported every six minutes.[i] And according to the recent *Cybercrime in Australia* report also published in 2023, 47% of survey respondents experienced at least one cybercrime that year, with half of all victims experiencing more than one instance.[ii]

One of the simplest ways to protect yourself online is to ensure you have secure login credentials and to update your passwords regularly. So, if you haven't updated your passwords for some time, below are some tips to ensuring stay secure online.

Stronger password security

Vary your passwords

The most common vulnerability is passwords. We have passwords for many things we do online, protecting our bank accounts, inboxes, and social media accounts to name just a few.

With the need for so many passwords, it's easy to see why we often become complacent and choose the same one for multiple accounts. A 2019 Google/Harris Poll study found that 52% of respondents use the same password for multiple accounts and 13% reuse the same password for all their accounts.[iii] Not only does this put your accounts at risk of being compromised, using the same password can lead to hackers utilising your credentials as a way of identifying as you.

Get creative

It's no surprise that the most common passwords are 123456 and admin– they are easy to remember, however they are also easy for anyone to guess.[iv]

Choose a password that's at least 12 characters long with a mix of uppercase and lowercase letters, numbers, and symbols. Some sites will need you to do this when you sign up, and it is good practice even when not required. Avoid using easily guessed information like birthdays, names, or common words (such as user or password).

Password management

Remembering your passwords, especially those which are a unique combination of letters and numbers, can be tricky. Use a centralised password management system to record passwords. There are many to choose from so look out for ones that are encrypted with a strong algorithm to prevent hacking.

Use 2-step verification

Another way to strengthen online security is to use 2-step verification. This adds additional security by asking you for further details, such as a number sent to you as a text message or email, or using an authenticator application to verify your identity when you log-in.

More ways to keep safe online

Using anti-virus software is wise as it's designed to provide protection against the latest viruses and other types of malware. It updates automatically so you don't need to worry as much about having to be on top of the latest cyber threats. It's also worthwhile backing up any important data.

Not all our interactions online are protected, so be sure to use secure networks and be careful about public Wi-Fi, such as the one you might use in a café, airport, or library. Public Wi-Fi is convenient, however if you are using websites that aren't encrypted, this information is at risk. Look out for the lock symbol near your browser's location field and check that the site address starts with 'https' rather than 'http' to be on the safe side.

Lastly, it's the simplest solution but one that bears mentioning – keep your personal information private. Don't share your log-in information unless absolutely necessary and don't display your passwords somewhere that's easy to find (such as a label on your phone or laptop).

These preventative measures can help you stay safe online and away from the risks of cybercrime.

Common passwords in Australia

1. **Banned** – 2 minutes to crack
2. **123456** – less than a second to crack
3. **Admin** – less than a second to crack
4. **password** – less than a second to crack
5. **qwerty123** – less than a second to crack
6. **12qwasZX** – less than a second to crack
7. **Starwars29** – 3 seconds to crack
8. **welcome11** – 2 seconds to crack

i https://www.minister.defence.gov.au/media-releases/2023-11-15/release-annual-cyber-threat-report-2022-23

ii https://www.aic.gov.au/publications/sr/sr43

iii https://services.google.com/fh/files/blogs/google_security_infographic.pdf

iv https://nordpass.com/most-common-passwords-list/