Boosting inflation Central banks struggle

Banks boost deposit rates and diverge from the Reserve Bank of Australia

The Reserve Bank of Australia (RBA) reduced the official cash rate by 25 basis points to 1.50 per cent in the September quarter.

This decision was widely anticipated and so it had little effect on the share market and the Australian dollar. The Australian dollar actually rose and reached US 77 cents during the September quarter. The low rate of inflation, as reflected in Consumer Price Index, was a major factor in the RBA's decision. In the June quarter the annual rate of inflation fell to one per cent, well below the RBA's target of two to three per cent.

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Despite the official interest rate cut, the big four banks were criticised by some of their customers because they only passed on about half of the 25 basis point rate cut through to their mortgage interest rates. At the same time other customers were pleased when the same banks actually increased their term deposit rates in an attempt to maintain their market share.

US interest rates poised for further hikes

The US Federal Reserve (commonly referred to as the Fed) didn't raise interest rates during the quarter.

The world's central bankers arrived in Jackson Hole in August for their annual economic meeting and conference. Investors carefully listen to what central bankers say at Jackson Hole because it can offer some clues as to future policy decisions. Investors were particularly interested in Janet Yellen's speech for guidance on future US interest rate hikes. Janet Yellen, the Chairman of the Fed, indicated that

> "the case for an increase in the federal funds rate has strengthened in recent months".

This sent the probability of a September rate hike soaring to 52 per cent but the Fed kept the main cash rate in a range of 0.25 to 0.50 per cent. This was because of mixed labour market data and inflation continuing to run well below the target of two per cent. This helped US shares hit an all-time high with the S&P 500 climbing to just below 2,200 points. Federal Reserve members were divided in the meeting, with three of the ten voting members preferring an immediate 25 basis point hike. This adds to our view that the Fed is on track for monetary policy tightening in December.

Could crude oil production be cut?

The price of crude oil almost reached US$48 in September after the Organisation of Petroleum Exporting Countries (OPEC) surprised investors by indicating that a production cut is necessary to lift prices. OPEC proposed a cut of up to 700,000 barrels a day on the level of oil they produced in August. This potential cut won't be finalised until the official OPEC meeting in November. Historically, it has proven difficult for OPEC to carry through on its desire to cut production. Countries that are part of OPEC need oil prices to rise and this could be achieved by cutting production.

Japan fails to reach goal of two per cent inflation

The Bank of Japan (BOJ) is struggling to meet the challenge that other central banks have encountered in attempting to revive growth and boost inflation. This is despite the use of quantitative easing and in Japan's case introducing negative interest rates. Inflation in Japan was negative 0.4 per cent in July, far below the BOJ target of two per cent. The BOJ has therefore announced an innovative approach to reaching its inflation target. The BOJ has decided to buy more short term bonds rather than longer term bonds, this reduces the yield on short term bonds and should encourage banks to lend money to borrowers. This approach should be positive for bank profitability in Japan because banks typically borrow money short term and lend it out over the long term. Insurance companies and pension funds should also benefit because they are buyers of long term bonds, which should have higher yields because the BOJ is reducing purchases of these in favour of targeting short term bonds.

Source: IOOF

Speak to your financial adviser for more information.

Retirement is different

The four stages to a better retirement

Today, with Australians living longer and healthier lives, the concept of retirement is much different to what it was only one generation ago. Not only that, but for each retiree, retirement is different.

When planning your retirement there are, typically, four areas that need to be considered.

1. Define your retirement vision

Everyone has a different view of what retirement means and what their own retirement may look like. What's yours? Understanding what's important to you is an essential factor that not only helps clarify your outlook on retirement but it also ensures your financial adviser can recommend appropriate retirement income strategies.

2. Understand your cash flow requirements

Retirement is about cash flow and ensuring you have the regular income to meet your basic daily needs. An adviser can help you define your basic spending needs and show you how they will be met in later years.

3. Clarify your lifestyle goals

It's important that you clearly convey your lifestyle goals and objectives to your adviser. This also includes understanding which of your goals are a 'must have' and which are more flexible, should trade-offs be required.

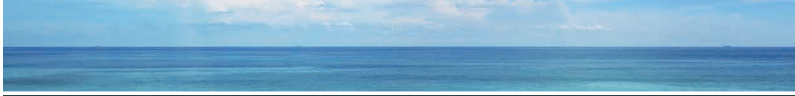
4. Estate planning

Testamentary intentions are also considerations for retirement planning. While it's important that your retirement plan aligns with your intentions, the appropriate professional advice will also help you consider the provision of income and distribution of assets in accordance with your wishes.

Remember, preparing for a comfortable retirement shouldn't be as hard as you think.

Source: Challenger

When speaking to your adviser about your retirement strategy, keep in mind these four basic steps.



Keys to de-stressing a mortgage

"Don't sail out farther than you can row back." This Danish saying is sound advice for anyone thinking of borrowing to buy a home, particularly now that interest rates are low and house prices are generally rising.

According to a paper[1] for the Centre of Policy Development and University of Canberra, as Australians, we have a tendency to be over-confident in our ability to repay loans. We also tend to underestimate the potential for things to go wrong in our lives.

How to reduce stress

Like most things in life, it's difficult to make borrowing a stress-free exercise, but there are a few things you can do to reduce the angst.

1. Don't borrow the maximum amount

Most financial institutions determine the maximum loan they will provide based on a multiple of your income and other factors. But if you borrow the maximum amount, you may find you are stretched from day one unless you are very disciplined with your budgeting.

2. Build up a buffer

It's a good idea to hold (or build up) a cash reserve in a mortgage offset account to provide a buffer that can be drawn upon to meet your loan repayments if you become ill or are off work for other reasons.

3. Consider mortgage protection insurance

Many lenders offer insurance when you take out a home loan that covers the mortgage (often up to a specified amount and for a particular period of time) if you die, become disabled or your employment ends involuntarily.

4. Consider personal insurances

While mortgage protection insurance can provide peace of mind for a limited time frame, other types of insurances should be also be considered. These include:

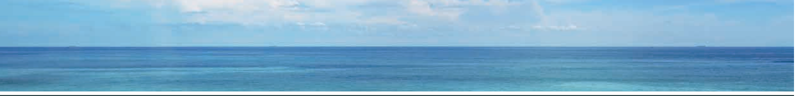
- **income protection insurance** which can replace up to 75 per cent of your income if you are unable to work due to illness or injury. This can ensure you are able to continue meeting the majority of your living expenses, not just your loan repayments.
- **critical illness insurance** which can help you service or pay off your loan and meet a range of expenses in the event you suffer a specified illness, such as cancer or a heart attack.
- **total and permanent disability insurance** which can help you service or pay off your loan and provide an ongoing income if you become totally and permanently disabled.
- **life Insurance** which can be used to service or pay off your loan and provide your family with an ongoing income if you pass away.

5. Seek advice

It's essential to seek financial advice, as there may be a range of potentially viable options to explore.

1. Source: Understanding human behaviour in financial decision making: Some insights from behavioural economics. Paper to accompany presentation to No Interest Loans Scheme Conference "Dignity in a Downturn" June 2009. Ian McAuley, Centre for Policy Development and University of Canberra.

Speak to your financial adviser to discuss your insurance options.



All I want for Christmas… is to survive it debt free

With the holiday season fast approaching, it's tempting to throw out the years careful planning and budgeting to splurge in the name of Christmas. But getting into the Christmas spirit doesn't mean you have to get into debt. Follow these tips on how you may be able to emerge in the New Year debt free.

Set a budget

Firstly, take some time out to review your current finances. Determine how much you can realistically afford to spend without getting into the red. Next, make a list of everyone you plan on giving a gift to and decide how much you want to spend on each person. Finally check that the total figure you want to spend is not beyond your budget. You may need to reduce the amount you're able to spend on each person or reassess the number of people on your list.

Start early

Before you know it, Christmas will be here. By shopping early, you can look out for sales and great deals for later in the year.

Look for savings and incentives

If you choose to use your credit card, look for any rewards or discounts that may be available through your credit provider.

Also try to shop online first as you're less likely to impulse shop and can easily compare prices across various websites. There are plenty of online retailers that offer savings across a number of product categories.

Remember who you're shopping for

When you're shopping for family and friends, it's very easy to find things which will be just perfect for you. If you really need to have it, wait until after the holidays when it's more likely to be on sale.

Stick to your budget

Remember that a deal is not a deal if you can't afford it. Once you reach your budget limit, stop.

Save early

Get off the overspending merry-go-round by saving early for next year. As soon as the holiday season is over, determine next year's Christmas budget and set up automatic direct debits into a dedicated Christmas savings account. You'll be all set by the time the department stores bring out their tinsel again.

Source: IOOF

Speak to your financial adviser for more advice on how to manage debt and build a savings plan.

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