

# November 2020

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## Complete Financial Planning Newsletter

### IMPORTANT INFO:

- Please remember to let us know of any personal details that need to be updated when we contact you before your review. If there have been no changes, please also let us know that the details we hold are current.
- The office will be closed for Christmas from 18/12/2020 until 04/01/2021

Don't forget, the office is shut on Fridays as Kathy and Emma work from home these days – They can be contacted on their mobile phones:

Kathy: 0413 348 472

Emma: 0488 198 200

### ENCLOSED:

- Making the most of low interest rates
- Being sensible with Buy Now Pay Later this silly season

### **Please don't forget...**

Our success is a result of referrals from clients and friends like you. We could always use a few more. So, if you have children, family members, friends or colleagues that may need some advice, please pass our details to them.

## Making the most of low interest rates

Banks have not been passing on the full reduction in the Reserve Bank's official cash rate, but no one knows with any certainty, what the future holds for rates and to what extent.

Most predictions are that they will remain at the low end for some time to come, so while borrowers love low rates and savers curse them, what can be done to make the most of the situation?

### Yay!

Major winners of low interest rates are households with mortgages that were taken out at a higher rate. Keeping up repayments at the original level will see the mortgage paid ahead of schedule, delivering a big reduction in the total interest bill.

Property investors can also be winners, particularly when buying property away from the high prices and low rental yields of inner capital city areas. However, care still needs to be taken to avoid excessive debt that could have a disastrous effect when rates rise.

Businesses benefit from a low and stable interest rate environment. It's cheaper to borrow to grow the business; and a major reason why the Reserve Bank lowered interest rates to stimulate business investment.

### Boo!

For everyone cheering on low rates there will be someone booing them.

People who depend on term deposits, high-interest savings accounts and bonds have seen their interest income fall by more than half! Self-funded retirees are particularly affected, especially where interest payments make up most of their income.

Low rates aren't always the friend of new entrants into the housing market as commonly touted. Low interest has been a major contributor to the rise in house prices, saddling new borrowers with higher levels of debt. With higher debt, any future rate rises will bite harder, so new borrowers need to carefully assess their ability to meet loan repayments when interest rates do rise. It's also a good idea to reduce debt whenever possible.

Life is also difficult for investors, including everyone contributing to superannuation. The low yield from conservative investments (cash and fixed interest) means there is a greater 'cost' in minimising portfolio risk than has previously been the case. One consequence of this is to drive many investors to search for other investments that offer higher cash returns at a potentially higher risk.

### Looking for yield

While a bank share paying an annualised 10.28% dividend (including franking credit) looks very attractive beside a term deposit offering 0.90% interest, it needs to be remembered that, in the current climate, **any effort to increase yield comes with an increase in risk**. Even so, high yield shares can be a viable option for some investors who need a regular income.

### What to do?

The best way to navigate the world of low interest rates depends very much on your personal circumstances. Good advice is critical, so talk to your licensed financial adviser about your situation.

## Being sensible with Buy Now Pay Later this silly season

Move over debit and credit cards; consumers are flocking to Buy Now Pay Later (BNPL) services. Afterpay, Zip Pay and several similar payment solutions allow shoppers to take home their goodies now while paying them off via a few weekly, fortnightly or monthly payments. There's no interest payable as such, although fees are charged for late payments.

A survey by Mozo reveals that 30% of Australian adults have one or more BNPL accounts and we're not afraid to use them. Afterpay, our most popular BNPL service, achieved sales of \$4.3 billion across Australia and New Zealand in the 2019 financial year, nearly double its sales of the previous year. With the nation set to splurge around \$25 billion on Christmas, it's a safe bet that plenty of that spend will be by BNPL. But with 60% of those surveyed by Mozo admitting that BNPL lead them to buy things that they wouldn't have otherwise, it begs the question: how to use this payment option sensibly during the silly season?

### **1. Set your limits.**

Make sure you have a budget for your Christmas spend, and use it to help resist the temptation of impulse purchases.

### **2. Track your spending.**

Don't just track your BNPL spending. Make sure you review credit and debit card purchases, too. Are you staying within budget across all your spending methods?

### **3. Avoid fees.**

Around one third of BNPL users have missed at least one payment. While late fees may seem modest, they can add up.

### **4. Don't repay BNPL loans with a credit card.**

If you don't pay off your entire credit card bill within the interest-free period, adding your BNPL repayments to the card may see you paying a high rate of interest on your purchases. Better to use a debit card or direct debit from your bank account, and making sure there's enough money in the account to meet payments.

### **5. Avoid BNPL if you're saving for a home loan.**

Lenders may look at your use of BNPL as a sign that you don't have significant savings and are living from payday to payday. The lower your debt, of all types, the easier it will be to get a mortgage.

### **6. Have a happy festive season**

Used wisely, BNPL can help you jingle your bells and put the merry in your Christmas. Just make sure you know what you're signing up for and that you can meet all of the regular payments. Take care, and you'll be able to enjoy the start of the New Year without a financial hangover.