Things look good for 2016

NOEL WHITTAKER

According to two finance executives, the glass is half-full, not half-empty.

IS the glass half full or half empty? I guess it depends who you talk to. Just this week, Credit Suisse released a report forecasting a slowdown in world growth – at the same time the National Australia Bank business confidence index bounced back from its worst reading in four years.

For as long as I have been investing it has been normal to hear conflicting views on economic conditions, so today it might be useful to hear the views of Don Gimbel and Phil Ruthven on the current state of the world.

Gimbel, a senior executive with Chicago-based fund managers Geneva Advisors, has spent more than 50 years managing money for high net worth individuals. He enjoyed a week in Australia recently at the end of a fact-finding mission in Asia.

He believes the recent declines in world share markets have been caused by a combination of political uncertainty and economic frailty. According to Gimbel, the strength of the US dollar has been a reaction to the weakness of both the euro and the yen, and not because of the inherent strength of the US dollar. Therefore at some point a recovery outside the United States will have the effect of weakening the US dollar.

Most economists seem to be regarding a rise in interest rates in America as a foregone conclusion, but Gimbel takes a contrarian view. He believes US interest rates will stay where they are as "there is no good reason to increase them."

He is particularly optimistic about Singapore, China and Hong Kong, which have the advantages of a strong work ethic, educated workers, focused governments and a growing middle class. He believes their stock markets have fallen to particularly attractive levels and points out: "The opportunities to find great management, solid fundamentals and economies with above-average GDP are compelling."

He is particularly optimistic about China, pointing out that a large portion of their power now comes from hydroelectricity, which will have a marked impact on air pollution in coming years, while at the same time curtailing the growth of both coal and oil.

There are many signs that China is going in the right direction: focusing on safety nets for the elderly and making large commitments to improve infrastructure. As the impact of this flows through the economy, China's need to import will grow and the rest of the world will benefit.

Gimbel is forecasting rallies in international markets in the months of November and December.

Phil Ruthven is the founder and executive chairman of IBIS World – a global firm that analyses industries and economies. He is one of Australia's best strategic thinkers. Recently he was asked, "Is the future bright for Australia, or is it just a Third World resource producer with no currency reserves?"

He responded that Australia has one of the highest standards of living in the world, and our mining industry is just 8 per cent of our GDP. In any case, it is prices – not volumes – that have fallen, and our big miners can withstand a price war better than most around the world.

The big challenge for Australia is to replace a fall of about $80 billion in mining capital expenditure by the end of 2018. According to Ruthven, this is quite within our capabilities and even if we failed to do it, it would not be the end of the world, as we could recover quickly. He also pointed out that our stock market is currently priced well below trend, which means we should get a huge upside over the next five years.

Even though Westpac bank raised interest rates this week, there is a general expectation that more drops in the official cash rate are on the cards.

This, together with the comments above from Gimbel and Ruthven, must make one optimistic for 2016.

Noel Whittaker is the author of *Making Money Made Simple*, and other books on personal finance. His advice is general, and readers should seek their own professional advice before making decisions. Email: noelwhit@gmail.com.

Q I am 58 and my wife is 56. We have super balances totalling $1.3 million as well as $350,000 in managed funds, $100,000 in direct shares and $300,000 in cash. Due to health issues, we are planning to retire in the next few months. Could you offer an opinion as to whether we should live off the cash for four or five years before accessing super, or put the cash into super and wear the tax liabilities that come from accessing super before age 60?

A Keep in mind that you can each withdraw a tax-free $185,000 of the taxable component of your super before you turn 60, when all withdrawals become tax-free. Obviously, you should be taking advice but it seems to me that, if you both made large non-concessional contributions to super, you would substantially reduce the taxable component of any withdrawals you make. An alternative is to make non-concessional contributions to a separate super fund; in which case, the only taxable portion would be the earnings on those contributions.

Q In a recent article you said you need to be under 65 in the financial year that you make the contribution to use the higher $540,000 after tax contribution cap. If my husband is still working, does this rule change? We are looking at the possibility of withdrawing $540,000 to buy a new house and then putting it back into his account. He is still working 28 hours per week – I work 26 hours and am 60 years old.

A There are two separate rules that need to be satisfied simultaneously. Firstly, your husband cannot make a contribution after age 65 unless he passes the work test. However he can bring forward three years of contributions and put in a total of $540,000 in non-concessional contributions if he is under 65 in the financial year, and makes that contribution before the end of the financial year in which he turns 65.

Time proving to be a first home buyer's best friend

By **JOHN COLLETT**

FIRST-TIME home buyers finally have the luxury of time on their side.

For years, they've been running hard to stay still, outgunned by cashed-up investors as property prices surged.

But now the market, especially in Sydney and Melbourne, is entering a new cycle. Prices are likely to fall in 2016 while banks are generally offering better deals to owner-occupiers than investors.

The catch for anyone who decides to save a larger deposit is that rents could rise because less investor activity usually means less rental supply.

Still, the fact some investment banks are saying the market is near to peaking, with lower prices likely in the near future, is the best news for first-timers since the heyday of the First Home Owner Grants.

Investment bank Macquarie said last week that prices nationally would peak in March next year then fall by more than 7 per cent before starting to recover from mid-2017; for Sydney and Melbourne, some analysts say the falls may be higher.

It's not a problem for people who already bought property, with Sydney dwelling prices up almost 17 per cent and Melbourne up more than 14 per cent over the past year, according to CoreLogic RP Data.

Less competition

Mortgage providers are tightening their lending standards for those applying for investment loans in response to regulators' concerns about the extraordinary growth in investor lending.

It means first-timers may not find themselves as outgunned by investors at auctions.

First-timers should factor in the possibility of higher interest rates; Westpac said last week it would be lifting mortgage interest rates for owner-occupiers and investors, and the other big banks could follow.

However, there are plenty of lenders, particularly smaller ones, that dropped their mortgage interest rates for owner-occupiers.

Of all the hurdles faced by first-timers, the biggest has been coming up with the deposit as prices hurtled sky-high in Sydney and Melbourne.

A report by Bankwest says first-time buyers nationally, saving a 20 per cent deposit, would need $99,700 to enter the market – $5900 more than in 2014.

A fall in prices will be a hit with first-timers, says Kevin Lee, the principal of Smart Property Adviser and a Smartline broker.

He thinks conditions for first-timers are about to become the best they have been for years. He says power is shifting to buyers. Not only are more properties for sale as upgraders hope to cash in on record prices but auction clearance rates are easing.

Shane Oliver, the chief economist at AMP Capital Investors, says first-timers have time on their side.

"The heated atmosphere of the last few years has made it very hard for first-home buyers," he said.

Now they can take their time and save a larger deposit, without fear that the market will get away from them, Oliver says.

Apartment market

Robert Mellor, managing director of property forecaster BIS Shrapnel, follows property markets closely.

He says the prices of entry-level, inner-city apartments in Sydney and Melbourne could peak in the second half of next year then fall by about 5 per cent.

Higher interest rates are unlikely to be a factor in the price declines. BIS Shrapnel expects only a slight lift in rates, and not until 2017.

The major reasons for the falls will vary for each city, Mellor says.

In Sydney, it is likely to be reduced investor activity as investors become pessimistic about the prospects of easy capital gains.

Mellor says the price declines for Sydney inner-city apartments could be delayed until 2017 or 2018, as there is still a shortage of units, but the "massive" oversupply of Melbourne inner-city apartments could see bigger declines there.

Greville Pabst, co-founder of WBP Property Group, a property valuation and advisory firm, advises first-timers that buying an inner-city apartment "second-hand" is likely to be a better bet than buying off the plan, especially in Melbourne.

Many off-the-plan inner-city apartments are being bought by overseas investors.