



GOLDSCHMIDT & CO



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NEWSLETTER DECEMBER 2017

SHAREMARKET

Our All Ordinaries Index recently went above 6000 for the first time since the GFC, when it bottomed at 3110. The last time it went above 6000 was March 2007 (on its way to a peak of 6853 in November 2007), so a long hard fightback.

RUNNING OUT OF MONEY

I do worry about the very common attitude of younger retirees, that they might as well spend big initially while they are still able to travel.

There are a number of problems with this. I mentioned in my last newsletter that we are moving away from “free” aged care to a user pays system where a decent facility can cost \$400 000 upwards, or face unaffordable annual fees. Not the end of the world for a single person who can sell the house, but a big problem for the other partner in a couple. Being content to run out of money when you’re “old” doesn’t work when that’s exactly when you might need aged care.

I’ve also noticed that some of my older clients like to enjoy life just as they did when they were younger, so going for it initially and then trying to live on just the pension is not a great outcome. Imagine if your pilot decided to do a couple of detours to see places you hadn’t seen before and then not worry about running out of fuel when he got closer to your destination.

In the good old days when I first started and returns were higher, we recommended that client could spend 7% per year and probably never run out of money. Returns have come down since then (witness the cash rate) so my current recommendation is to limit expenditure to 5% of capital.

LIFE EXPECTANCY

We have tables that tell us to the second decimal point what average life expectancy is (22.05 years for a 65 y.o. female and 17.62 years for a 67 y.o. male) But each individual’s life expectancy is unknown. The life expectancy of a couple is even more unknown.

In the example above, the female partner has a 50:50 chance of living longer than 22.05 years, but the male partner also has a chance (less than 50:50, but still a

chance) of living longer than 22.05 years, so there is **more** than a 50% chance that one of them will keep going past 22.05 years from now.

Also, in 1 year’s time their longest life expectancy is not 21.05 years, it is 21.18 years, and so it goes. If our 65 year old female gets to 87 (her current expectation) then the tables say she has a further 6.11 years to go, and then at 93 she still has 3.82 years and so on. At 100 a male has 2.46 years and a female 2.50. hardly any difference. Obviously, a male tough enough to get to 100 is made of stern stuff.

Interestingly, at 102 males and females have the same life expectancy of 1.17 years. Don’t ask me why.

My point is that it would be a mistake to say that “our longest life expectancy is 22.05 years, so let’s do an excel spreadsheet that calculates how much we can spend so we have nothing left then” when actually there is more than a 50% chance one of you will still be going like a train.

BITCOIN

Please don’t phone and ask if you should buy Bitcoins. I don’t understand them. I worry that they have no foundation. I worry if the supposedly uncrackable “block-chain” that supports it can be cracked. The currency relies on trust in the infallibility of the system – if that trust is lost the currency is gone.

Speculators and “miners” of Bitcoins have apparently made millions. I was in South Africa when there was a craze for “proof” Krugerrands (gold coins). The normal Krugerrand was worth about \$1,200 in today’s dollars, but proof Krugerrands went up to \$50,000 or more. When enough people realised that it was just a case of relying on a greater fool to pay more than you paid and the coin had no extra intrinsic value, the music stopped and there were no chairs at all, so lucky last holders did their dough.

I may end up wrong in not owning any or not advising my clients to buy them, but I’d rather be safe than sorry. It is likely that crypto currencies will survive and thrive, but I just think they will have to have some benchmark of value, rather than speculation.

INTERNET PRIVACY

Our financial industry makes an enormous fuss about keeping clients' information private and confidential. Fair enough – money matters have always been and should be confidential.

I recently read an article on how invasive websites like Facebook are. They know everything about us and are not shy to share that information or use it to make a profit.

They know who you know and who they know and if they know you. They know what you buy and when and how you paid for it and what you're likely to buy next. Big brother is watching us, knows where we are, what we're doing and probably who we're doing it with.

Scary stuff. I can't say I know a solution or even if a solution is possible. Maybe the best attitude is to say so what? and not put anything out there that you don't want the world to know. It can also be worthwhile checking your privacy settings. With Facebook it is on the top right under the question mark. Worth checking regularly.

ZIMBABWE

There is some hope that things will improve with a changing of the guard. In my June newsletter, I recommended that anyone interested in politics should read "The Dictator's Handbook" by Bruce Bueno de Mesquita (and I do so again). A reading of this would incline one to believe that it is less a changing of the guard than a changing of snouts in the trough.

I hope he's wrong, but I wouldn't put money on it.

BONDS CAN LOSE VALUE

I have always counted bonds (fixed interest funds) as part of the low risk guaranteed portion of a portfolio. Correctly so in my opinion, but it should be noted that fixed interest funds can lose some capital value if interest rates go up.

The current average bond rate in Australia is about 3.2%. This is better than term deposits at about 2.5% or cash at 1.5%, but if bond rates went up 1% to say 4.2% then there would be a capital reduction of about 5%, so the overall return for a year would be -0.8% (4.2% - 5%).

If rates then stayed stable then great, we're getting a low risk 4.2%, but the same thing would happen again if rates went up another 1%.

I am of the opinion that rates have more chance of going up than down from here, which is why we have a very low bond allocation.

NEWSLETTERS – EMAIL OR POST?

We are happy to send out our newsletters by post, but a number of clients have asked us to email them to save paper and clutter. Please call Lila or send a text to our office mobile 0448 482 899 if you would prefer emails.

DIARIES

We've also received feedback that many clients now use electronic diaries and the ones we send just go into landfill. That will not help save the planet, so we will just send to those who ask. If you would like one next year, please call Lila or text us on 0448 482 899.

EARTHCARE/CONSERVATION

My wife and I recently did a course on waste reduction run by the Western Suburbs councils. Very eye opening and informative. This course was run by Western Earth Carers, but courses are also run by Northern Earth Carers and Eastern Earth Carers. We can't change the World individually, but every little bit counts. Their website is earthcarers.org.au.

COME IN SPINNER

We welcome clients coming in for reviews and particularly if there has been any change in their lives that might impact or change the advice we have given them. Clients are paying us a fee whether we meet or not, so why not come in for a coffee and chat. Don't be a stranger.

The office will be closed for Christmas lunchtime, Friday 22nd December and will reopen on Monday 8th January 2018.

As another year concludes, we would like to extend our very best "Season's Greetings" to our clients, their families and friends. Let's hope that 2018 will be a happy and healthy year for all of us.

Kind Regards,



DAVID GOLDSCHMIDT A.C.A.
Director

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