PLANET WEALTH

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Newsletter - October 2020

Welcome to the latest edition of our client newsletter,

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

In this edition we discuss "How mindfulness can improve the way we work" and provide you with information on "The economic hangover of COVID-19: how long will it last" and "4 ways to help prepare your finances for a recession".

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.
In the meantime we hope you enjoy the read.

All the best,
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How mindfulness can improve the way we work

Social psychologist and Harvard University Professor Ellen Langer says increased mindfulness can deliver measurable benefits.

Back in the day, the workplace tended to be a more structured environment. We worked set hours, followed set procedures and conformed to a set mindset.

But plenty has changed over the years. Modern 21st century workplaces are increasingly embracing flexible working hours, flexible procedures and more flexible mindsets.

And along with this has been the rise and rise of mindfulness—a movement that encourages us to think differently.

Mindfulness is often described as simply another form of meditation. But it's much more than that.

Mindfulness is the simple art of noticing new things. Paying attention. Never assuming.

Social psychologist and Harvard University Professor Ellen Langer has been studying mindfulness for more than 40 years.

Professor Langer says mindfulness is an active state of mind characterised by being:

- situated in the present
- sensitive to context and perspective
- guided (but not rigidly ruled) by rules and routine
- more engaged.

Her research shows increased mindfulness translates to measurable benefits for our psychological wellbeing, physical health and productivity[i].

When 1+1 can equal 3

It's all too easy to slip into mindlessness —the opposite of mindfulness. Mindlessness is grounded in accepting absolute truths.

Professor Langer says, "When you're asked a question to which you think you know the answer, there's probably another way to look at it."

Does 1+1 always equal 2? In a rigid theoretical mathematical context, yes. In the real world, with all the real world's variables, not necessarily.

By being mindful, and uncertain, you question everything. And this can lead to meaningful change.

Professor Langer says, "Rather than the illusion of stability, exploit the power in uncertainty."

With only subtle shifts in our thinking and expectations, we can begin to change the ingrained behaviour that saps health, competence, optimism and vitality from our lives.

Try again. Fail again. Fail better

The fear of making mistakes can be a roadblock to change. And failure in one thing can result in success in another. Professor Langer cites a famous example of a company turning a failed glue that didn't stick properly into the hugely successful concept of the post-it note.

Mindful optimism can be a more productive mindset than defensive pessimism, where you hope for the best but expect the worst. The alternative is to make a plan, and then get on with living—something Professor Langer says can help get us through the current COVID-19 crisis.

Mindfulness can have some startling benefits. Many of Professor Langer's studies focus on how changing mental perceptions can actually lead to improved physical outcomes.

Her famous Counterclockwise study showed the mind and body are more attuned than we might think. The researchers changed the external environment for a group of elderly men and turned the clock back 20 years.

The participants didn't simply emerge with a more youthful mindset, they actually rolled back the years in terms of their physical capabilities and even their appearance.

5 ways to create a more mindful workplace

Mindfulness doesn't only deliver personal benefits. It can also lead to better business outcomes. In a study of salespeople, participants who were encouraged to deviate from a set script and think about what they were doing ended up selling more magazines.

And mindfulness is contagious. In a collaborative workplace, there can be a knock-on effect. When you see someone else exhibiting mindful characteristics, you tend to increase your own mindfulness.

Here are a few tips from Professor Langer to create a more mindful workplace.

1. Accept you don't always know the answer
2. See accidents or mistakes as possibilities
3. Recognise everyone has something useful to contribute
4. Encourage more from the people around you
5. Exploit the power of uncertainty.

A workplace dominated by fixed mindsets can lead to problems as people become afraid a lack of knowledge will be discovered.

A workplace dominated by flexible mindsets can free people up to make meaningful change as they accept they don't necessarily have the best way of doing everything.

"Lack of expertise is what keeps us interested in what we're doing, and by extension, keeps us interesting to other people", Professor Langer says.

"If we increase our mindfulness, we increase our effectiveness, health and wellbeing."

i AMP Amplify Digital Series

The economic hangover of COVID-19: how long will it last?

As the Australian economy begins to emerge from hibernation, the question of what the recovery will look like – and how long it will take – is being hotly debated.

AMP Capital chief economist Dr Shane Oliver says that although economic activity is unlikely to return to pre-COVID-19 (coronavirus) levels until late in 2021, just a few months ago we were questioning whether the shutdowns would stop the spread of the virus and, if not, whether there would be a recovery at all.

Below he shares his predictions for some of Australia's key economic measures and the risks to watch out for on the road back.

Economic growth

As measured by gross domestic product (GDP), economic growth in Australia has contracted and I expect and predict a very large hit to GDP – down about 10% – in the three months to June, with April's retail sales figures recording the worst fall ever due to the COVID-19 restrictions and closures during this time.

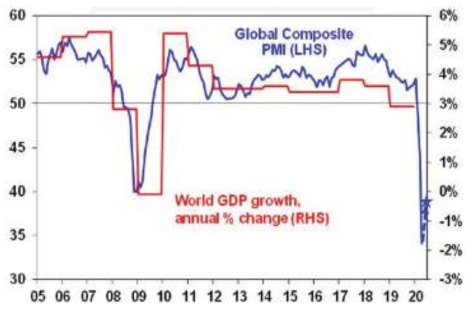
The good news is that the shutdowns have been much shorter than the six months initially forecast by the Prime Minister, and now that they're beginning to ease restrictions, GDP should recover from June onwards.

But the recovery won't be fast – rather than a sharp rebound (or 'V' shaped recovery) I expect and project more of a 'U' shaped recovery – because while some parts of the economy will recover quickly, others will take longer. This is the sort of recovery that was experienced around the world following the global financial crisis.

And globally, the fall in GDP is likely to be the biggest since the Great Depression of the 1930s. The blue line below, which tracks business confidence, shows how big the fall in global GDP could be, although it also shows that business confidence is beginning to pick up.

Global business conditions have been hard hit by coronavirus, likely to be worst GDP slump since 1930s

Global Composite PMI vs World GDP



Source: Bloomberg, AMP Capital

Inflation and interest rates

Inflation – which is currently around 1.9% in Australia – is expected to remain low, which should make it easy for the Reserve Bank of Australia to keep interest rates low. I think interest rates will remain at their current levels of around 0.25% for at least the next three years, which is good news for people with mortgages, and also for the economy, as people with home loans are one of the groups that spend the most.

Unemployment

If the Australian Government hadn't introduced the JobKeeper assistance scheme, the unemployment rate in Australia today would probably be close to 15%. But thanks to this assistance it's only 6% currently and I think it's possible it may not even reach 8%, providing the economic recovery continues.

The share market

At the peak of the crisis, the Australian share market fell by almost 37%, but since then it's recovered up by around 29%. And although dividend yields have been cut, they're still more attractive than bank deposits due to low interest rates. It's difficult to predict where the share market will go in the short term – more falls could occur as the market responds to bad news such as a drop in company profits. But over 12 to 24 months, share markets should rise.

House prices

There's been a significant fall in the number of houses for sale and thanks to that we haven't seen much of a fall in prices yet, but house prices are likely to fall if people are forced to sell as unemployment rises and as immigration falls. Sydney and Melbourne could also suffer from a lack of immigration-driven demand. I think prices on average could drop by about 10% which would take them to their mid-2019 levels. However, low interest rates continue to benefit the housing market.

The Australian dollar

I think we saw the low point for the Australian dollar against the US dollar at around 55c in March and it will probably move slowly higher as our economy recovers as it is expected to recover faster than the US economy.

The budget deficit

To support our economy, I think the Australian Government had to provide stimulus, and has done so in a way that's affordable. Despite the assistance packages released by our government, the level of public debt in Australia is quite small compared to other economies.

Risks to look out for

Despite a fairly positive outlook, there are some risks on the horizon including:

- **A second wave of infections**

  A second wave of infections could lead to a second wave of shutdowns, which would slow the economic recovery.

- **The end of government stimulus**

  In late September when the JobKeeper assistance payments end and the JobSeeker payment for those looking for work is halved back to its pre-COVID-19 level, unemployment, bankruptcies and business closures could all rise, which would have impacts on consumer spending, house prices, economic growth and the share market.

- **US/China tensions**

  COVID-19 has re-ignited tensions between the US and China and I expect this will continue in the run up to the US election in November. History tells us that US presidents don't get re-elected when unemployment is rising or when the economy is in recession, so President Trump is trying to shift blame to China for political gain, which could drive volatility in investment markets. Australia's current trade tensions with China are also a risk, but as long as they don't escalate, we are still well placed to benefit from the Chinese economic recovery.

To sum it all up, while it will take a little while – and a little luck – I think the Australian economy is in a stronger position for a faster recovery than many other countries, mainly thanks to our good health outcomes and the strength of our government assistance.

4 ways to help prepare your finances for a recession

If you think storms may lie ahead, it makes sense to prepare your craft for choppy waters. With Australia facing continued economic uncertainty, it may be time to take stock of your finances and get in the right shape.

First the good news. The Australian economy fared better in the first quarter of 2020 than many other countries[i]. To the end of March, the economy only contracted 0.3%, compared with 2.0% in the UK and a whopping 9.8% in China.

More challenging times may lie ahead. A century on from the last global pandemic, this looks like a downturn unlike any other in living memory. Back in 1990, Treasurer Paul Keating lamented the "recession we had to have." This time around, we're trying to thaw an economy that's been deliberately placed into hibernation. It isn't something we've seen before, so lessons from previous recessions may not apply.

However, if you're worried about the threat of redundancy, your investments or your retirement plans being disrupted, there are things you can do to secure your financial lifeboat.

1. Revise your budget

A realistic budget helps you get a clearer view of what you can and can't afford.

If you don't have one already, you can create a view of your total income and expenses, on a weekly, fortnightly, monthly or yearly basis.

2. Decide what matters most to you

Reassessing your budget helps you decide what's essential and what you can put on hold, or perhaps ditch altogether to lessen the strain on your household finances.

Essentials might include your mortgage or rent, utilities or car insurance if you need to keep running a vehicle. Remember that even if something is essential, you might still be able to make a saving on it.

Look for a better deal on comparison sites like Finder, which can help you find potentially preferable offers on everything from car insurance to shopping.

Low interest rates are likely to remain for some time, so this might be a good time to approach a mortgage broker to see if there's an alternative that's right for you.

3. Pay down and consolidate debt

Debt consolidation is one way to take control of your finances and potentially pay off your debts sooner.

This means combining or consolidating your debts into one loan with, ideally, a lower overall interest rate. Assuming you can cover your repayments, the lower interest rate means you'll pay less interest and pay off your debt sooner, as long as you continue to make the same repayments on the original debt. Otherwise the consolidated debt is spread out over the life of the bigger loan.

This approach might also help you simplify your finances by reducing multiple repayments for credit cards, store cards and a car loan for example, into one monthly payment.

Fees and conditions may apply. Check your existing loan terms to see if any early termination fees apply. If you're applying for a new loan, confirm the application fee costs and eligibility criteria.

Keep in mind that debt consolidation will only be effective if you're disciplined about making your repayments. And before making a decision, speak to us.

4. Keep your eyes on the horizon

As with most investment and super strategies, it helps to look long term rather than thinking only of the next few weeks or months. It's easy to get discouraged when many forms of media concentrate on negative or shocking news.

Finally, as AMP's Head of Investment Strategy and Economics and Chief Economist Shane Oliver points out, anyone who got too negative for the long term in the last major pandemic of 1918-19 might have missed out entirely on the 'roaring twenties', a decade of economic growth and widespread prosperity.

Here to help

Contact us if you have any concerns about your financial situation you'd like assistance with.

Remember, if you're feeling overwhelmed or need to talk to someone about how you're feeling right now, you can access free services anytime, including:

- Lifeline: 13 11 1
- Beyond Blue: 1300 22 4636
- Mental Health Line: 1800 011 511.

i ABC News, Australia in its first recession in 29 years as March quarter GDP shrinks