coral coast FINANCIAL SERVICES

February 2024

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.

In this issue

Market movements and review video – February 2024

Stay up to date with what's happened in markets and the Australian economy over the past month.

Cooling inflation and a strong economy with relatively low unemployment has sent investors back to Australian shares towards the end of January.

The lower than anticipated inflation figures fuelled optimism at the end of the month, for the possibility of earlier cuts in domestic interest rates.

Click the video below to view our update.

Please get in touch if you'd like assistance with your personal financial situation.

Tax changes – what it will mean to me

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.[i]

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

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 From the Archives: Fear of Crashing, Peter Lynch - From the Archives: Fear of Crashing - Worth
ii Australian Securities Markets through the COVID-19 Pandemic - Australian Securities Markets through the COVID-19 Pandemic | Bulletin – March 2022 | RBA

Riding the AI wave to make your life easier

During a period where technological developments have picked up speed, one innovation in particular wields a profound, broad-reaching impact on our lives.

That innovation is Artificial Intelligence (AI). Developments in computing power, the availability of data, and the rise of machine learning algorithms are driving AI's incredible growth to transform the way we work, live, and deal with the world around us.

AI is not just changing the way we deal with the world, but also changing the world. It is anticipated that AI will boost the global economy by $15.7 trillion by 2030. That's more than the value of China and India's economies combined. AI will drive this growth by contributing to labour productivity increases (by up to 40 %) due to new technologies supporting more efficient workplaces and the creation of a new virtual workforce capable of solving problems and self-learning. These changes have profound implications for labour markets, businesses, and economies.

Driving innovation

As anyone who has received personalised product recommendations, which have clearly been based on your browsing and purchase history, retail and ecommerce are the most obvious sectors benefitting from AI, but there are many other sectors that are utilising AI in unique ways.

AI is already assisting the manufacturing sector by optimising production and maintenance. AI can spot patterns and suggest preventative maintenance weeks or months before a failure occurs and provide efficiencies in the production process.

The healthcare industry is also starting to use AI to improve medical diagnosis by revealing issues that might go undetected by physicians and provide more personalised treatment based on patient data.

How you can use AI to make your life easier

While AI is being used in many ways by a wide range of industries, there are many ways to utilise AI In your personal and professional life that are worth exploring.

Improve productivity

If you need more hours in the day, AI task schedulers can help you organise and prioritise tasks, suggesting the best times to do certain tasks based on past productivity patterns. AI tools like *Wordtune* can also help if you've got reading to catch up on by providing a summary of lengthy documents or articles. Tools like *Speechify* can also transform text into audio, allowing you to 'read' on the go. Or to get your emails under control, AI can help you sort messages, remove irrelevant ones, and prioritise those that are important - even helping you with draft responses.

Elevate your efforts

Got a problem to solve or do you need some inspiration for a project? AI brainstorming tools like *HyperWrite* can provide fresh insights, suggest innovative solutions, and stimulate your creativity. Writing tools like *WordTune* can give the final polish to something you have drafted, or you can use AI tools to provide copy on a specific topic.

For a smoother, safer household

AI assistants such as *Google Assistant*, *Siri* and *Alexa* have been helping us for some time now and can now assist even more by acting as the hub of a smart home if you start to replace old appliances with new 'smart' devices you can control using voice commands.

The most popular device on the market is smart speakers to control what music is playing and volume levels, but more smart devices are coming onto the market all the time. Smart robot vacuum cleaners use algorithms to map your house and can be pre- programmed so you can come home to a clean house and even fridges are getting smarter, helping you with shopping lists and even placing online orders!

And for a safe smart home, security systems can leverage AI to detect unusual activity, send alerts to your phone and even contact authorities if needed.

Smart devices can also save money on power bills - adjusting lighting and temperature based on your daily routines and preferences.

There are many ways you can benefit from the current AI wave of innovation as it impacts so many industry sectors and areas of our working and personal lives. As it's a wave that's growing in momentum, it's worth using some artificial intelligence to supplement yours!

i https://www.dailymail.co.uk/sciencetech/article-12064229/How-AI-changed-world-2030-according-experts.html

Coral Coast Financial Services Pty Ltd
207 Bunda Street
Cairns QLD 4870

27 Owen Street
Innisfail QLD 4860
P 07 4084 0384
E admin@coralcoastfs.com.au
W http://www.coralcoastfs.com.au