7 Ways To Secure Your Financial Portfolio In 'Funny' Political Times...

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Long time readers of the Trilogy Report know that I like to provide friendly little reminders here and there, as to the fundamentals on which any sound investment should be based, be it residential real estate or some other type of asset class.

Whilst I might occasionally sound like a broken record with little else to do than repeat myself, there is a reason I like to talk about certain things a lot more than others.

This is particularly true in climates like the one we're currently facing… politically and economically speaking. Times when a great deal of noise can drown out all reason and leave even the most seasoned investor feeling a tad uncertain.

So, with world events turning from 'slightly odd' to 'downright whacky' of late, and interest rate rises forecast for our future, there's no time like the present to revisit 7 of my tried and true methods to ensure your financial portfolio is 'safe as houses'.

The overall idea…prepare yourself for virtually anything, including those things you can never predict!

1. Know your goals, know your plans and stick to them. When you have a clear path mapped out to your desired destination, you have far more chance of getting there without being derailed by any prevailing market noise.

2. Invest in what you can afford, when you can afford it. Always remain in your financial comfort zone, allowing for contingencies like a change to your income and/or expenses. This requires disciplined forecasting, budgeting and bookkeeping. Which brings me to my next important point…

3. Run your property and financial portfolios as you would a business. This means clearly thought through planning as to how you'll build your portfolio during the active investment stage, along with what type of revenue it needs to generate to be successful.

4. Analyse the risks as well as the rewards. It's important to have confidence in the gains you stand to make as a property investor, but you also need to be mindful of the potential pitfalls, in order to better avoid falling into a financial hole.

5. Always have a sufficient cashflow buffer at hand to cover you for at least three months of reduced income. Just in case. One of the most common problems investors experience in challenging economic times is maintaining sufficient cashflow to hang on to their asset base.

6. Keep an eye on things. In your own backyard most importantly. While you need to be aware of world goings on when you're involved in any type of market, you don't have to immerse yourself in the doom-and-gloom reporting we frequently hear around real estate. The challenge is in constantly reviewing your own position, including loan structures. Which brings me to my final point.

7. Don't forget to look for opportunities. This includes any potential to refinance, or claim further depreciation and negative gearing benefits, to shore up that all-important additional cashflow wherever possible.

If you need assistance with the direction your property investment journey is heading, and some sound, expert guidance on your financial portfolio and structure, why not connect with the team here at Trilogy Funding?

Are You Covered?
8 Ways to Ensure Your Insurance is Enough

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When it comes to investing in property with some level of surety and mitigating any associated risk, one of the things that is perhaps least talked about – but really deserves more attention – is insurance coverage.

Many an 'expert' will instruct investors as to sourcing and securing the right kind of property asset and property loan, but rarely is enough attention given to the subject of how you assess and obtain the best possible insurance policies to protect yourself, as well as your property portfolio.

This is a somewhat timely subject to look at right now given the increase in insurance brokerage firms, product options and comparison sites flooding the sector, along with a marked rise in clients turning to financial advisers in a bid to identify the best policy for their needs.

But while these services promise to qualify products currently on the market for your convenience, the question remains; who is actually qualifying the brokers, advisers and comparison sites? And more importantly, how are they assessing and referring business to particular insurance companies?

Getting paid to point you in "the right direction"

Worryingly, a recent Australian Securities and Investment Commission (ASIC) survey found that more than one-third of consumers advised on life insurance by financial planners, received guidance that fell short of meeting relevant legal standards. And when advice did comply with regulations, there was significant room for improvement.

Interestingly, of the 202 files surveyed by ASIC, advisers who did not receive upfront remuneration had a far better track record at rendering meaningful assistance to clients, than those paid immediate commissions for converting a prospect, with pass rates of 93% and 55% respectively.

Unfortunately, commissions paid to financial advisers and insurance brokers can be incredibly lucrative, representing anywhere between 100 and 130% of the new business premium.

What does this mean for you and I, the consumer? Well, it seems there's a giant conflict of interest preventing everyday Aussies from securing the correct insurance premiums. You could be receiving inferior policy terms, paying too much for unnecessary coverage or end up making a claim that is denied because of restrictions you were not adequately informed of.

This is a deeply concerning trend for property investors in particular, who often hold numerous assets in their portfolio and may very well rely on these personal insurances to prevent losing everything one day down the track, should their health and wellbeing be compromised in some way.

Insurance is big business in Australia, with the premium value of individual life risk policies (including life, total and permanent disability, trauma and income protection – all things investors need to consider) totalling $8.4 billion in 2013.

So how do you ensure you are adequately covered when it comes to protecting your all-important cashflow, without falling victim to a less than scrupulous adviser?

Here are 8 things you should do when exploring insurance options, not just for your assets themselves, but also for you as a high net worth investor.

1. Assess your needs and make sure the coverage aligns with them. This includes careful consideration of your life stage – do you have a family you need to take care of if you lose all or a portion of your income due to an injury or illness? Do you need to maintain loan repayments on a number of assets across your portfolio? Are you covered for all possible events that could impact on your cashflow?

2. Compare products. There are so many different companies and products on the market now that it's essential you have some idea as to who offers what. Even if you intend on seeking expert assistance in eventually selecting a policy, you need to know what's out there as an informed consumer. This isn't just about saving money upfront either, but also potentially saving a lot of future heartache by making sure the policy you select is aligned with your requirements.

3. Qualify an adviser before taking their advice. Regulatory bodies are considering how to enforce tighter restrictions on things like upfront commissions paid to financial advisers and insurance brokers that can create a conflict of interest for consumers. However, right now, it's most certainly a case of 'buyer beware'. Ask your adviser if (and how much) they are paid by the insurance company they recommend and what process they undertake in qualifying the best product for your needs. If they seem disinterested in finding out as much about your personal circumstances as possible before thrusting a product disclosure statement at you, be wary.

4. Get it in writing. Never sign or agree to anything before reading through all related information carefully and critically to ensure the product summary reflects your specific needs.

5. Read the fine print. Most insurance product disclosures are more complex than a Year 12 Physics textbook. Always read the 'fine print' and make sure you fully understand what happens in the event of you making a claim and any restrictions or excesses that may apply to your policy.

6. Ask questions and speak to an adviser from the insurance company. Don't just rely on a broker or adviser to point you toward the right premium. If they recommend one company and policy over another, speak to a company representative and ask as many questions as possible before signing anything!

7. Be specific – find out if you are covered for all the little things you might need. Depending on your career, you might have certain needs that others do not. Insurance is not always a one-size-fits-all prospect, so make sure the policy you end up with is adequate.

8. Review your policy annually and make any necessary changes. Never become complacent with your insurance. You should review your coverage annually, in line with your portfolio review. Is the amount of coverage you have still adequate? Have certain circumstances changed that you need to advise your insurer of? Can you find a better deal?

Regulators…Mount Up!

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Residential real estate is generally considered a relatively low risk investment vehicle when you weigh up the potential pitfalls against, say, trading stocks. But what happens when this widely held 'safe as houses' perception, sees a deluge of investors from right across the globe suddenly want a piece of the action?

For years now, policymakers and regulators have been battling a series of transitions that have culminated in the perfect property investment storm.

Economically, politically and even socially, our current world looks very different than it did just two decades ago. Most notably, right across the globe, money is being exchanged and manipulated within a very different context.

Low interest rates have of course, played a big part in this historic fiscal transition. They're really just a symptom though, of a broader power shift that's been happening for the past decade, when the US infamously slipped from its 'holier than thou' pedestal. And hasn't it been a monumental fall from grace?

Here we go again

This is, of course, the very broad picture perspective of an infinitely complex 'economic evolution' if you like. Here at home, it's created a climate where property investment is once again 'the new black'.

A real estate asset is a must have accessory. If you can't mention at least one rental property at your next dinner party, what have you been doing? Haven't you noticed housing credit is going begging these days?

'And you can't rely on super or a pension anymore sweetie!'

People are understandably nervous and when people get nervous, they seek solace in what they know best. For those with equity – pretty much anyone (aside from the speculators) who's owned a home for the last decade or more – housing has been the obvious comfort zone.

As more of us watched our elderly parents struggle to survive on a dwindling aged pension and measly super income when they got the 'golden handshake', we've determined to take our retirement destiny into our own hands.

The issue is, it's not just locals concerned for their financial future who fancy a tipple in Australia's hotter property investment markets. There's still a lot of interest from across the waters.

Low interest rates, cashed up Asian buyers looking to bank some money in our new housing builds, and a market that continues to steadily pay dividends to owners in the form of useable equity, are all working against regulators right now. Not to mention the ever-glossy appeal of negative gearing.

The monetary policymakers, who are trying to keep Australia's Titanic property ship from meeting an untimely demise, must be feeling the pressure right about now.

Is real estate becoming riskier?

So, has this new wave of investment interest changed the composition of housing as a commodity? Has it made the humble home more about dollars and cents than that sense of place we all crave? And if so, what might that mean?

Well, for a start, it could conceivably mean that real estate will become an increasingly riskier proposition than it has been in our past, when we were far more interested in home ownership than housing investor status.

Consider the new wave of 'rentvesters', who continue to pay their landlord's mortgage, yet become property owners themselves and collect rent from a tenant.

The rate of home ownership in Australia is already on the decline. According to ABS data, the highest point of home ownership was 71.40 per cent in 1966. By 2011, 45 short years later, this had decreased to 67 per cent.

Jump ship?

The question of greater risk within our property sector has obviously been weighing on the minds of large money managers of late.

A report in Bloomberg told of a recent move by Perpetual Ltd to reduce its real estate debt investments to the lowest level since just prior to the GFC.

Head of fixed income for Perpetual, Vivek Prabhu, has cut the fund's debt holdings of Aussie real estate investment trusts to 2.9 per cent of it's A$926.4 million Wholesale Diversified Income Fund, down from a 2014 peak of 14.8 per cent.

"Looking at the property cycle – both the residential and commercial – we're probably closer to the top than to the bottom," Prabhu said in an interview.

"The risks are increasing but the compensation for that risk, or the credit spread, hasn't really moved out."

With prices anticipated to continue climbing into 2017, off the back of our fastest rate of overall growth for housing markets in seven years for 2016, many analysts are suggesting we're heading toward a tipping point of sorts.

According to a January report from Fitch Ratings, household debt levels are continuing to rise, putting borrowers at greater risk if and when interest rates start to climb again. And loan delinquencies are increasing across states traditionally reliant on the resources sector, Queensland and WA.

"In a rising rate environment where all asset classes ere inflated by falling rates, the property sector is one that comes to mind as being exposed," said Prabhu.

The investor conundrum

Yet again, property investors have become the primary scapegoats for a renewed surge in home loan activity.

Just as reports started to emerge of a sector slowdown, recent data showed the overall value of lending rose 2.2 per cent for the month of November to $33.2 billion. Of that figure, investor loans consisted of $13.27 billion or around 40 per cent.

When you drill down further however, and exclude refinancing loans, property investors account for around half of all issued loans, in a notable upward trend.

Deutsche Bank economist Phil Odonaghoe wrote in a note recently that this market activity revival is unwelcome news for policymakers.

“Further evidence here of the resurgence in housing market activity apparent through 2016, and we suspect that the RBA will not be entirely comfortable with the strength in investor activity in particular. It remains to be seen whether this resurgence extends into 2017.”

CommSec’s senior economist Savanth Sebastian has also been penning notes of caution, suggesting the housing market is set to be a continuing concern well into this year.

“Couple it with the lift in home prices in the latter part of last year and it suggests that the housing landscape may continue to cause policymakers a little bit of angst over 2017,” Sebastian said.

“If home prices continue to lift, with growth largely driven by investor loans, regulators may look at further restrictions to curb lending.”

Of course, local investors actively partaking of the property goodies currently on offer are not the only ones creating headaches for those trying to maintain a ‘steady as she goes’ economy.

Chinese buyers looking to park their newfound wealth somewhere slightly safer than their own shaky local banking sector, continue to descend on Sydney and Melbourne in their droves. And this mass money exodus from Asia only looks as though it will speed up over 2017.

What a time to be alive, hey? And what a time to be attempting to maintain some semblance of balance in markets and economies that are perpetually shifting. I don’t envy our financial sector regulators right now.

Would You Be Prepared For A Rate Rise Or Three?

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How well positioned are you to weather a rate rise? Could you manage an increase of say, 0.50 per cent on your current monthly mortgage repayments? Or does the thought of scrounging for more cashflow, on the already tight budgetary rope you walk, make you nervous?

If you fall into the latter category don't worry, you're not alone! Probably not much of a consolation I know, but a recent study from Digital Finance Analytics (DFA) suggests one in five Australians are teetering on the brink of forced acquisition of their homes. And all it would take is a teeny, half a percentage increase.

Say what?

When you consider Australia's population was estimated to be 24,337,561 at time of writing, it's kind of mind blowing to think that our collective housing market is worth a cool $6.2 trillion.

Not surprisingly, a large amount of growth in Sydney and Melbourne particularly, has stemmed from two primary catalysts, being ongoing (global) low interest rates and a subsequently hyperactive, local and overseas investor driven market.

Principal of DFA Martin North, said that whilst the findings from their survey of 26,000 Australian households were concerning, they were hardly surprising.

"If you look at what people have been doing, people have been buying into property because they really believe that it is the best investment," said North.

"Property prices are rising and interest rates are very low, which means they are prepared to stretch as far as they can to get into the market."

Of course these types of cyclical ups, followed by periods of lesser prosperity in property, are nothing new. We've survived a few of them before.

A slight difference

This time however, according to North (and others), we're lacking one thing essential to surviving a slower market and rising interest rates…higher wages.

"If you go back to 2005, before the GFC, people got out of jail because their incomes grew a lot faster than house prices, and therefore mortgage costs. But the trouble is that this time around we are not seeing any evidence of real momentum in income growth."

In other words, it won't be wage rises that bail us out this time around. So for those households existing on the precipice, what are the consequences?

According to the latest Wage Price Index from the ABS, Australia's wage growth was the slowest on record in the three months to September 2016, meaning our debt-to-income ratio is now through the roof.

AMP's latest Income and Wealth report revealed the household debt to disposable income ratio has almost tripled since 1988, from 64 per cent to a staggering 185 per cent.

Of course this leaves a number of Australians highly exposed to any type of unfavourable financial change in circumstances. Especially when it comes to property.

Livin' on the edge

The most vulnerable demographic, according to the DFA, is young, affluent homeowners, of whom 70 per cent would struggle with a 0.5 per cent or more rate rise.

Should rates revert back by 3 full points to the long-term average of 7 per cent, its estimated that nine in ten of these cashed up Gen Y's would feel some fiscal pressure.

"It is not necessarily the ones you think would be caught," said North. "And that's because they are actually more able to get the bigger mortgage because they've got the bigger income to support it.

"They have actually extended themselves very significantly to get that mortgage – they have bought in an area where property prices are high, they have got a bigger mortgage, they have got a higher LVR mortgage and they have also got a lot of other commitments."

North says these commitments often entail large personal debt in the form of high limit credit cards, necessary to pay for a more extravagant lifestyle.

"They are not used to handling tight budgets and watching every dollar."

It might not seem that cashed up young homeowners with many active working years left could find themselves in sufficient trouble to tip the fortunes of our markets all that much. But North argues we would see a flow on effect in the broader economy, particularly in the retail sector.

In an interview with news.com.au, North said, "The banks tend to focus in on what they feel are the lower risk segments and the young affluent sector has actually been quite a target for the lending community in the last 18 months.

"Be that investment properties or first time owner-occupied properties, my point is there is more risk in that particular sector than perhaps the industry recognises."

Another problem North sees coming back to bite many young homeowners is the rising trend in borrowing from the Bank of Mum and Dad.

"The other thing that I have discovered in my default analysis is that those who have got help from the 'Bank of Mum and dad' to buy their first property are nearly twice as likely to end up in difficulty. It potentially opens them to more risk later because they haven't had the discipline of saving."

Is there a solution?

North contends that lenders are still not tough enough on their approach to gathering information and assessing home loan applicants. But says banks won't hesitate to further increase retail rates, independent of anything the Reserve Bank may or may not do.

"If you have got a lot of people in the one area struggling with the same situation, you might see property prices begin to slip," warns North. "If we get the property price slip, and we get unemployment rising and interest rates rising at the same time, we have that perfect storm which would create quite a significant wave of difficulty.

"We need to be thinking now about how to deal with higher interest rates down the track. We can't just say it will be fine because it won't be."

With many analysts predicting rate rises instigated by lenders over the next few months, due to higher funding costs and further regulatory intervention in the financial services sector, now is as good a time as any to consider your financial position.

If you would like assistance working through the numbers and shoring up cashflow, why not connect with the experienced team of brokers here at Trilogy Funding? We can review your financial portfolio and advise any potential changes to make your asset base as safe as houses.