

Martin Bros

MONITOR

Creating Long Term Financial Success For Our Clients



Welcome to the March 2017 Edition of the Martin Bros Monitor.

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A Trump Kind of 2017 - the Scorecard so far...

The Trump inauguration came and went without even a whisker of equity market volatility. Bonds on the other hand continued to sell off (yields increasing) since his election win. It is likely that this sell off (in bonds) has been at least partly responsible for the equity market strength as wholesale investors roll out of bond funds and into equity funds.

The extent of the markets gradual rise and lack of volatility is evidenced by historical average daily trading ranges. Until last week, equity markets had traded for over four months without a 1% daily fall on any given day. This had not occurred since before 2006. Benign volatility like this is not normal for equity markets. Although we have now had one daily fall of over 1%, if we are to return to a more normal equity market, there will be several more of these this year.

At present the markets in the US, and hence globally, have rallied on the back of Trump's fiscal policies (tax cuts and infrastructure spending) leading to increased earnings and his promise to remove red tape (for banks in particular). The 1% fall mentioned above was on the back of President Trump's failure to pass the repealing of Obama Care. The markets were very briefly concerned with the flow on effect of this and his ability to pass the intended tax cuts and regulatory changes. In reality, abolishing of Obama

Care was never likely to pass the Senate, but it may well lead to further concern over the more economically important fiscal changes he has proposed.

The equity markets are in the midst of the seasonally strong March / April period. May and June are historically some of the weakest months on equity markets. If we head towards May at these levels or higher on global equity markets, then a reasonable sell off (5-10%) will be looming. Trump's tax cuts, infrastructure spending and regulatory changes will take months to get passed, if at all without amendment. Equity markets being what they are, will become nervous and impatient at some stage.

Any sell off in the middle of the year should present a buying opportunity. In our last edition of Martin Bros Monitor, we wrote:

"Beyond the potential for volatility in the first part of next year, we believe that if the Republican Party in the US (Trump as President but he really won't be responsible for the economic planning) can do what they have promised, then equity markets will like this, and will rally in anticipation of the boost to GDP (economic growth). Bonds will be further sold off and some of this money will flow into equities seeking a new home."

We can not say what the final passage of fiscal and regulatory changes will be, but we believe there will be some positive (economic) legislation passed. Estimates are that this will raise US GDP by at least 0.5%. In the world's largest economy, 0.5% translates into a significant amount of money. In the US, unemployment is at 4.7% and business confidence is at decade highs. Any increased productivity will lead to higher wages growth, inflation, interest rates and corporate earnings. The latter being the ultimate driver of equity prices, once all the short term noise, positive or negative, is stripped away.

Super Changes

Legislation to introduce the superannuation reforms announced during the 2016 Federal Budget has now been passed.

A summary of the reforms and when each measure will take effect from is provided in the table below.

We will continue to contact those who are effected by the changes prior to 30 June, however if you have any queries, please don't hesitate to contact us.

Super Reform	Details	Effective
Concessional Contributions	The current \$30,000 p.a. cap (or \$35,000 for those aged over 49) for concessional contributions will reduce to \$25,000 p.a. regardless of age.	1 July 2017
Personal Deductible Superannuation Contributions	All individuals under the age of 75 will be able to claim a tax deduction for personal super contributions regardless of their employment arrangement. If the person is over age 65 the 40 hour work test must be met prior to contributing.	1 July 2017
High Income Earners Super Tax	The high income earners 'super tax' income threshold will reduce from \$300,000 p.a. to \$250,000 p.a.	1 July 2017
Non-Concessional Contribution Limits	A cap of \$100,000 p.a. per person will apply. If the individual is under age 65 the 3-year bring forward rule can be utilised, thus contributing up to \$300,000. If the individual's super balance is \$1.6 million or greater then no further non-concessional contributions can be made. This restriction only applies to non-concessional contributions.	1 July 2017
Catch-up Concessional Contributions	A 'catch up' concessional contributions measure will be available to allow unused concessional contribution caps to be carried forward on a rolling basis for up to 5 consecutive years where an individual's account balance is \$500,000 or less.	1 July 2018
Transition to Retirement (TTR) Pensions	The tax exempt status of earnings supporting a TTR pension will be removed. Earnings within the pension will be taxed at 15%.	1 July 2017
Pension Transfer Balance Cap	A \$1.6 million transfer balance cap on the total amount of super an individual can transfer into retirement accounts will apply. The cap will apply to current retirees and individuals yet to enter retirement. Retirees with balances above \$1.6m will be required to reduce their balance to the cap by the effective date by transferring any excess back to accumulation or withdrawing the excess from super.	1 July 2017

ASX Market Hours - Easter & ANZAC Day

Please note the amended ASX trading hours below over the upcoming public holidays in April. Members of the Martin Bros. Team will be available each day the market is open.

- Thursday 13th April - Normal Trading (Easter Thursday)
- Friday 14th April - Market & Office closed (Good Friday)
- Monday 17th April - Market & Office closed (Easter Monday)
- Tuesday 18th April to Monday 24th April - Normal Trading
- Tuesday 25th April - Market & Office closed (ANZAC Day)
- Wednesday 26th April - Market returns to normal trading hours

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