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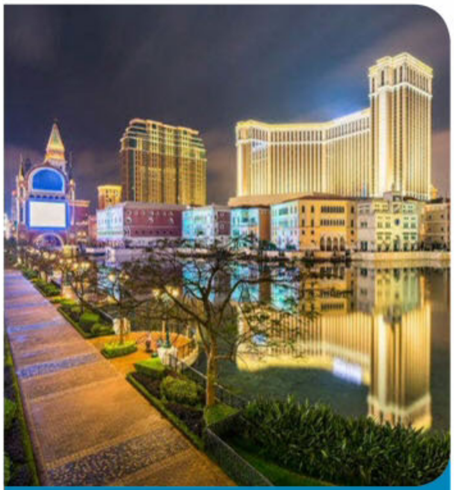

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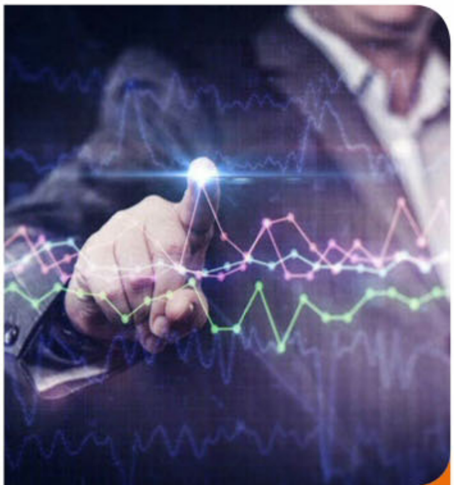
MY MONEY



SAVINGS & GIVEAWAYS

Earn an extra income

I catch a lot of Ubers so when I read that one in 10 drivers are over 60 I wasn't that surprised. Most of the drivers I talk to are in semi-retirement and looking for a way to supplement their income. I don't imagine you can do much on $23,000 a year – that's what you'd get if you're single and on the pension.

For those with some cash stashed away there's not much to gain by saving in a bank account. At most you'll earn 2.5% for locking away $50,000 for 12 months. So you either have to dial up the risk (see our 10-point plan for uncertain times, page 70) or earn more.

Which brings us to the sharing economy. There is no easier way to inject some cash into your budget than through the digital economy and, as Pam Walkley points out in the cover overview, it does not discriminate. According to the latest RateSetter Sharing Economy Trust Index, baby boomers earn almost as much as they spend in the share economy ($79 a month versus $82). Single young adults are finding the most opportunities by earning $158 a month.

This month *Money* talked to eight Aussies who are earning some serious cash from doing something that either you or I could quite easily copy. Of course, the downside to earning extra cash is that the tax office will also be keen to hear what you're doing. And given the sharing economy lives online, your details are only a click away.

As we were heading to the printers state governments were toying with the idea that

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Feedback

Letter of the month

Travellers can save on health premiums

A little-known fact that probably is not used by most people when paying private health insurance is that you don't have to pay for the period when you are away overseas. Even if you have prepaid your premiums, you can call your health insurer and ask for a suspension for the time you are out of Australia. I did this last year when I got my cover suspended for a month while I was abroad and thus saved 8.35% of my annual premium ($665) without the status of my cover being affected in any way on my return.

With ever-increasing premiums each year, this certainly helps in easing the burden of paying for health cover, besides other strategies.

Walter, Vic

Danger in high returns

Paul Clitheroe's comment that "Promises of a ridiculously high return should set off an alarm bell" (March issue) is timely. There are thousands of retirees who are desperate to invest cash into higher-returning interest-bearing investments. The banks are increasing lending rates at the same time as decreasing borrowing rates. It is now impossible to negotiate an interest rate higher when rolling over a deposit.

Recently I rolled over a deposit: previously the interest rate was 3.1%, now the best that could be negotiated was 2.7% – and you get to pay tax on the interest. My experience is that unless you argue with the banks you get their "board rate" – the offers on boards outside branches. It is possible to get a few more points if you negotiate.

There is a great temptation for desperate retirees to take up high-return offers advertised in newspapers and on buses to increase their declining income. It seems there are huge risks: either interest is not paid or the funds invested are not returned – they are scams.

Let's hope the article saves a few retirees from losing more of their capital. The "experts" predict low interest rates for a number of years to come!

Warwick, NSW

Rents are cheap in WA

I have been a subscriber to the *Money* for a number of years and have immensely enjoyed its content. However, I do feel that we in Western Australia are very often neglected in any article looking at the real estate market.

In your March edition Pam Walkley ("Airbnb ate our home") ignores the situation in WA. She concentrates on the Melbourne and Sydney markets and therefore one could describe homeowners who rent their properties as short-term leases could be liable for land tax. Looks like everyone wants in on the action. The dilemma for governments is finding the right balance between encouraging these disruptors and keeping them in line.

There's a lot of talk about home affordability and while we don't solve this issue there are plenty of ideas on where you can invest in property for a lot less (page 65), plus we get you wondering whether you're saving for a deposit the wrong way – ideally you want to save in the asset class you want to buy into (page 54). We would love to hear how you or your children are saving and or investing, whether for a home deposit or a lifestyle.

Effie Zahos,
Editor, *Money* magazine

> ***"The big money is not in the buying and selling, but in the waiting."***
>
> Charlie Munger, American investor, businessman, and philanthropist

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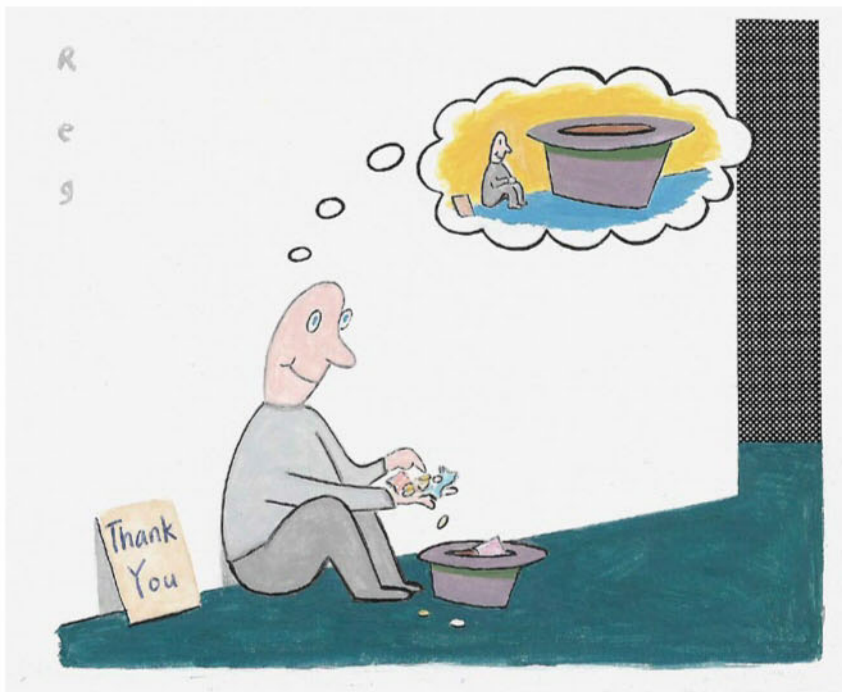
this as a very biased article in her comments relating to Airbnb.

She states: "But for renters and those struggling to buy their first home in areas close to major cities, it's just a another layer of competition." This is clearly not the case in WA. Here it is definitely a buyer's market and renters have an abundance of very cheap accommodation to choose from. The rental vacancy rate in Perth is almost 6% and as a result many investors are turning to Airbnb to at least get some income from their properties. In WA one could argue that Airbnb is a saviour for many investors who have properties to rent.

I hope that, in future, *Money* will cover the whole of Australia, and not just the eastern states.

Dave, WA



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Money is published by Bauer Media Pty Limited (ACN 053 273 546), part of the Bauer Media Group, 54-58 Park Street, Sydney NSW 2000.
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What would you tell your 18-year-old self about money?

ISSN 1444-6219

MARK STORY
Mark is director of Prime Strategy Media and has been a business and finance journalist for more than 15 years. Mark says: "Money is only a concept, and being rich isn't a destination; it's all about the journey. Better to have a 'rich mentality' and be generous of spirit rather than striving to be materially rich for the sake of it."

VITA PALESTRANT
Former editor of the Money section of *The Sydney Morning Herald* and *The Age*, Vita says: "Buckle up for unprecedented change: that the typewriter would end on the scrapheap, that a smartphone would deliver information 24/7, that bitcoin would be more valuable than gold but that taking good care of your money never changes."

HANS KUNNEN
Hans is the chief economist at Compass Economics. Hans says: "Earn some. Save some. Donate some and then spend some. Money isn't everything but it's important so think carefully about how you use it. Understand what companies do and then try your hand at investing in one or two."

SUSAN HELY
Susan has been a finance journalist for 30 years and has been a senior writer at *Money* for 10. Susan says: "Get a job that you love with people you enjoy. Save like crazy so you have options. Avoid expensive cafe society and learn to cook. Find a partner who is wise (and caring) with money. Think about future income always."

ANDREW CROSSLEY
Andrew is a property investment strategist and founder of Australian Property Advisory Group. Andrew says: "Start investing wisely, in property only, and start now. Anything you buy is only an asset if it makes you money, so only buy assets. Budget well and use leverage by using other people's money to make money."

ALAN DEANS
Alan is senior partner at Last Word Corporate Communications. He worked for 30 years as a journalist and an editor. Alan says: "Savings is important because it brings freedom and choice. You can take that holiday, or not. You can buy an investment property, or not. And, you can help someone close to you when it's needed most."

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HELPING INVESTORS LIVE
THEIR IDEAL LIFESTYLE

In a modern world, the key task for parents is to make 'invisible' money real again

Recently I was having a chat on ABC Radio about kids and money. It is not a simple topic. There is a lot being done in our schools, universities, TAFEs and VET colleges, and in apprenticeship courses, and this is a really good thing. I have chaired the Australian government's Financial Literacy Board for the past 15 or so years and I am really pleased with the progress being made. Sure, it would be great to do more and move faster, but there is only so much money to fund even the best initiatives. It would be quite ironic if financial literacy, which promotes spending less than we earn, did not recognise that our federal government is running big deficits and needs to either raise more revenue or cut spending.

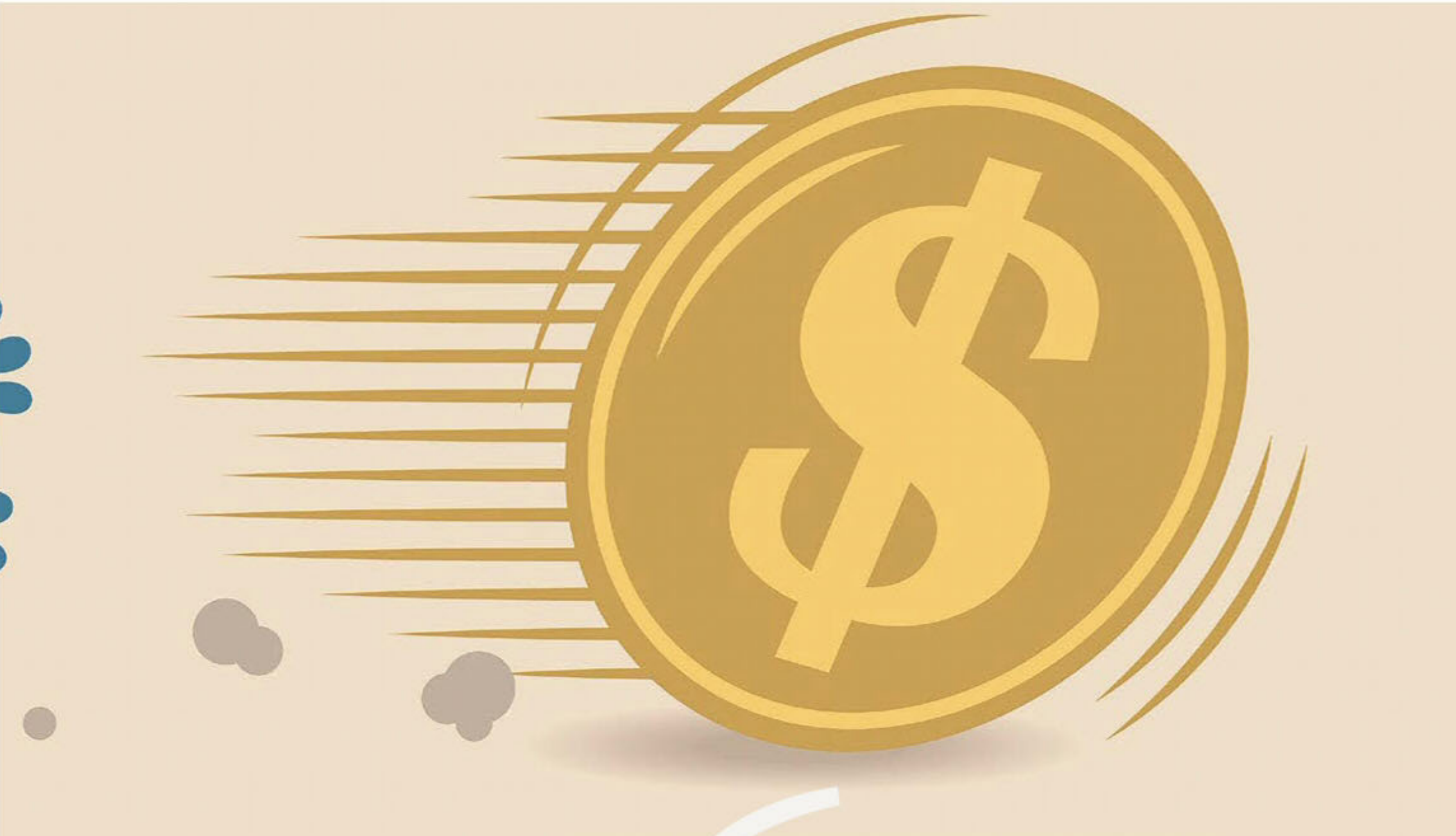
Kelly O'Dwyer, our Minister for Revenue and Financial Services, Greg Medcraft, the chairman of our regulator ASIC and I were in Canberra recently to launch the updated National Financial Literacy strategy and to give a briefing on the latest developments. The big picture is very good. Over 6 million unique visitors came to the MoneySmart website and some 260,000 people took some form of financial education program. Moving to a key focus of financial literacy, "Educating the next generation", the positive news is that over 50% of schools are now engaged with the MoneySmart teaching program. In mathematics for Years 1 to 10, financial literacy is required to be taught. If this interests you, please take a look at the national financial literacy strategy at financialliteracy.gov.au. To see what is available to teachers of the next generation, go to moneysmart.gov.au/teaching.

But my chat was much broader than formal education. Our education system, ASIC, the media and access to unbiased information via websites such as MoneySmart are all terrific stuff, but the obvious question, which I get constantly, is why is this knowledge the role of educators and regulators; what about the traditional role of parents? And a very good question it is. The answer is not that we parents have become hopeless at passing on money skills. It is that the whole world of money has been turned on its ear.

The biggest change and the hardest issue for our kids, and many adults, is that money has become invisible. It was not many decades ago that parents brought home their pay in a brown envelope. Dinosaurs like me remember those days. My very first job in the money industry paid me $13,000 a year. This meant that after tax I had about $420 in my fortnightly envelope. Given there were no broadly available credit cards until Bankcard in 1980, this system led to a clear understanding of money. I put the $420 in my wallet, handed over my fortnightly rent, popped my kitty money into our shared house ice-cream container on the fridge and applied the

FACT FILE

Money skills come from home. At age appropriate ages, encourage money to be an open subject. It is not about being good or bad with money, at times we all do both. But it is sharing the mistakes and the things that go well.



balance to beers and general entertainment. If you are wondering about my mobile phone plan or car expenses, there was no issue here. Mobile phones did not exist and I had no car – my pushbike and the bus were just fine. This simple system made money easy. If I ran out before the next pay packet, I just went home and used free stuff, like the beach. It taught me to live on what I had.

You all know where this is going. First, money from work or an allowance mysteriously turns up in your bank account. Direct debits and so on see it mysteriously disappear. But the really bad bit is the credit card limit, which allows us to spend money we are yet to earn. If that gets out of control, we can get another one. Or maybe a personal loan to pay off the cards. As we tend not to change our behaviour, a year later many people have a personal loan and the cards are maxed out again. All of this is exacerbated by life being a lot more interesting. Subscription TV, data plans, reasonably cheap overseas travel and some very good coffee in most places, plus a warm muffin, make it very easy to spend.

So the challenge for parents, many of whom are struggling with the new world of money, is to teach the kids the basics when it is mainly electronic transfers and pieces of plastic. This is a very abstract experience for kids. Good old cash could be seen and felt and when it was gone it was gone.

In this modern world, the key thing for parents is to make money real. This means that, from an early age, kids should be included in conversations about money as a part of everyday life. “We can’t afford it” is an answer that kids, as they grow up, will understand. We all need to learn this concept. But there is more to be learnt from a simple statement at the right time, which I suggest is not in a shop. A valuable conversation can be had about the family budget. That certain money comes in and there are fixed bills to pay. The leftover money provides choices, which could be a dinner out or the movies or big items such as a new car or a holiday. Parents do not need to be “perfect” with money in the eyes of the kids. Our money mistakes are really valuable lessons and the ways we resolve them are more powerful than classroom learning, providing of course we share these with our kids in an age-appropriate fashion.

Parents do not need to be perfect in the eyes of kids – mistakes are valuable lessons

The world of money is dramatically different, complex and fast moving. So a combination of home learning and formal education is clearly the way to go. Speaking of which, our 22-year-old daughter, our youngest, is home for dinner tonight. I am keen to show her an online scam I got via email today. The sharing and learning never stop.

Paul Clitheroe is Money’s *chairman and chief commentator. He is also chairman of the Australian government’s Financial Literacy Board and a best-selling author.*

NEWS & VIEWS

THE BUZZ

$1m super needed to cover the rent

Non-homeowners in capital cities face affordability crisis

The Association of Superannuation Funds of Australia (ASFA) retirement standard provides useful benchmarks for annual budgets needed to fund either a modest or comfortable standard of living in retirement.

Calculations are made on a range of costs including housing, energy, food, communications, household goods and services, clothing and footwear, transport, heath and leisure.

The modest and comfortable standards both assume retirees, whether single or a couple, own their own home outright and enjoy reasonable health.

Currently around 75% of households with the household head aged 65 or over own their home outright, 8% are still paying off a mortgage and around 8% are renting privately.

Housing affordability is a particularly serious challenge in Sydney. Around 65% of its residents are homeowners by 60 compared with just under 80% for the rest of the country.

So to provide better estimates of what retirees without their own homes will need, ASFA has produced comfortable and modest budgets for singles and couples living in capital cities. These show Sydney retirees, whether single or a couple, relying on the private rental market for accommodation need more than a $1 million lump sum to be comfortable. So do all retiree couples living in other capital cities.

Single retirees renting outside Sydney slip under the $1 million indicator but even single retirees renting in Adelaide, Hobart and Perth need around $850,000 to have a comfortable lifestyle.

These figures are roughly double what homeowners need. They have been calculated on the assumption that retirees will live to 92 and do not take into account the additional costs associated with regular moves, which is the reality for many people in the private rental market. Any health-related issues or disabilities add further costs.

The message is clear: Australians need to invest in their future with significant additional contributions to their super if they do not own a home. Super provides tax settings to help maximise their contributions over the long term. It is a sobering fact that housing affordability challenges seem likely to continue, so having a good super balance in retirement is even more important for non-homeowners.

MARTIN FAHY, CEO, ASFA

CALENDAR OF EVENTS

Tuesday, April 4
RBA interest rate decision

Wednesday, April 12
NAB business confidence

Thursday, April 13
Unemployment rate

Wednesday, April 26
Inflation rate

ON MY MIND

Get out of the rat race

It's time to encourage people out of metropolitan Australia and into our regional areas. Fast trains, technology and incentives to relocate would go a long way to help with the housing affordability issue.

There is a huge untapped desire for people to leave the rat race and set up a life for themselves outside the city. Encouraging families and retirees is simple and effective, especially when infrastructure is put in place to support their requirements. The mobile office is a reality in 2017 and remote working is common practice for some of our largest companies.

For those who feel entrenched in the city lifestyle, it's time for planning to recognise the shift in the way people live. We are stuck on building apartments and houses in the same manner as we did in the 1990s.

With more people living by themselves in our big cities it's time to embrace the studio or loft, much as New York has. The banks and planners are standing in the way of this with their current lending criteria and planning rules that don't allow for properties so small, but it's time to recognise the way people want to live now.

Malcolm Gunning, president, Real Estate Institute of Australia

NEWS BITES

The Grattan Institute has released a new report revealing that the deregulation of the energy market in Victoria has led to increased costs for consumers. The institute claims that Victorians could save between $94 and $164 if they switched to the cheapest available offer in their energy distribution network.

As part of a new ethical framework, AMP Capital will divest about $440 million in equity and fixed-income holdings related to tobacco manufacturing. It will also divest $130 million connected with cluster munitions and landmines. Divestment, which may take up to 12 months, will begin once AMP Capital updates the product disclosure for impacted funds.

Digital layby platform Afterpay has announced a new partnership with Myer. The services will be rolled out for online shopping via the Myer website for an initial period of two years. Other big brands that have partnered with the platform include Telstra, Booktopia, Alannah Hill and Tarocash. Afterpay now has over 500,000 users and 3100 connected retailers.

Bar raised for planners

Health is the most important thing in life, and having a healthy financial position is the second most important thing to look after. Professional planners make sure their client's finances are healthy.

For a long time the Financial Planning Association (FPA) has been concerned that anyone has been able to say they give financial advice. Stories of consumers being led astray by unqualified individuals have been common.

Finally, the federal government has passed legislation to introduce much-needed consumer protections, and to enshrine the term "financial planner/adviser" in law. In future only a registered individual will be able to call themselves a financial planner. They will need to have a degree, follow a code of ethics and have passed an entry exam. Now all financial planners will need to meet the same high ethical standards that FPA members do.

Consumers will be able to sleep at night knowing that it will be a professional working with them to achieve their financial and life goals.

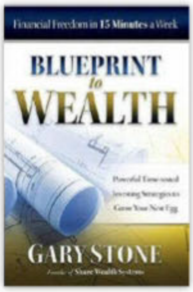
Ben Marshan, head of policy and government relations, FPA

$148,623

The estimated cost to complete a four-year engineering or occupational therapy degree if you live away from home, according to the ASG Planning for University Index. Students who live at home would be better off by $66,027, paying just $82,596. The index considers course fees, transport, computers, study placements and accommodation.

NEWS & VIEWS

BOOK OF THE MONTH



BLUEPRINT TO WEALTH
Gary Stone
Share Wealth Publishing, RRP $29.95

Are you on track for a comfortable retirement? "Comfortable", as defined by ASFA, includes an occasional overseas holiday and good-quality purchases. According to a Commonwealth Bank study, only 49% of 60- to 64-year-olds are ready to retire at the comfortable standard (including the age pension). *Blueprint to Wealth* outlines strategies to grow wealth outside super. Stone claims it will take no more than 15 minutes each week, with returns above the long-term outcomes of actively managed funds. STEPH NASH

Ten readers can win a copy

In 25 words or less, tell us how you dream of spending your retirement. Send entries to Book of the Month, Money, GPO Box 4088 Sydney, NSW 2001 or email money@bauer-media.com.au. Don't forget to include your name and postal address. Entries close on May 3, 2017.

APP OF THE MONTH

CHOOVIE
COST: FREE
OS: IOS

If you're looking for cheap movie tickets, Choovie is a new app that's set to revolutionise the way we pay. It will introduce surge pricing to cinema-goers: if you want to catch the new *Star Wars* movie on a Saturday night, you might pay more but if you're seeing a less popular film on a Monday night you might pay less. Choovie will enable prices to fluctuate in line with demand, so you won't end up paying $20 for a ticket when the showing attracted only one other person.

There will also be exclusive extras for users who sign up to Choovie. You can access bonus offers, store your details for a quicker one-click checkout and receive more personal mobile notifications to make sure you don't miss out on your favourite movies. Choovie also supports Australian industry with 5% of all profits going to the Choovie Foundation for Australian filmmakers.

Choovie was due to be released on the iTunes app store on March 27. STEPH NASH

TAX TIP

Flat rates for work deductions

One reason people often fail to claim work-related tax deductions is that they have failed to keep proof that they actually spent the amount they would like to claim. Generally, without proper substantiation, such as an invoice or receipt, it isn't possible to make a claim. In three significant areas, however, the tax office makes it easier and offers taxpayers the chance to claim a flat-rate allowance with minimal record-keeping. You're not obliged to use the flat rates; you can claim actual costs instead if you've got records.

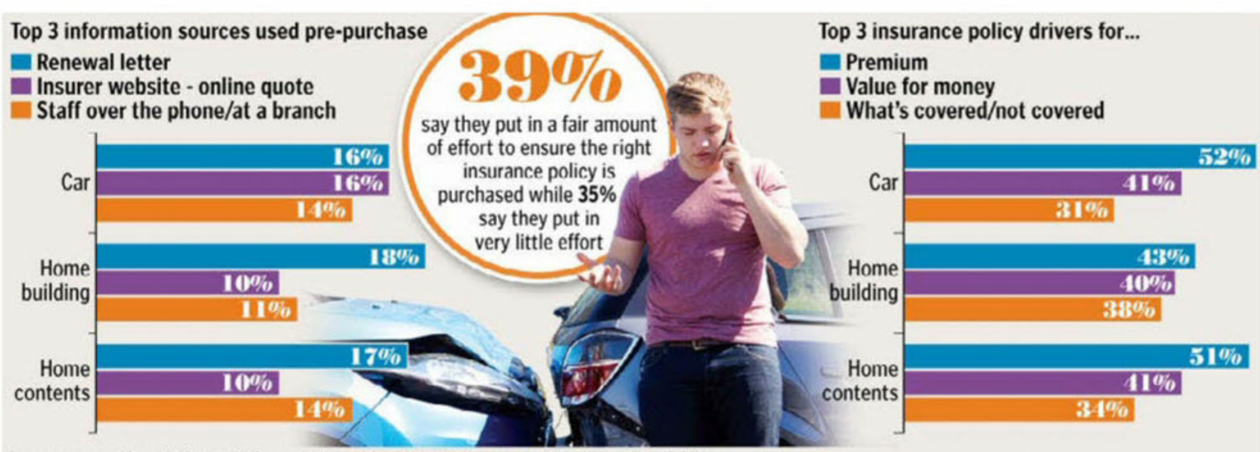
Using your car for work: 66¢ per kilometre for every business kilometre you cover up to 5000km per vehicle. Keep a note of all your work-related journeys so you can work out how many kilometres you've travelled for work.

Working from home: 45¢ an hour for home office expenses for heating, cooling, lighting and the decline in value of furniture, instead of keeping details of actual costs. Keep a record of the number of hours you use the home office and multiply that by 45¢.

Mobile phones: If you occasionally use your personal phone for work and the total deduction you are claiming for the year is less than $50, you can claim 25¢ for each work call made from your home phone, 75¢ for each call made from your mobile and 10¢ for each text message sent.

MARK CHAPMAN, DIRECTOR OF TAX COMMUNICATIONS AT H&R BLOCK. MCHAPMAN@HRBLOCK.COM.AU

SNAPSHOT Key factors in buying insurance



Source: Insurance Council of Australia Consumer Research on General Insurance Product Disclosures, Feb 2017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MY MONEY

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TOP PROMOTIONAL SAVINGS ACCOUNTS

RaboDirect 3.05%pa advertised rate, 2%pa without bonus, 4 months for new customers; **Newcastle Permanent** 3.00%pa advertised rate, 1.50%pa without bonus, 3 months for new customers; **Citi** 2.85% advertised rate, 1.7%pa without bonus, 4 months for new customers. Source: Canstar as at 20-Mar-17.

TRAVEL

Track down the cheapest flights

Airfares are often be the most expensive part of travelling overseas. But with the right cost-cutting tips, you could save hundreds of dollars, which ultimately means more money to spend on sightseeing, shopping and having fun. Here are three ways to help you find a cheaper flight.

1. Clear your cookies. Airlines, like many online retailers, use a strategy known as "dynamic pricing" to set their fares. This traditionally means that the price of an item, or in this case an airfare, can fluctuate based on supply and demand. But these days, dynamic pricing has come to mean that prices can change based on your search history – in other words, how much you might be willing to pay. The best way to avoid being slugged with a higher charge is to delete your cookies and conduct all future searches via a private window or virtual private network (VPN).

2. Search for prices over the whole month. SkyScanner.com.au is a good starting point if you're looking for sharp deals. To find the cheapest time to fly, SkyScanner has a "whole month" option when selecting your travel dates. This shows you the cheapest flight every day over the month, so you can pick your time to fly.

3. Find the cheapest destination. If you're spoiled for choice and are just looking for a cheap getaway, Kiwi.com has a map detailing the average flight price for almost every country in Australian dollars. Pick a destination that fits your budget, select a departure date and sift through the flight options. You can arrange results according to the cheapest fare (expect a huge layover) or quickest arrival. In some instances you might find a regional airport close to your destination that works out cheaper, such as Melbourne's Avalon airport as opposed to Tullamarine.

Caught short in a cashless society

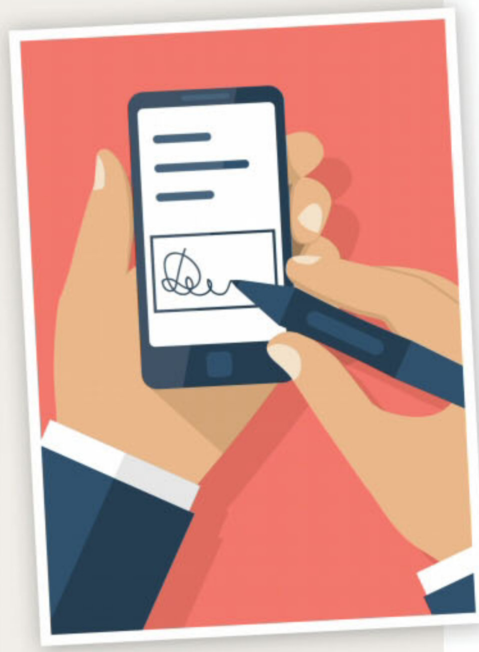
Although paying a bill via card or mobile is simpler and easier, new research suggests that cashless payments are hitting the communities that rely on cash and philanthropic generosity. The survey of 2000 people by ME Bank found that survey respondents are donating to charity on the street 44% less often. ME Bank is encouraging consumers to keep some cash on hand to support charities and sole traders that are still switching to cashless payment systems.

61% of survey respondents use less physical cash than they did five years ago.

Take care with e-signatures

New laptops and tablets have an electronic signature function that allows documents to be signed at the click of a button. While this may be convenient, Townsends Lawyers warns that e-signatures should be treated like real signatures, in that their use and misuse can have a significant impact.

In a recent case in NSW, a company director's electronic signature was placed on a guarantee without his knowledge. The e-signature was used without his permission on a credit application to a building resources supplier. When his company went into liquidation, he was asked to repay the debt owed to the supplier. Since he did not authorise



anyone to use his e-signature on the application, the Supreme Court ultimately found the director not liable for the debts.

E-signatures should be treated securely and not be given to anyone else to use. In NSW, the Electronic Transaction Act sets out the documents that can be signed electronically. Not all documents are capable of electronic execution, so check if an electronic signature is permissible for your document.

COMPILED BY STEPH NASH

PROPERTY

DESIGN RULES

Curse of the tiny bedrooms

Peter Georgiev,
Director, Archicentre Australia

The rush to build new apartments to cater for huge demand in cities such as Sydney and Melbourne is resulting in poor build quality and lack of detail.

It is ludicrous that some of the apartments being built have bedrooms too small to fit even a double bed and without even 1960s standards for natural light.

New Victorian government apartment design regulations are a step in the right direction but don't go far enough. They specify that bedrooms have a minimum floor size of between nine and 10.4 square metres; living rooms be at least 10 square metres for small units and 12 for larger apartments, with ceilings at least 2.7 metres high and storage space of at least eight cubic metres; balconies and small gardens to be included in ground-floor apartments; and there must be effective cross-ventilation for at least 40% of the apartments in a development. Items on balconies, such as air-conditioning units, cannot be included in the external area measurements.

Apartment design needs to take into account the site size, slope, aspect, location, energy efficiency and other important urban design factors, and these should be regulated uniformly across Australia.

Archicentre Australia offers assessments that can be utilised pre-build and post-build. Independent architects conduct an on-site assessment before providing advice on the condition of buildings and property, and if there are serious faults.

The top five tips when looking for an apartment to buy:

- Avoid buying off the plan.
- Choose older apartments that need renovation rather than newer untested apartments.
- Understand the owner's corporation fees.
- Look out for waterproofing between upper-storey apartments and around balconies.
- Check the sizes of bedrooms. Can a queen-size bed fit?

▶ MORE PROPERTY STORIES ON P62-69

Investors lead the charge despite curbs

It appears that tighter lending conditions and sky-high values in most major cities have not curbed the enthusiasm for property. Data from CoreLogic shows the market is being driven by owner-occupier non-first-home buyers as well as investors.

The total financing provided for owner-occupiers was up by $200 million for December at $2.2 billion. Investor commitments were almost 20% higher than in December 2015 and but 10% lower than the historic monthly peak of $14.6 billion in April 2015.

CoreLogic research head Cameron Kusher says it is clear that lending restrictions have done little to dampen demand for investment properties. With low interest rates and strong population growth, the gap between new and existing stock continues to climb.

He says demand for housing finance is likely to continue to rise. Financing for first-home buyers, however, reached a historical low of 7.7% in December, reflecting affordability issues in some markets. While demand from owner-occupiers is high, December's figure was down 3.4% compared with December 2015. Refinancing is in a "clear downwards trend", according to Kusher.

TOP LOW-RATE HOME LOANS

Reduce Home Loans 3.39%pa, 3.35%pa AAPR[1]; **Reduce Home Loans** 3.47%pa, 3.47%pa AAPR; **Mortgage House** 3.49%pa, 3.49%pa AAPR; **Homestar Finance** 3.49%pa, 3.52%pa AAPR; **Freedom Lend** 3.53%pa, 3.53%pa AAPR. Source: Canstar as at 20-Mar-17, ranked by AAPR. [1]AAPR on $250,000 loan for 25 years.

COMPILED BY STEPH NASH

INVESTING

SUSTAINABILITY

Principles can be profitable

Peter Harper, BetaShares

Australian investment in responsible and ethical investment portfolios has grown at a rapid pace in recent years, as Australian investors are increasingly adopting environmental, social and governance (ESG) criteria in their portfolios.

Because everyone's individual perspective on sustainability and ethics is different, understanding the screening process and having transparency of holdings is key to knowing whether your investment is truly ethical or not.

Without having full insight into the investment portfolio, it is possible that you are taking on the portfolio manager's own value biases and as a result holding exposures that may not meet your definition of "ethical".

We're finding in our business that ethical investors particularly value the benefits of transparency that comes from investing in exchange traded funds (ETFs). With an ETF, an investor is able to view the full portfolio holdings of a product daily, which means no surprises when it comes to the underlying holdings in the fund.

If you're looking for a "true-to-label" socially responsible fund, an understanding of the screening methodology that the portfolio manager applies will help you understand if the fund you are considering matches your values.

Exclusionary screens are designed to remove stocks that are exposed to a range of harmful industries and activities, leaving companies in the portfolio that operate with the values you support. For example, we've recently launched what we believe is the first global equities ETF in Australia that uses a broad range of screening criteria. It combines a positive climate screen along with a very broad set of ESG eligibility screens to remove companies involved in activities deemed to be inconsistent with responsible investment best practice.

No matter which fund you choose, it's important that you fully understand the screens used and have insight into the exposures to make sure you can "profit from your principles"!

▶MORE INVESTING STORIES ON P70-83

When the enemy is you

Investors can often be their own worst enemies. They tend to lag behind the equities index due to emotional decision making, according to a recent white paper issued by Montgomery Investment Management. It suggests that investors tend to expect high returns from low-risk investments, follow the herd of other investors (even when their decisions are poor), make narrow-minded decisions, diversify incorrectly and suffer from mass overconfidence. These behaviours can lead them to deviate from a good strategy.

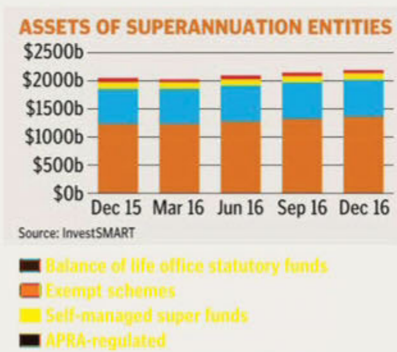
To help you get a higher return from your investments, Montgomery recommends four ways to curb negative behaviour:

- **Be sensible.** Short-term investing can be reckless if you haven't done your research. Make sure you set clear, realistic long-term investment goals.
- **Remain strong.** Market volatility can cause investors to behave erratically, especially when media sensationalism becomes a factor. Your focus should be on the long term, so keep investing, regardless of market fluctuations.
- **Don't put all your eggs in one basket.** Many investors don't diversify correctly. Spread your risk properly by investing in multiple asset classes.
- **Quality versus quantity.** Don't be tempted by bargains. Choose investments with stable management, a strong balance sheet, a history of good dividends and a high return on assets.

DIY super funds get a $50bn boost

Self-managed funds now account for about a third of superannuation's $2.2 trillion in assets. Total SMSF assets increased by more than 8%, or about $50 billion, in 2016, according to the Australian Prudential Regulation Authority.

Super funds of all types with more than four members hold about $1.5 trillion in assets. Of this, 50.2% was invested in equities in the December 2016 quarter.



TOP 3 AUSTRALIAN SHARE FUNDS, BY 5-YEAR PERFORMANCE

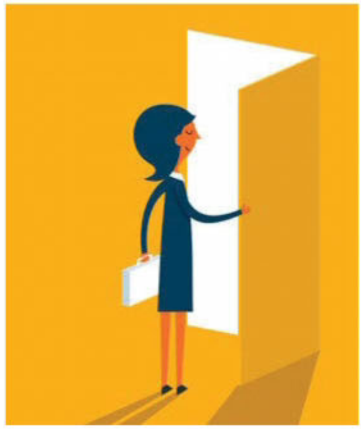
Bennelong Concentrated Australian Eq (BFL0002AU), 16.71%pa 5-year return; **Perpetual Wholesale Ethical SRI (PER0116AU),** 15.95%pa 5-year return; **Antares Prof Dividend Builder (PPL0002AU)** 14.89%pa 5-year return. Source: Morningstar as at 28-Feb-17

COMPILED BY STEPH NASH

SHARES

PAYOUTS

Better prospects for dividends



Australian dividends fell in 2016 to their lowest level since 2010, at $1.15 trillion, according to the Henderson Global Dividend Index report. "2016 witnessed a slowdown in the pace of US dividend growth while it accelerated in Europe. It was rapid in parts of Asia but below average in Australia," says Alex Crooke, head of global equity income at Henderson Global Investors.

He says the outlook for global economic growth appears brighter in the year ahead. "With a new administration in the White House promising greater spending and tax cuts for business, corporate earnings in the US could benefit, even as they contend with the effects of the strong dollar. Business confidence across the eurozone is rising too," he says. "Higher prices for oil and other commodities will lift profits for these dividend stalwarts, and allow payouts in these battered sectors gradually to be restored. This is positive for Australia, though the effect will only kick in later in the year."

LICs flood the market

A tsunami of listed investment companies (LICs) has hit the Australian sharemarket over the past four years, raising more than $3 billion, according to Morningstar's sector wrap-up. Over 20 LICs specialising in Australian equities have joined the boards since 2013, bringing the total to 49 LICs.

Once LICs were conservative and low cost but the new breed can be complex and have high fees, even though they are marketed as being simple and transparent. Morningstar says there are high fees in the initial public offer stage as well as for management and performance.

Marketing and promotional costs can add up to as much as 2.5% of the total capital raised. They are deducted from the proceeds of the raising, so investors pay.

For example, if an LIC raises $100 million, the listing costs could amount to $2.5 million, leaving the net tangible assets (NTA) of the company on day one at $97.5 million, an immediate discount to the original amount that investors paid.

Also investors should be aware of the periods when the share price may trade at a discount to NTA. "Investors and advisers need to investigate and understand these characteristics and risks carefully before making an investment decision," warns Morningstar.

In addition to new listings, existing LICs have taken the opportunity to raise additional capital.

BUY SELL HOLD

PMP merger gets green light

By Gaurav Sodhi, Intelligent Investor

The Australian Competition and Consumer Commission (ACCC) has announced that it won't contest the proposed merger between PMP and its largest rival, IPMG. This is good news for shareholders.

Combined, PMP and IPMG will control about 80% of the heatset print market, primarily involved in printing catalogues and magazines.

Source: Intelligent Investor; price as at 17-Feb-17 close of business

After the deal, PMP should be on a surer footing. If we assume that the combination can generate $60 million of EBITDA (earnings before interest, tax, depreciation and amortisation) and add $40 million of synergies, it isn't hard to imagine $100 million of EBITDA from the new entity, perhaps worth about $500 million on modest multiples. Post dilution, PMP itself could be worth about $270 million compared with an enterprise value of $220 million today. There may still be value on offer.

PMP shows the value of contrarian investing and why we seek ideas where others do not.

▶MORE SHARES STORIES ON P84-89

TOP AUSTRALIAN SECTOR ETFs BY ONE-YEAR TOTAL RETURN

VanEck Vectors S&P/ASX MidCap 50 (ASX: MVE) 55.49%; **SPDR S&P/ASX 200 Resources (OZR)** 48.6%; **BetaShares S&P/ASX 200 Resources Sector (QRE)** 46.89%; **VanEck Vectors Australian Resources (MVR)** 42.28%.
Source: ASX as at 28-Feb-17.

COMPILED BY SUSAN HELY

STORY ALAN DEANS

The CEO of an equipment hire business started by his father learnt at a young age the importance of a strong work ethic

Well equipped for the role

Kids born into families with established businesses sometimes get hooked. Angus Kennard packaged nails and measured rope at home after school for his dad's firm to sell with the equipment it hired out to builders, tradies and do-it-yourselfers. "We liked to think of it as child labour but my dad thought of it more as an apprenticeship. We even used to package up explosive charges but you wouldn't be able to do that these days. Learning a work ethic from a young age and working in and around the business was part of life."

Since late 2016 Angus has been CEO of Kennards Hire. He is the third generation to take charge, although he is not on his own. Sister Kirsty sits on the board. So does his brother Rory, an industrial designer and collaborator on innovative high-tech equipment that the pair are developing. The youngest sibling, Cameron, runs the property arm, which has 165 stores, mostly owned by the family, in Australia and New Zealand.

Then there's the new breed. "We have 14 of the next generation, ranging from 16 to two," says Angus. "Whether any or some of them choose to work in the business, it will be their choice. We don't want to put pressure on. It's about pursuing people's dreams. The most important thing is, for happiness, you pursue the thing you want to and then do the best you can. Hopefully there will be some interested in the hire business. At the moment I would say there are three or four, even though they are young."

Fact file

Angus Kennard
CEO of his family's business, Kennards Hire.

Age 48; lives at North Manly on Sydney's northern beaches. Has a passion for driving rally cars. First job was packaging nails and other goods at home after school for his family's equipment hire outlets.

Angus, 48, says there was no certainty he would be where he is today despite his child labour at home and time spent in Kennards branches during school holidays. Before joining the Brookvale outlet on Sydney's northern beaches full-time 20 years ago as a driver and servicer, he sold magazine advertising, photocopiers and forklifts. He wasn't allowed to join the family firm permanently until he had worked elsewhere for five years. "That was a requirement my dad made. If you want to work here, you have to go and make mistakes on someone else's watch."

Brookvale was the only store in the group that was a franchise. It was owned by his father, Andy, and a man who became his mentor. Angus later bought out his dad. He and his partner started a second outlet, eventually selling both to the company. Why? He didn't find the work challenging enough. "It was too easy living on the northern beaches."

But Angus stayed in the family fold. He had spotted a business opportunity in concrete and was keen to pursue it. Concreting was actually the foundation of the business 69 years ago when Angus's grandfather, an equipment merchant in Bathurst, was asked by a customer to lend him a concrete mixer. He refused, offering instead to hire it.

Following his own instincts, Angus went to the World of Concrete fair in the US where he found an extensive array of gear never seen in Australia. But it was expensive. Typically, diamonds are used to polish, cut and otherwise care for industrial-scale slabs. However, the equipment promised tremendous labour savings. An order was placed, and Angus went around building sites to see what equipment they could use, outlined the labour savings and provided costings. It worked. Seven years later he sold the business to Kennards, which has since expanded it to eight centres around Australia. "I was more interested in starting and creating businesses rather than running mature businesses," Angus says.

In 2012 Angus decided to take a break in France with his family. There was no certainty he would return. He opted next to do a global MBA through Sydney University. "I really wanted to ask two questions. Was I capable of being CEO? The second one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was whether that was a job I wanted to do. That program taught me a huge amount about my capability and what I could offer. It helped me answer those two questions."

Last year Kennards needed a new head. Angus's father retired as CEO in 1995, and external managers had been in charge since. "I put my hand up. [But the family and the board] had to make sure the selection process was right, that they were confident things were in place to ensure success. It's good to set rules and agree how it's going to work upfront. Then there are no surprises and you don't have arguments."

He admits that the family has its differences. But they are strongly engaged in the business and guided by a charter that focuses on the history, philosophy and values set by their forebears. There are seven points covering issues on how they live, treat each other and behave. Included is his father's old rule about working outside the business for five years. "Any family that says it doesn't have any conflicts is telling a fib," says Angus. "Every family has their own issues. The main thing is to ensure that there's a lot of equity in the relationship. There are businesses that have fallen by the wayside because of the family, not the business."

The equipment hire industry is estimated by IBISWorld to have annual revenue of $5 billion and employ 16,500. Sales have been slipping over the past five years as the mining boom has eased but this hasn't worried Kennards. It shuns that sector because of the boom-bust nature of the work. The only service centre it has in a mining town is at Karratha, in Western Australia.

When it comes to his own finances, Angus sticks to the tried and true. "It is a weakness of mine, not having a personal financial plan. As a family, you are always putting the money back into the business or properties. People often talk about diversifying their investments. But if you diversify into something you know nothing about, then that's risk. I've put money into shares and had mixed results. Having passive investments in something like an ASX fund, we are not interested in. We like having active investments. We invest in things like technology businesses, we invest in property and in our business. People talk about risk and diversity but we see the lowest risk is investing in what we know. Some of the shares we have bought are in hire companies, and we have done very well."

He has a bearish attitude towards the economy. Property prices are too high compared with wages. There are concerns about what will happen in China and what Donald Trump will do in the US. If he has one credo, it is to manage the finances very conservatively. Angus says the biggest opportunities for Kennards come in a downturn. That is when cash generation rises, because less is spent replacing hire equipment as demand weakens. "You don't hear of many hire companies going broke in a downturn unless they are owned by private equity."

Across all outlets Kennards stocks 90,000 pieces of equipment, not counting items like scaffolding. Most popular are jackhammers. Still stocked are 600 to 800 concrete mixers, the gear that got the company started. It writes 1.5 million hire contracts a year and employs 1400 people. "We invest in tech that we know a little about. For example, we have invested in a company that has a new technology for motors and generators that make them more efficient. That is a good product that we have brought into our business. We also own the technology, and that's sold around the world. We can leverage off that."

Does he have any financial tips? "You need good tax and financial advice. Structure things right and ensure that decisions you make are for the long term. It's very difficult to outsmart the market. Some of those investments if you follow the market over the long run, generally you will win anyway. Depending on where you are in your age group, it is difficult if you are younger or older and need dividends. You need to be clear about those needs."

Clearly, Angus is hooked on Kennards. But he does have a life outside. He was a competitive swimmer, and played team sports including football, rugby and tennis. Now he opts for the thrills and spills of car rallying. He races a high-performance Nissan GT-R in tarmac rally events, including Targa Tasmania. He has won events in his class a number of times, and last year grabbed his first outright rally win. "I use it as an outlet. You don't always win but I just love the spirit of competition and trying to excel and do better."

Down to earth ... Angus Kennard invests in what he knows.

> **"Any family that says it doesn't have any conflicts is telling a fib. The main thing is to ensure there's a lot of equity in the relationship"**

Mortgage v super

Providing for the future as well as the present is a financial juggling act

NAME: Paul and Leanne Lynch
STATUS: Married with a four-year-old daughter, Matilda.
QUESTIONS: We are paying off our mortgage and building up our superannuation – are we on the right path? Should we also look to invest in property, buy a holiday house or perhaps borrow to invest in shares?
ANSWERS: Reduce the mortgage quickly and pay it off by the time Leanne retires. Fix part of your home loan to interest only. Consider using the equity in your home to buy other properties. Forget about buying a holiday home and opt for renting one.

With the rules about contributions to superannuation changing, it is a perfect time to ask the question about whether to pump up your retirement savings or pay off the mortgage. The government is cutting the concessional contribution cap from $30,000 ($35,000 for the over 50s) to $25,000 from July 1, making it harder for people to build up their super balances through tax-effective salary sacrificing (15% compared with a marginal rate up to 49%).

Weighing up between super or the mortgage is Paul and Leanne's main question. They are building their dream home in an idyllic spot on the NSW Central Coast and their philosophy is to pay off the mortgage as quickly as possible. They are almost at the halfway point and ideally they want zero debt in the next 10 to 12 years.

At the same time they have their eye on the future and want to boost their super so that they have enough to do all the things they have dreamt about, such as travel widely. They both salary sacrifice but with lower contribution rates boosting low balances later will be harder. While they plan to retire from full-time work, they are happy to work part-time if necessary.

Are they on the right path or should they concentrate on the mortgage while rates are low? They have a mortgage with variable interest rates. Should they lock in at these low rates?

Is it a good financial move to have a holiday home in retirement? Paul and Leanne would love to get a unit at Shoal Bay, their favourite part of the NSW coast. A one-bedroom apartment costs around $350,000, rising to $500,000 for two bedrooms.

Would this be a sensible investment now, in the hope that it would be paid off by the time Paul retires, or would it be better to borrow and invest in shares, using the balance to purchase a holiday apartment once Paul retires?

Unlock equity to invest in property

MARGARET LOMAS

Margaret is founder and director of Destiny Financial Solutions and bestselling author of property investment books.

I'm glad that you are looking to the future and asking some really valid questions.

There is a 10-year age gap between the two of you and at this stage I'd like to see Leanne investing more into super than Paul. Uncertainty about future legislative changes isn't really a reason to hold back, and Leanne's time frame is reducing. If she can afford the maximum contributions, it's a good idea to make them, as she will reach the age where she can access these contributions while Paul is likely to be still working and not needing to access his own super.

He has a good 20 years to go and his strategy could be to contribute more to the extra repayments on the mortgage, rather than those extra super contributions just yet. It's definitely a great time to be doing that – while rates are still so low, more of your repayment can be paying off the principal. If you can have this paid off within the 10-year mark, the repayment amount can then be diverted to Paul's super about the same time that Leanne would be drawing down hers.

In reducing the mortgage, the equity in the family home is being increased, even without growth in the market. While you're both working, I feel that it is a great time to unlock that equity by leveraging against it into some strong property investments, which have the capacity to grow in the short term. The dual income puts you in a great position to borrow, and the right investment properties will improve your net worth, which must happen now as I don't count your own home as being an asset, since you have to live in something.

Which brings me to my final point. Investing in a holiday home is the bad idea in a bunch of pretty good ones. The areas where most people like to holiday rarely have strong growth drivers, and even if you can get enough rent to cover its costs, a holiday home is unlikely to grow well enough to add to your net worth. Most people use the excuse of "investing" to get into a holiday home that they can use now but it's rarely a good idea and can have negative tax implications if you use it yourself.

You're far better building a nice little portfolio of, say, six to eight properties (which you can actually do now given the level of equity you have) that all grow well and improve your asset base, and later sell one to swap it for the holiday home you desire. This portfolio of properties can then sit untouched all the way until Paul retires, as it's likely that his wage, combined with Leanne's super drawdown, would be enough to cover personal expenses that no longer need to support a personal mortgage once Leanne is out of the workforce.

Then when Paul is ready to retire, there should be a good amount in his super plus a portfolio of properties that has had 20 years to grow, at which time you can either continue to hold and live off the rents or sell each as you need to get at the money they have made for you.

Get rid of the 'bad' debt first

CLAIRE MACKAY

Claire is director of Quantum Financial. She is a qualified chartered accountant, self-managed super fund expert and a lawyer.

You are definitely on the right path by taking control of your retirement plans now while time is on your side.

Reduce that mortgage

For most clients the best strategy is to focus with religious-like zeal on reducing the mortgage as soon as possible. You know with certainty that you have to pay interest on this debt and that the debt is bad (that is, non-tax-deductible). Reducing the mortgage will take a huge financial load off your shoulders in retirement, and provide certainty and opportunity.

Try to push yourselves to pay off your mortgage well before Leanne retires, as this will put you in a great position in the years before retirement.

Locking in an interest rate is always a bit of a gamble when rates are decreasing but it gives you certainty when they are increasing. Comparing the variable and fixed rates gives you an idea if banks think interest rates will move. Lock in some of your debt and leave some variable – this can be a good way to hedge your bets.

Turbocharge your savings

It is great that you each salary sacrifice to your retirement savings in a tax-effective manner. Assuming you continue to do this, with 5% annual growth in super and 9.5% compulsory contributions you should have combined super of just under $2 million when Leanne intends to retire aged 65.

If over time you hit the new $25,000 concessional cap, consider making personal (or non-concessional) contributions as a top-up. Once you have paid off your mortgage, then you can consider making additional contributions to super or investing outside super.

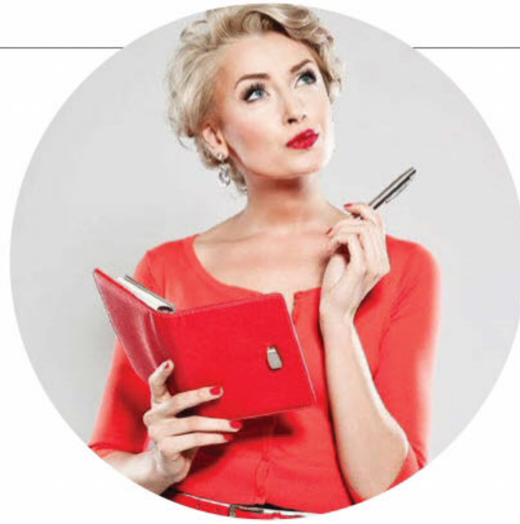
Review your super

You both have accounts with NGS, a reputable low-cost industry fund. Check to see if it offers any low-cost insurance to protect your family while you still have debt and Matilda is young. Leanne is in the relatively safe balanced option. Given her super will be invested for at least another 13 to 14 years before retirement, she may consider the growth option.

If you pay off your mortgage earlier than expected, well before Leanne's retirement, then consider investing outside super.

While a holiday home sounds wonderful, in retirement you need a portfolio of assets that gives you a tax-effective income stream to support your dream lifestyle. A holiday home needs to be managed and rented year round and will regularly need maintenance and improvement. It may be cheaper to factor the cost of renting a holiday house in your budget each year.

You have the basis for a sound financial plan that will give you security and support your dream retirement. With a few tweaks I'm confident that you'll be celebrating the rewards of all your hard work!



Q&A

Randy is wary of debt but it's time to ...

Take the plunge into property

Q I am 46 and recently got Australian permanent residency with my wife and two kids. I have a deposit of $200,000 and have pre-approval for a $1 million loan. I have super of $90,000 and my wife has $15,000. There are some other shares and savings (about $250,000).

Since I don't want to change the kids' current schools, I have started to explore properties in my current area. There are hardly any houses for less than $1.2 million. I could buy an apartment for $750,000-$800,000 or a townhouse for $850,000-$900,000. I don't feel comfortable taking on a big debt at this stage of my life (even though I may be able to service it with my current salary). What is your suggestion? I definitely want to have some property before retirement.

We are in complete agreement on you owning property before you retire, and in this super strong "big-city" property market overborrowing is certainly a major risk. Obviously your bank will have assessed your income before approving a $1 million loan, so I will assume that you can comfortably repay a loan of this size, even if rates rise.

Too much risk is bad, Randy, but then again so is too little. At some stage property prices must soften but I have no idea when. So my suggestion is to at least go with the townhouse option. At around $900,000 this is well inside your repayment capability. I do not know enough about your situation to make anything other than a general comment but I can say that when we had three young kids my wife Vicki and I plunged in and bought a house, really wondering what would happen to us. Our mortgage was huge and felt like a huge burden. Housing prices fell at times but more often went up. My income grew as my career developed but after a few years as we looked back we were so pleased we had leapt into the market.

You have to make this decision but it is hard to see a big-city home in a good location being a bad investment over the long term.

Linda's strategy could work but ...

Transaction costs are cause for concern

Q I'm 52 with a 14-year-old whose child support will cease in early 2020. I earn $78,000pa including super. My apartment is worth $1.3 million with a $450,000 mortgage. However, I have $45,000 in an offset account, $15,000 in cash and $130,000 in shares. These shares form part of the $450,000. I have only $80,000 in super. My strategy to build wealth quickly and tax effectively is to buy, renovate and sell. Is this strategy sound subject to the market being favourable and me doing concerted due diligence? I can't buy investment properties as this is deemed as income, thus affecting child support.

Hi Linda. I assume the "no investment properties" means you plan to sell your apartment and buy a new home with renovation potential. Clearly this can work, as you say, with solid research and the market remaining strong. Interestingly, I find myself scratching my head and feeling a bit nervous as I write this answer. After pausing for a coffee, I know what is troubling me. I can see the leverage in renovating your new home but the costs of selling and buying are very high: including stamp duty, I would say in the order of $80,000.

If you buy well, I agree this plan can work. But with what is obviously a very valuable apartment, my concern is that you would put yourself in a worse position. So I am going to have to leave you to make this decision. As part of your research I want you to do a risk analysis, including the costs of buying and selling and taking into account the solid position you are in now.

Another option is to pay off your apartment over the next decade or so while your super keeps building and your shares grow in value over time. Call me conservative but it is good to look at all sides of this plan.

NEED PAUL'S HELP?

Send your questions to: Ask Paul, Money magazine, GPO Box 4088, Sydney NSW 2001 or money@bauer-media.com.au.

Sorry, but Paul can't personally answer your questions other than in the Q&A column. By submitting your question to *Money*, you consent to having your question and the response you receive from Paul published in the print and digital edition of *Money*.

After caring for his disabled dad, Paul needs to …

Build an investment portfolio

Q I'm a 30-year-old who has spent most of his adult life as a carer for my disabled father, so therefore I have hardly any savings or superannuation. I started working again about 12 months ago and have managed to get out of debt and save $2000, which I have invested in the stockmarket. Should I take out a margin loan to expand my portfolio, or should I be putting all my spare cash into my super account?

Caring for your dad is a wonderful thing to do, Paul. I am sure it has impacted your financial position, but as they say family is family and money is just money. Also, at 30 you have decades in front of you.

Speaking of decades, I don't think super is your best option. Your money is locked away for three decades or, I suspect, even longer, as our population ages and retirement dates get pushed out. Sure, super is a great investment vehicle but at your age I would suggest you invest outside super so you can access your money.

A margin loan is fine with me, as long as you do not overborrow and you are comfortable to hang on through market ups and downs. I also suggest this should be a seven- to 10-year investment to allow for inevitable market falls.

A renovation went wrong, so Del faces a …

Big bill to fix damage

Q My husband Chris is about two years away from retirement and we find ourselves in a bad situation. We have a rental property on the NSW Central Coast which we have owned for about eight years and it is worth about $600,000. The mortgage is about $275,000. This was our retirement plan, as we only have $200,000 in super.

Unfortunately, a few people let us down. Two years ago we had the bathrooms and showers resealed with a well-advertised company that offered a 20-year guarantee on the job. This failed within the year but it was not noticed until there was lots of damage. After a lot of communications with the company responsible we find ourselves up for $30,000 to $50,000 in repairs to rebuild both bathrooms. The house is not able to be rented.

What is the best way to finance this? Should we get a loan or use some of the super. Would a loan be tax deductible?

To put it bluntly Del, that is a bugger. I assume you have taken this to Fair Trading and so on, in particular given the 20-year guarantee, but what a setback for you.

Putting aside the legalities of what the resealing company has done to you, the property has to be fixed. I really doubt you would get a super release on an investment property, so I think your best option is a loan using your home. I would hope your mortgage is under 4%. If not you should be shopping around – home loans of around 3.7% are easy to find these days.

I also want you to talk to your accountant or tax person about the tax deductibility of these critical repairs. I suspect the new bathrooms will be depreciated from a tax perspective but I would be interested to hear how the costs you will have incurred will be treated.

Finally, do get landlord insurance for your investment property. These policies should provide rental protection for situations such as this, and possibly with repairs.

Q&A

At 23 Paige has time to build wealth so there's ....

No need to stress about housing

Q I am 23 and stressing about ever making it into the housing market, as I only work part time while studying. I have just over $20,000 in a variety of stocks, including miners and banks, which I add to whenever I can. My savings are low at the moment as I used them to get rid of a car loan, so I'm starting again. I'm wondering if I should keep saving cash to have on hand, work on my superannuation or keep building my stock portfolio?

Crikey, Paige, at 23 I was stressing about finding enough money to go the pub on Friday night! You are off to a great start: $20,000 invested already and you have paid off your car loan. Given how organised you are, I know I do not need to ask about credit card debts.

Super is out for you, apart from your employer contributions. I suspect that with the ageing of our population, your super money will be locked away for 40-plus years.

It is a great investment but I want you to have accessible money. So I am very happy for you to keep building your share portfolio; it will have its ups and downs but over time you will build wealth.

At some stage you may use this to get into the housing market but at your age saving and building wealth is the key. Everything else will fall into place.

John's safest option is to ...

Add to the offset account

Q I'm a 30-year-old male earning about $50,000pa. I live with my girlfriend, who just had a baby. Our house is worth about $270,000 with $212,700 left on the mortgage and $15,000 in offset. I have only $20,000 in super (although I am now salary sacrificing $50 extra a week), $7000 in cash and $5000 in shares. I need some help with what to do next. Should I put money into more shares or look for an investment property, or is there something else?

John, the answer depends on your ability to save and your attitude to risk. Topping up your super via salary sacrifice is fine – it will add to your retirement pot in the future but, as I have said to Paul (see page 29), it locks your money away for decades. So I would not add any more than the $50 a week you are doing now.

The safe option is to take any savings and add them to your offset account. Your $7000 cash should go there as well – you can always access it. Next on the risk curve is to buy more shares.

About the only other sensible option is an investment property but I really would want you to have a 20% deposit to do this. I would also want you to look at your repayments as interest rates go up, and do a risk analysis. How would things look in a worst-case scenario, such as you falling ill, losing your job or having problems finding a tenant? This is all negative stuff, I know, but having a contingency plan is always sensible.

Barbara needs a strategy to …

Prevent the family wasting inheritance

Q I am 74 and have made a will that splits 70% between two family members and 30% between three grandchildren. As my family are very poor at budgeting or saving for the future, I hope you can help me make the right decision.

I was wondering if I could set up a new will designating a third of their inheritance to each person and two-thirds to long-term investments and/or super, so that the funds can give them an ongoing income for their later years. I prefer this outcome as I do not want the family to have short-term access to all the funds, shares and property that have taken me a lifetime to accumulate.

I am delighted to get your email, Barbara. Too few of us have prepared an up-to-date will, let alone have thought deeply about the issue.

You could certainly give your views about limited short-term access to funds in your will but, while I am not a lawyer, I don't see how these views would be enforceable. A suggestion I have for you is to put the longer-term money into a testamentary trust, established on your death. You could direct, via your will, money into these trusts.

We have these in our wills. It allows my wife and I to ensure we care for those we leave behind and avoid the often poor impact of a lump sum that gets spent or lost. A trust can distribute investment income only, it can provide money as a loan to repay a mortgage, or it can distribute capital as you feel appropriate, that is, you could release up to 30% on your passing, then the balance at set times in the future. Well worth having a chat with your solicitor.

With three properties already, Tony can afford to …

Max out on pre-tax super

Q I'm 30 and my wife is 33, we have a child of 16 months and live in Sydney. My income is $180,000 and my wife works part time and makes $85,000 a year. We have a combined $200,000 in super and $135,000 in stocks in both the US and Australia. Our primary place of residence is valued at $900,000 and we owe $660,000 (but also have $200,000 in offset). One of our investment properties is valued at $470,000 (we owe $270,000) and the other investment is valued at $550,000 (we owe $395,000).

All of these properties are within the Sydney area. We are considering whether or not we should buy another investment property about two to three hours north of Sydney or whether that is too risky given our property exposure and what the 2017 market could bring? Should we rather build up our stock portfolio or just keep stashing away money in the offset?

Hi Tony, what a wonderful position you are in at such an early stage in life. Including your offset account, your debt-to-equity ratio in your properties is about 58%. And if we add your super and shares to the pot it is around 50%, a very safe level. On top of this your family income of some $265,000 is very healthy.

Despite your youth and years to retirement, on a big income like yours I would firstly ensure $35,000 goes into your super this year, and then $25,000 from July 1, when the amount you can put in pre-tax drops.

I will save you my usual "too much property" lecture – you and every other reader are probably sick of that – so while in your situation I would prefer to see better diversification, in particular building your international shares, I can live with you buying another property north of Sydney. In your shoes I'd max out on pre-tax super then, given you have three properties, I'd pay off the mortgage via the offset account.

But your position is so strong, with decades of earning in front of you, that I am unusually relaxed about your choice. Just make sure you have death cover and income protection in case of illness or injury – that is about the only downside potential I can see.

SMART SPENDING

Destination Macau

Bling city ... clockwise, from above, the glittering Cotai Strip; Senado Square; Portuguese custard tarts; the World Heritage ruins of St Paul's.

Five things to do

1. Cotai Strip You don't have to be a gambler to appreciate the grandeur of Macau's many casinos. Walking down the Cotai Strip is like walking through Las Vegas. Whether you're admiring the enormous sculptures made from flowers at the Wynn Palace resort, sitting on the observation deck of the replica Eiffel Tower at The Parisian, or travelling down the Grand Canal on a gondola at The Venetian, you'll be blown away by what outrageous sights the strip has to offer.

2. Taipa village: Macau was colonised in 1887 by the Portuguese, who had been occupying the land since the 1500s. It was given back to China and granted autonomy in 1999, making present-day Macau an eclectic, visually mesmerising mix of European and Chinese cultures. For a visual feast, Taipa village is a must. It consists of narrow cobbled streets, old Catholic churches and colonial houses painted in pastel pinks, yellows and blues.

3. Portuguese tarts: Sink your teeth into a sweet, eggy treat. To not do so would be a travesty. You'll find egg tarts all over Macau but the best is said to be at Lord Stow's bakery in Coloane.

4. Wynn Palace performance lake: Just like at the Las Vegas Bellagio, the Wynn Palace has its own performance lake with a free daily show. Water is shot out of 300 jets and dances to the rhythm of a mix of popular show tunes and traditional Chinese music. With fireballs, coloured lights and 3 million litres of water, this will definitely be a trip highlight. Tip: If you want to get the best view, line up for the Wynn's SkyCab – a cable-car ride around the palace (yes, this hotel has its own cable car).

5. Ruins of St Paul's: Located on a hilltop in Santo António, the ruins of the 17th century Catholic church complex is one of Macau's best-known landmarks. It was the largest church in Asia until 1835 when it was destroyed by fire during a typhoon. The stone facade is now a UNESCO World Heritage site. Its statues, ornaments and engravings have been restored, making it a treasured and highly visited icon for Macau. STEPH NASH

DRIVING PASSION

City drivers cross over to hatchbacks

Aussies are buying more SUVs than ever and one of the booming sections of the market is at the smaller end, where a combination of a high driving position and compact city-friendly dimensions is attracting buyers in droves. Many of these vehicles are essentially compact hatchbacks on stilts, known as crossovers, with popular models including the Nissan Juke, Mazda CX-3, Suzuki S-Cross, Subaru XV and Fiat 500X.

Currently it's the CX-3 that reigns supreme in this rapidly emerging market, which also includes the Mitsubishi ASX and Honda HR-V. However, it's about to be shaken up by the all-new Toyota C-HR and, to a lesser extent, the facelifted Peugeot 2008. Crossovers are also becoming a key market among prestige brands and include hatch-based models such as the Mercedes-Benz GLA, Audi Q2, BMW X1 and Mini Countryman.

DAVID BONNICI, WHICHCAR.COM.AU

$19,990-$37,690
Mazda CX-3

Built on the same chassis as the Mazda2 city car, the CX-3 (pictured) outsells the popular small hatch thanks to its sharp looks and is the biggest selling small SUV in Australia. Unlike the Mazda2, the CX-3 comes with a choice of petrol and turbo-diesel engines and front or all-wheel drivetrains.

Pros: Striking styling; broad model range; cool factor.
Cons: Poor rear-seat vision; slightly underpowered.
mazda.com.au

$26,990-$35,290
Toyota C-HR

This all-new model is Toyota's smallest soft roader with looks that defy the maker's conservative image. Its entry-level price is higher than that of most of its segment rivals but that's offset by generous standard equipment. The CH-R provides a fine balance between ride comfort and handling.

Pros: Eye-catching design; strong equipment levels; spacious interior.
Cons: Relatively high entry-level pricing; poor rear-seat vision.
toyota.com.au

$26,490-$32,990
Peugeot 2008

The underperforming Peugeot 2008 has just received a much-needed performance boost as part of a facelift that's hoped will improve its popularity. The upgrade comes with a bolder face, advanced and efficient 1.2-litre three-cylinder turbo, and improved safety features.

Pros: Fuel efficiency, zippy performance; extra features as standard.
Cons: No manual transmission; diesel engine or all-wheel-drive options.
peugeot.com.au

EXTRAVAGANCE

When the heat is on

You can still enjoy the outdoors in the cooler weather with EcoSmart's Wharf fire table, which is fuelled by bioethanol.

How much: From $5995
Where to buy: ecosmartfire.com.au

WINE SPOTLIGHT

2016 Logan 'Weemala' Gewurztraminer $19.95

There aren't a huge number of good gewurztraminers in Australia. This refreshing white with a beguiling bouquet is worth trying. There's wonderful rose petal and Turkish delight aromatics that entice; a hint of sweetness on the mid-palate and a clean, fresh, crisp finish that feels dry. Different and delicious.

SPLURGE

2014 Wirra Wirra 'RSW' Shiraz $70

The flagship of the excellent McLaren Vale winery is, not surprisingly, a tribute to its founder and a regional classic. In 2014, it is powerful, opulent and concentrated with classic dark plum, blackberry and bramble flavours, with the structure and fine, ripe tannins to ensure that it will age well. Superb.

PETER FORRESTAL

SMART TECH

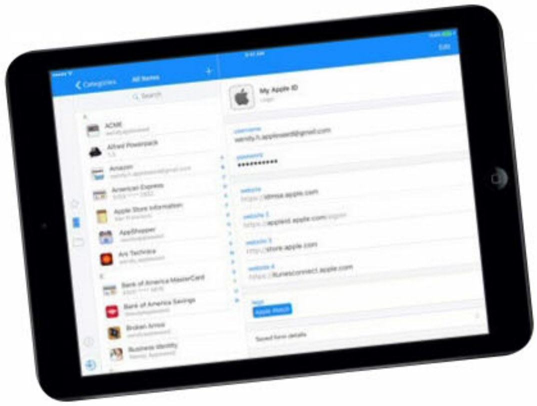
Passwords protect your digital world

It's not exactly the most exciting part of owning technology but ensuring your computer, mobile device and online accounts are safe and secure is essential if you don't want your personal data to be at risk. Internet giant Yahoo came under serious scrutiny in 2016 when news broke of two massive data breaches, one of which compromised more than 1 billion user accounts.

That's a lot of potential risk. But since it's basically impossible for regular users to prevent these kinds of hacks, what can we do?

The easiest and most effective steps to protect yourself are to use strong, different passwords for everything, and to enable two-factor authentication (2FA). These days 2FA is available for almost every major tech service, and it ensures an extra layer of security, requiring log-ins from new or unrecognised devices to confirm their authenticity by, for example, entering a code sent to your mobile. It's a small step but it offers a lot of protection against anybody trying to use your credentials.

Running security and VPN (virtual private network) software gives you even more safeguards, not to mention peace of mind. PETER DOCKRILL



What is it? 1Password
How much? From $US2.99 ($3.90) a month.
Pros: Can't remember a zillion passwords? Password managers such as 1Password mean you only need to remember one, with the app storing all the rest for you in an encrypted digital wallet. It generates strong (randomised and long) passwords and works on both PCs and mobile devices, including various browser and app integrations.
Cons: Don't want to pay? Check out the excellent LastPass (which is now also free on mobile) and other free alternatives.
1password.com

What is it? Private Internet Access
How much? From $US39.95 ($52) a year
Pros: VPNs anonymise all the data you download. Put simply, by subscribing to a VPN all the internet traffic to and from your device gets routed through a tunnel that encrypts and anonymises your data, making it theoretically impossible for you to be snooped on. It also hides your location, meaning you can access geo-blocked content online.
Cons: Do some research to ensure the provider is trustworthy.
privateinternetaccess.com

What is it? Symantec Norton Security Premium
How much? From $79.99 a year.
Pros: You can manage your passwords, enable two-factor authentication and anonymise your traffic but none of these can protect you from malware or dangerous content online. Norton Security Premium has standard anti-virus features plus other functionalities, including a firewall and online backup.
Cons: Entry-level version supports only one device. For multiple licences you'll need to upgrade. There's a big range of competitor products (some free).
au.norton.com

GIVE IT UP

Breast cancer Mother's Day appeal

What is it? Give your mum a thoughtful gift on Sunday, May 14, by donating to the Breast Cancer Institute's appeal. Every donation receives a card that acknowledges the contribution. You can be sent a hard-copy version or, for the long-distance mother, an e-card. The appeal has been running for over 10 years.
Where your money goes: Every day in Australia, 44 women are diagnosed with breast cancer. Every donation will support research into new treatments and prevention strategies. The institute is the fundraising and education department of the Australia and New Zealand Breast Cancer Trials Group, which conducts independent and collaborative clinical trials. The program brings together more than 700 researchers in 86 institutions in Australia and New Zealand and connects them with leading researchers in 40 countries. The institute's aim is to eradicate all suffering from breast cancer and achieve the ultimate goal of "a world without breast cancer".
How to donate: Visit the website BestGiftofAll.org.au or phone 1800 423 444. STEPH NASH

WEBFIND

THREADHARVEST.COM.AU

Sustainable fashion is a big trend. If you prefer not to buy clothes made in a sweatshop, Thread Harvest can help you find fair-trade garb, brands that employ staff from marginalised communities and use ethically sourced materials.

STEPH NASH

Best place for a $100,000 windfall

I'm 40 and work full time, earning $70,000; my wife Kim is 33 and is full time at home with our toddler and new baby. Recently we have received a payout of $100,000. Our primary residence is worth $700,000 with a loan of $495,000. We have two investment properties, one worth $270,000 with a loan of $250,000, the other worth $340,000 with a loan of $300,000 and rented at $270 a week. What do we do with the money? At present it sits in our offset account. Our self-managed super fund is ticking along nicely, however I would like to reduce some debt. What is the best way forward?
Rob

Kim and Rob with Owen.

Paul's verdict: Aim for financial independence, not silly 'retirement'

Run through the numbers for living a much longer life

You know, Rob, once in a while I get a question that I feel I can answer simply and concisely. Thank you. You cover all the key issues: your ages, salary, children, property values, super and in particular a clue in that you want to reduce debt.

So my opinion is equally clear. Leave the $100,000 in your offset account.

This also leaves me with a pleasant opportunity. As I don't have to use my 900-word allowance that *Money's* deputy editor, Maria, gives me (and I get into trouble if it is too long or too short) to look at a wide range of issues, I get to do a bit of modelling for you. We all have goals and aspirations, so I am curious to look at your situation as you approach what today is called retirement.

Retirement is a really silly word and it should be dumped. It did not exist before the early 1930s. A small percentage of people were really rich but the other 97% of us just worked and died. Even in 1908, when the age pension was established, it was only for the odd exception. A male, for example, needed to be 65 and the average bloke died at 54.

Today, Rob, your life expectancy is 38.4 years, so about age 78. Your wife is 49, so 82. This does not include the "staying alive" dividend. Life expectancy has been increasing by three months a year for over 160 years so you would be smart to assume a real chance of living longer.

So I want all of us to forget retirement and aim for financial independence. I suspect that, like me at age 61, most of us will plan to work at least some of the time for stimulation, social benefits and some cash. This is much more fun if we are financially independent and we work longer out of choice, not compulsion.

I want to be conservative, so I will assume that you or your boss is able to put around 10% of your salary into super – that is $7000. You have a SMSF. These are hopelessly expensive unless you have around $200,000 or more, so I will assume $200,000. I am going to go with no additional payments into your mortgage as your wife is at home and two young kids are expensive.

I am going to grow your properties by 3% above inflation and your super by 10%, from your salary and the fund investments at 5% above inflation. I'll assume your income does not grow above inflation and that your wife does not return to work.

My time frame will be 25 years, taking you to 65, and I hope the numbers show you will be financially independent. In that 25 years I am assuming your mortgage is paid off. I will leave your investment property loans as they are today but as we are working in "real" numbers the value of these loans will be lowered thanks to inflation.

So, here we go! These are real values, with the same buying power as today but in 25 years.

Your house: $1.5 million.

Investment property 1: $571,000, real value of loan $120,000.

Investment property 2: $719,000, real value of loan $165,000.

Your super: $1 million.

Let's keep it very simplistic and assume you continue to live in your paid-off house, so your investment assets in today's dollars are some $2 million. At 65 I would be happy for you to draw 5% of that amount each year, so you would have $100,000 to spend.

This is pleasing, as it says that just doing what you are doing will get you to financial independence. What could go wrong? Sadly, the answer is ... how long a list would you like? First, my underlying assumptions could be wrong. While they are historically conservative, I have no idea what the world will look like in 25 years. Your life may change. You may earn more or less, your wife may go back to work, you may get ill.

But there is nothing like a plan and a predicted outcome. As I have navigated my way through life, I have always had a plan, be it money, holidays or racing my boat to Hobart. I recently found our 1983 budget, for our first year of marriage. It had earnings of $15,500 and spending of $15,360, hence projected savings of $140. Our income and expenditure have changed enormously but the sense of control, in that we always planned to spend less than we earned, was very powerful. Speaking of powerful, my word limit is up and I can feel Maria frowning at me.

So, Rob, I do feel the answer to your question is clear and I hope you get a bit of a sense of "cause and effect" around what your money actions today will lead to in the future.

ASK YOUR QUESTION

If you have a question, email money@bauer-media.com.au or write to GPO Box 4088, Sydney NSW 2001. Questions need to be 150 words or less and you must be willing to be photographed. By submitting your question to *Money*, you consent to having your story, photo and the information you receive from Paul published in the print and digital edition of *Money*. Readers who appear in *Money* will receive a six-month subscription.

The sharing economy

ODD JOBS
$700 a week
AIRTASKER

HIRE OUT TOOLS
$192 a week
OPEN SHED

RIDE-SHARING
$200 a week
UBER

LET OUT SPACE
$112 a week
SPACER

EARN AN EXTRA $30k EACH YEAR

OVERVIEW **PAM WALKLEY**

Millions of Australians are cashing in on the new way of doing business, either to make a living or boost their savings

Would you like to make money from your spare accommodation, spare cash, spare time or under-used car and other assets? Or do you want to access goods and services quickly, cheaply and easily from sources you trust?

Welcome to the sharing economy, a new and growing set of business models using basic technology to directly connect consumers.

"It's about creating alternatives from what you've got," says Daniel Foggo, CEO of peer-to-peer lender RateSetter. It provides marketplaces that bring both the supplier and consumer together, cutting out the middleman and enabling both sides to benefit, he says.

The sharing economy is becoming big business. It's valued at $15.1 billion, the total amount spent by Australians on platforms such as eBay, Uber, Airbnb and other newer services such as Sherpa, ShareACamper and Mad Paws, according to the latest RateSetter Sharing Economy Trust Index (SETI).

This represents an increase of 4% over the six months to November 2016, says the SETI bi-annual report, which measures our attitudes and behaviour towards sharing economy services.

And it's set to grow fast, by more than 250%, reaching $50 billion in the next five years as more Australians take advantage of new opportunities to save money and boost their income, according to RateSetter's research.

Most of us are embracing it; nearly two-thirds of Australians used the sharing economy in the six months to November 2016. And this figure is set to climb with 75% of respondents saying that they intend to use at least one service in the following six months.

"The beauty of the sharing economy is that everyone, young and old, can participate in a way which suits them," says Foggo.

Almost 60% of us are earning money from peer-to-peer marketplaces, an average of $94 a month, up 30% over the past six months.

With the underemployment rate relatively high – 8.7% in the February quarter (the latest figure available) – these new marketplaces have given many a way to supplement their incomes.

"The great thing about the sharing economy is that you are the master of your own destiny. You get to choose the hours you work and in some instances how much you charge, so it's perfect for anyone looking to supplement their income," says Mike Rosenbaum, the CEO of Spacer.com.au and a founder of the Sharing Hub, Australia's first sharing economy accelerator, to be based in Sydney.

"You also see people using many platforms to make a full-time income. I know one who uses more than seven platforms to make over $100,000 a year," he says.

Rosenbaum says the Sharing Hub will enable both young and established companies to share knowledge and experience and to promote and invest in the growth of this exciting emerging industry.

> "The great thing about the sharing economy is you are the master of your own destiny"

RENT OUT A CAR
$77 a week
CAR NEXT DOOR

DOG SITTING
$625 a week
MAD PAWS

LEND MONEY
9.4%pa return
RATESETTER

RENT OUT ROOM
$55 a night
AIRBNB

The increased take-up of the sharing economy for spending and earning reflects both higher levels of comfort in using these services and the explosion of new services, says Foggo.

To be a successful operator in these new marketplaces it's essential to build trust, he says. "You can do this by delivering good services, seeking honest feedback and being transparent."

Rosenbaum agrees. "Because you're dealing with other people in your community where you can rate and get rated, you often get a better service as people are being held accountable, and because everything is tracked it builds trust."

Foggo says his research found 26% of survey participants reported significantly higher levels of trust compared with six months ago.

"Newer entrants are benefitting from the halo effect of established players such as eBay and Airbnb, helping people understand the value and quality of services offered by these platforms as both a buyer and seller," Foggo says.

But our trust in the sharing economy remains affected by a perceived lack of personal safety (50% of respondents), a lack of understanding of how such services work (49%) and issues relating to regulation (40%), according to the SETI report.

"As the sector continues to grow in Australia, we expect regulation and oversight to increase, and this is something we welcome," says Foggo.

He says the regulatory endorsement of ride-sharing businesses such as Uber has seen those services receiving the largest increase in trust in the latest survey compared with the six months prior. And it's also one of the fastest growing services – 24% of respondents used it in the latest period and 33% say they will use it within the next six months.

Other attractions of these marketplaces are cost and convenience, according to the survey. "You can get hold of assets or services in a few minutes or hours," says Rosenbaum. "And most sharing platforms can be up to 50% cheaper than commercial solutions."

FACT FILE

It's possible to earn an extra $30,000 a year through the sharing economy. For example, both Denniss (page 38) and Gordon (page 43) collect at least $600 a week by doing deliveries and dog sitting respectively. You could earn even more by using a few different platforms, for example leasing your garage, lending cash and renting out a room. Of course, you need to declare the income in your tax return.

He says there has been a shift in consumer behaviour from most people wanting to own assets to now being happy to rent other people's assets to save money.

"We're also seeing more people using multi-sharing economy platforms to become micro-entrepreneurs. By doing so, people can make this into a full-time job, even a business.

"The sharing economy is perfect for all ages but we notice parents in particular like using it to save for holidays or to pay bills." Those transitioning into retirement also use it to make extra income or to fill in spare time, he says.

RateSetter's research found that 44% of over-55s earn money through sharing economy services. "Older Australians are the ones with the experiences and assets to make the most of the sharing economy, so it makes sense that they are the ones who get on board and try to generate some additional income," says Foggo. "And the sharing economy is a workplace which has no discrimination."

The research also found that younger generations, those aged below 44, are the biggest spenders at more than $110 a month. But over-65s are the fastest growing group of spenders in the sharing economy, paying an average $82 a month.

Peer-to-peer services offer people much more value for money, and millennials are at a stage in life where they are trying to save money, says Foggo.

Online marketplaces such as eBay and Gumtree remain the most popular, with 54% of respondents having used such a service in the previous six months, according to the survey.

Apart from ride-sharing, other sectors increasing in popularity include accommodation, such as Airbnb and Couchsurfing (15% used them in the previous six months and 26% intend to use them in the next six months), online outsourcing such as Airtasker (3% growing to 8%), crowdfunding such as Kickstarter and Pozible (5% growing to 9%) and P2P lending such as RateSetter (2% growing to 5%). The latest RateSetter SETI survey was conducted in November 2016 and included 1000 respondents.

Get paid for odd jobs
AIRTASKER

> I'd like to buy a Lexus. It's something that I've wanted for a very long time but couldn't afford on my regular income. Now that dream is not so distant!

WHY I CHOSE AIRTASKER

I was on Facebook and the Airtasker ad popped up saying "Do you want to make more money?" I downloaded the app and it was pretty easy and self-explanatory in terms of how to use it and how to go about making extra money. I really enjoy the flexibility of it. If you use other platforms, like Freelancer or Sherpa, you have to give them a fixed, allocated time in order to get work. But with Airtasker I can do my regular job and if I have some free time of, say, an hour, I can always pick up a task. It can be as small as a $30 job or as big as a $100-$150 job.

HOW IT WORKS FOR ME

I do a lot of admin stuff, data entry, cold calling. I do deliveries here and there. I'll pick up small stuff for customers and drop it off again, like a courier job. I limit myself to smaller parcels, nothing big. I've travelled all the way to Canberra, the South Coast and the North Coast delivering either keys or stuff left at the airport.

If there's too much competition around a task I don't bother bidding because the poster is not going to have the patience to go through every offer. I will always try to be the first one to bid on it because the poster will see the first person's offer.

I use Airtasker every day. I have a daily target of $100 but there are some days when you make nothing.

WHY I LIKE IT

Flexibility and independence are the biggest things for me. You don't have anyone sitting above your head telling you how to work like in a regular office job. You just have one job poster and once you've finished that task they're no longer your boss.

LESSONS LEARNED

I struggled when I first started because I realised I didn't have the reviews to get good jobs. So to get jobs I would underquote. If a job was $100 I would end up doing it for $70 or $65, even though I knew it would take a lot more effort than what I was getting paid. I've done close to 300 tasks now with an average of 280 on five stars and the rest on four stars. I'm in a much more comfortable situation than any new person joining the platform.

TIPS FOR OTHERS

Taskers should be honest and polite. It isn't always about money – it's about building a brand for yourself, which should be your priority. Money, of course, follows when you build a name for yourself but initially don't underquote – don't do the same thing I did. You can't go back and change it. It's locked in. So stick to the basic marketplace rules of being honest and reliable and if you commit to do something do it right the first time.

HOW YOU CAN DO IT

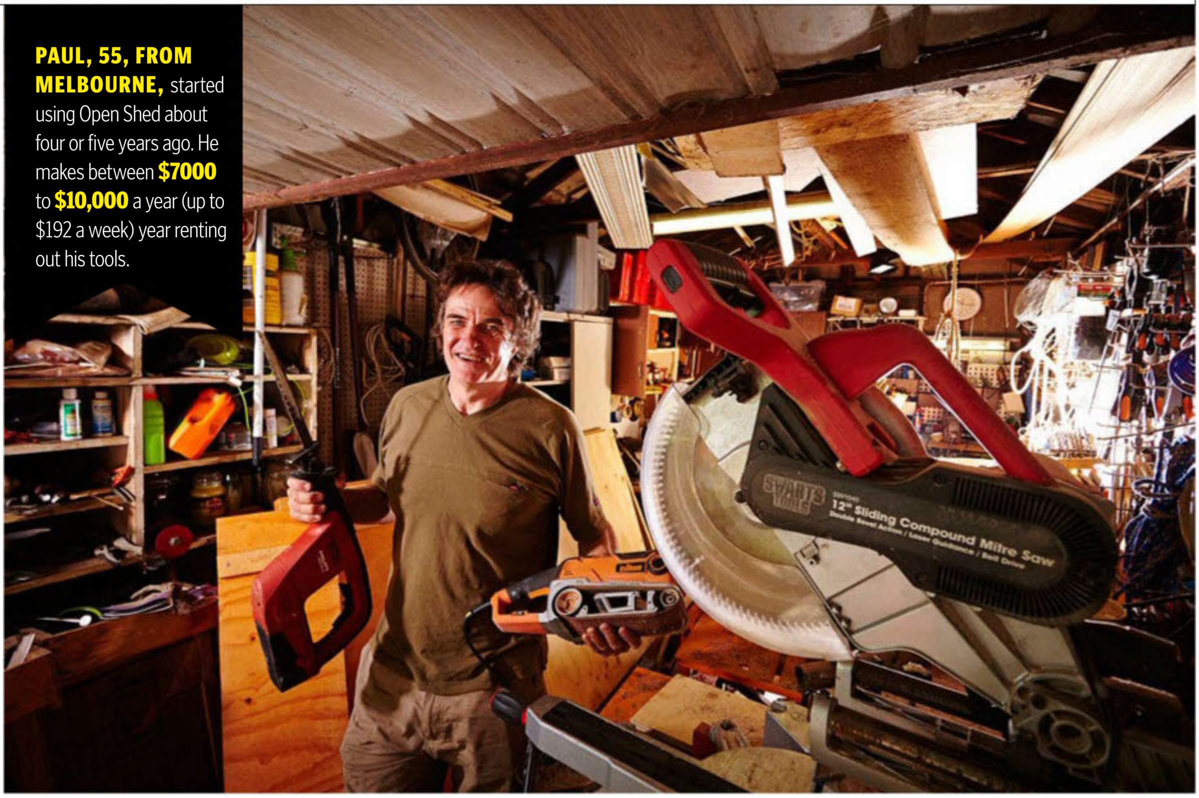
Airtasker is a skills marketplace. Job posters log jobs on the Airtasker app, which taskers then barter for via public forum. All quotes, questions and details about the job are visible to all, so everything remains transparent. Posters then select the tasker. Once you complete a task, you can be reviewed. The more positive reviews you get, the more likely you are to pick up more work. If you've done a good job, the poster will release your funds via the app. Airtasker claims you can earn up to $5000 a month by using the app.

Unless your job poster has the equipment you need to perform the job, you'll most likely have to buy it yourself. Airtasker picks up 15% of the job's price, from which it funds its free public liability insurance. All bodily injury and/or property damage claims are subject to an excess of $1000 (less if you have an average star rating above 4.5). For removalist activities, claims are subject to an excess of $2500 each (again, discounted if you have a rating above 4.5). If you're earning supplementary income from Airtasker, by law you must declare it to the tax office.

DENNISS, 27, FROM SYDNEY, is a full-time sales rep and has been using Airtasker **SINCE SEPTEMBER 2016.** In that time he has made **$24,000** and says he can make up to **$600-$700 A WEEK.**

WILL HORNER

Hire out your belongings OPEN SHED



PAUL, 55, FROM MELBOURNE, started using Open Shed about four or five years ago. He makes between **$7000** to **$10,000** a year (up to $192 a week) year renting out his tools.

EAMON GALLAGHER

> I'd like to live a lavish lifestyle without doing anything that looks like work. We define a lavish lifestyle as a trip to Europe every year.

WHY I CHOSE OPEN SHED

My partner and I are big on the share economy. We do a lot on Airbnb and also use HelpX and Car Next Door. With Open Shed, I looked at it and thought I could do that.

I had the tools sitting around. My digger has proved really popular. I only needed it for one or two jobs and now it goes out virtually every weekend – it's paid for itself 20 times over.

For a long while I used to call my toolshed my museum. We're a little bit of an urban farm so we grow more food than we can eat here and since we started ecofying the house my tool collection has expanded.

HOW IT WORKS FOR ME

Never a week goes by that a tool doesn't go out. The most would be eight times in a week and on average it's probably two or three times a week. We almost have a policy now. We say we shouldn't buy anything that we can't hire out. When I go and buy a tool now I'm thinking in the back of my head, "Will that hire out?" I'm essentially getting free tools: I'll just hire it out and get my money back.

WHY I LIKE IT

I love that Open Shed allows me to meet people all over the neighbourhood. There's people all over Coburg that I've bumped into that have hired my tools and they say "Hi" and "How's your digger going?" Conceptually it's like the village. You borrow my tool and I'll borrow yours.

I encourage everyone to get on and have a go, especially if you're home and you have some tools. It makes the world a better place, I reckon – when you're walking down the street and you know everyone and when you go shopping and someone says hello.

LESSONS LEARNED

A lot of people say that they don't want to lend their tools out because they might get damaged or someone might steal them. I've only had one tool that came back duff. There is also a bit of maintenance involved because the tools are getting heavy use. If you don't want to let out your favourite tools, then find one you're happy to lease out and give it a go.

TIPS FOR OTHERS

You've got to meet and greet your customers and show them how to use the tools. They get the manuals as well and there's some really good YouTube videos. I tell people that they have to watch the video before they come – I quiz them when they arrive to make sure they've watched it and know how to use it. And they always do.

HOW YOU CAN DO IT

There are plenty of things most of us have lying around that aren't constantly used, and through Open Shed you can hire them out when you don't need them. Items you can list include tools, books, camping gear, electrical appliances and more. Registering on the website is free but if you rent something out you'll be charged 10% of the fee. You can choose who you rent to and can decline a request.

The renter will have to pay you a bond, which is three times the daily rate. Open Shed says this ensures the renter has an incentive to look after your item. Open Shed also has a $1000 item damage guarantee so if the bond doesn't cover any loss you can claim on that.

You will need to declare any income you make on your tax return.

Ride-sharing UBER

BERNADINE, 45, AND JAMIE, 46 FROM SYDNEY, have been using Uber **SINCE NOVEMBER 2016.** The couple make on average about **$200 A WEEK.** The hourly rate averages $25-$30 but on a good night could go as high as **$50 AN HOUR.**

YIANNI ASPRADAKIS

Uber pays for extras. We have booked a cruise in the middle of the year and we are putting aside $100 a week each into a savings account to build up a deposit for a mortgage.

WHY WE CHOSE UBER

Uber fits in around our part-time jobs and our lives. We can pick and choose our hours. We like how the work is not restricted.

HOW IT WORKS FOR US

We can choose our hours. I like to work in the afternoon, every second Saturday and Sunday mornings when there isn't much traffic.

Jamie likes to Uber Thursday, Friday, Saturday and Sunday from 11pm to 4am as it fits around his regular working hours and on occasions he extends that finishing time to 6am depending on how busy things are.

We live out on the outskirts of Sydney and like to stay in the area. We often wait close to the popular pick-up areas like pubs and clubs. At the end of our hours, we can set our home address into the Uber app to get rides back to where we live.

WHY WE LIKE IT

It is an enjoyable job. People are friendly. My husband loves the job and loves the interesting people and their life stories. It is fun. Our aim is to get five-star reviews and exceptional feedback from customers. We have been given some terrific reviews about our service.

LESSONS LEARNED

At first I had some hiccups navigating through parts of Sydney I wasn't used to. But now I explain to customers that I am not good with city streets and they guide me with directions and help.

TIPS FOR OTHERS

It is easy to do. I didn't use apps a lot but I find the app simple to follow. If you refer friends, both you and the new driver receive a bonus payment after they complete 20 trips. If you arrive at a pick-up point and the customer has cancelled, they still have to pay a base fee.

HOW YOU CAN DO IT

Uber's smartphone app connects its drivers with people who need rides. Drivers can make $30 an hour. Income depends on how long and how often you rideshare. Many people just drive an hour or two a day.

Requirements and costs vary by state, but generally you need a full Australian driver's licence and other ID. Drivers need a four-door vehicle that is less than nine years old. A driver authorisation from the state transport department includes things like a medical self-declaration and criminal background and driving history checks. This can cost between $80 and $250. Also a vehicle inspection by an accredited third party. Requirements can vary state by state. You will need comprehensive insurance.

Income has to be declared on your tax return. Even if you earn less than the $75,000 GST income threshold, you need to register for GST.

Rent out spare space SPACER

LISA, 38, FROM SYDNEY, started using spacer.com.au in **MARCH 2015.** She and her partner rent out their garage and a storage cage and currently make **$450 A MONTH** (about $112 a week) from those two spaces.

ROB SHAW

> We're putting the money towards a family holiday – hopefully to Bali.

WHY WE CHOSE SPACER

My friend was using it and mentioned that renting out spare space was a great way to make an extra income for minimum effort. My partner and I had our second child, so we thought it would be a great way to make extra income to put towards bills and a family holiday.

HOW IT WORKS FOR US

We rent out our spare garage and storage cage full time on Spacer.com.au. For security, Spacer does its own checks beforehand, but we also meet renters before agreeing to sharing space, as it's our home and we want to make sure, as you would when renting out a room to a stranger, that they meet your own requirements. It also gives the renters peace of mind too.

We check everything that needs to be stored too – mainly it's been people's furniture while they are abroad, renovating or moving.

The longest rental we've had is six months while the renter was away for work. Also the longest we've waited to fill space is three weeks, so not long. We're very central to Sydney, so we can fill our space quickly, which is great. It took us around 30 minutes to fill out the form, then just 48 hours to be listed on the website.

WHY WE LIKE IT

We've looked into using other sharing economy platforms like Airbnb and Uber but they take a lot more effort and time. We just want some extra money to help pay bills so Spacer is great for our requirements as it takes minimum effort.

LESSONS LEARNED

What we've learnt when listing space is to make sure your photos are good and show what the space looks like being filled. This gives a better idea of perspective.

In regards to renting your personal space, check how long renters expect to rent out the space, and also ask for an extra contact for your renter, like a friend or family member. We once needed to get hold of a renter to let them know we would be going away, and we didn't have another contact number, so now we have back-up.

TIPS FOR OTHERS

Increasingly space is at a premium, so if you have a spare garage, shed, attic, driveway or room you could make a decent extra income. We know people who use Spacer and other sharing economy platforms like looking after pets and doing jobs on Airtasker. Using multiple sharing economy platforms can make you a good supplement.

HOW YOU CAN DO IT

If you have a garage, shed, room or storage unit that you're not using, then the idea is that you can rent it out to earn extra cash. You need to register on the website to list your space. Spacer then manages the advertising and collections, provides insurance and deposits your rental income.

You are in control and can choose who you rent your space to and can decline requests. You may choose to meet the renters first.

Potentially, you could earn thousands and Spacer can help you determine a fair price. As a rough guide a lock-up garage on average will rent for about $200-$300 a month. The closer to public amenities or the more features it has the more desirable the space becomes, says the website. A spare bedroom rents for about $150-$200 a month and an average shed about $100-$150 a month.

It won't cost you anything to list your space – Spacer makes its money by charging renters a 15% fee and then marks up the price you set.

You'll be covered by the insurance Spacer.com.au has taken out with IAG ShareCover, to cover the costs and any losses/damage suffered as a result of needing to remove stored items from your space up to $10,000. Spacer says it can help if any tricky issues arise such as storage removal due to overstay or lost-item claims by renters.

You will need to declare the income on your tax return and check with your accountant whether you may be eligible to claim any deductions.

Rent out your car CAR NEXT DOOR

NICHOLAS, 26 FROM MELBOURNE, has been renting out his car using Car Next Door **SINCE OCTOBER 2015**. He makes about **$4000 A YEAR** (about $77 a week) from the service.

> The money I make covers the rego, servicing and insurance, so it's like I have my car for free.

WHY I CHOSE CAR NEXT DOOR

I heard about Car Next Door when I was thinking about selling my car. I had moved from the suburbs into the city and just wasn't using my car much anymore. I had actually listed it for sale and had a few inquiries. It was looking like I would sell it for around $3000 to $4000. Then I heard that Car Next Door would offer me a guaranteed $2000 income over the first 12 months of renting my car out. So I thought: I will earn at least $2000 in the next year, and even if I sell it after that I'm still ahead.

HOW IT WORKS FOR ME

I block out the times when I want to use my car – it only takes a few seconds from my phone. It is available for borrowers (who are vetted by Car Next Door) to rent at other times. Car Next Door covers the insurance and handles any issues that may arise. It also provides the access technology, so I don't have to meet borrowers to exchange keys.

I generally just check the car once a week, and take it for a clean once a month. If you want, you can get a mobile cleaner to come and clean it – they can get into the car using the booking system, so you don't need to be there.

WHY I LIKE IT

Well, first, the income. It has been about double what I expected – I've earned nearly $4000 in my first year. I also love that I can drive other people's cars for different kinds of trips. If I'm going on a longer trip, like down the coast, I choose a really nice, comfortable car. If I'm moving house I can rent a van and it is so much cheaper.

LESSONS LEARNED

I've had a few odd bits go missing from the car, such as a phone charger. The lesson is not to leave your personal possessions out, and to check the car after every booking if you can so that you can notice and report anything and it's easy to work out which borrower is responsible. Once I had a borrower who had a prang but I didn't have to do a thing. Car Next Door arranged for the repairs to be done. I've had borrowers who got traffic fines – I just send them through to Car Next Door and I get paid an inconvenience fee, so it really doesn't bother me.

EAMON GALLAGHER

TIPS FOR OTHERS

Do it! I was worried that it would be a hassle but the process is really simple and the member support team is great if you have any questions or need a hand.

HOW YOU CAN DO IT

You list your car as on the website and Car Next Door comes out and installs technology to allow borrowers to get the keys.

You set your car's hourly and daily rates and availability. Drive when you want to; rent it out at other times. Screened borrowers book your car.

Your earnings depend on your car's location, condition and availability. Car owners whose car is available at least 50% of the time can earn $3600 a year on average. Top earners make $7000 to $10,000 a year.

You pay $60 a month for membership, and this includes full insurance, 24/7 roadside assist and member helpdesk, use of the key exchange and security technology, management of payments, personalised marketing for your car and use of the online platform to manage your car.

Car Next Door's fleet insurance policy offers full damage cover. Your car is covered against collision, theft and third party property damage, whether it's being driven by you or a borrower.

You do need to declare the income. The tax office advice states that you would also be able to deduct the costs incurred in earning it, which would include the monthly membership fee, fuel, servicing and tyre costs associated with borrowers' driving.

Dog sitting MAD PAWS

GORDON, 58, FROM SYDNEY, has been using Mad Paws **SINCE JUNE 2015.** He says if you're happy to take on a few pets you potentially earn **UP TO $2500 A MONTH** ($625 a week).

YIANNI ASPRADAKIS

> This is our only source of income and it allows us a comfortable life and we're able to put away a little each month towards our annual holiday.

WHY I CHOSE MAD PAWS

We love dogs and were feeling devastated after having to leave our rottweiler back in Sri Lanka when we migrated to Australia, as it was too expensive to bring her. While looking for employment we found there was a need for pet sitters so we started looking at various agencies. After speaking to a few of them I finally decided on Mad Paws. We decided to try it out and what a good choice it was, as we now get paid to do something we love and work from the comfort of our home.

HOW IT WORKS FOR ME

Once we receive an inquiry we usually arrange for a "meet and greet" with the owner and the pet. If it all works out then we approve the booking and the owners are prompted to make payment. Since my wife Daisy and I are at home all the time it works out very well for the both of us, as it gives us something to do and the owners also feel comfortable knowing their pets are not left alone. We do spend a lot of time with the pets every day as some like to play and others have to be walked, and so on. I access my profile with the Mad Paws mobile app when there is an inquiry, so I don't really have to spend much time talking to the agency or the owners. The app is user friendly, which is good as we're not very tech-savvy and it has all the information I need to respond to any of the owners' inquiries.

WHY I LIKE IT

We love that it gives us the flexibility to fix our own rates on what services we want to offer and work only when we want to. The calendar on my profile will indicate to the owners the days we are available to make their bookings accordingly. Also I can choose my own clients and what pets to accept. The automatic insurance coverage gives us peace of mind and the Mad Paws staff are very friendly and respond quickly.

LESSONS LEARNED

Not asking the owners about any peculiar habits their pets may have, like barking or chewing up things and whether they're house-trained, because although the owners are required to provide all details about their pets when making the bookings, many simply choose to ignore filling in the pet's details, which are very important. So it's always good to ask these questions when you meet the owner and pet. We even have a few pets who have been coming to us since they were pups and slept in our beds. Now that they're grown they still insist on sharing the bed with us when they come over.

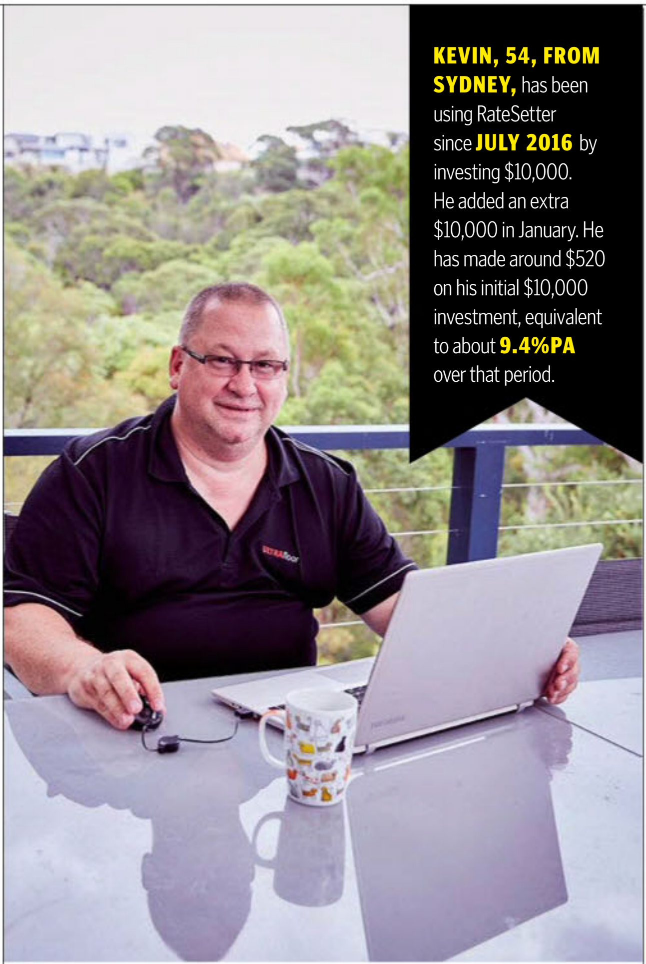
TIPS FOR OTHERS

Always try to meet the owner and pet before accepting the booking. It's imperative you feel comfortable with the pet because if you are not they will sense it and the whole stay will be miserable for you both. Also, don't take too many pets at once as then you may not have time to spend with each pet, which is quite important. Always make sure the pets are compatible with each other.

HOW YOU CAN DO IT

Mad Paws is an online dog-minding service. Following a police check and vetting procedure, you can get paid to care for dogs in your own home, take dogs on walks or house sit. Pet owners can search for pet sitters via the Mad Paws app. The higher your ranking – based on online training "badges", positive testimonials and repeat bookings – the more likely you are to be matched with a pet owner. Mad Paws suggests a charge of $25-$30 a night for dog sitting, plus more if you're picking up/dropping off or providing other services. Mad Paws takes a 15% cut from all services to cover running costs, including its liability insurance policy, which covers sitters in the event of an accident. There is a $1000 excess for the sitter. Selected "dangerous breeds" are not covered for public liability. If Mad Paws earns you additional income, you need to declare it to the tax office.

Lend money to others RATESETTER



KEVIN, 54, FROM SYDNEY, has been using RateSetter since **JULY 2016** by investing $10,000. He added an extra $10,000 in January. He has made around $520 on his initial $10,000 investment, equivalent to about **9.4%PA** over that period.

YIANNI ASPRADAKIS

> When the time comes to retire, I'll have a lot more money and I'll just have them reinvest the capital and send me the interest.

WHY I CHOSE RATESETTER

RateSetter's returns are better than the banks'. I get an average return of about 9.4%, which is great if you're comparing it to a cash account of about 2%. But you're not able to access your cash, so your money with a peer-to-peer is similar to a term deposit. However, if you look at term deposit rates for three to five years, they're a third to a half of what you're getting at RateSetter.

In my experience, RateSetter is one of the easiest P2P platforms to use. All the P2Ps operate differently. For one of them, you virtually have to choose who you're loaning to yourself, which I figure is not for me. With RateSetter, I can decide what the rate is and how much I want to invest. I also find the website really easy to use.

HOW IT WORKS FOR ME

When I'm actually trying to loan money out to people, I look at the website twice a day until it's loaned out. I've got it set on the reinvest option, so when people pay me every month my profits get reinvested. So I check once a week to make sure it has been reinvested.

If you do the reinvest option, your money gets loaned out at the market rate. That's the only downside to this platform. Market rates can change quite quickly. If the average rate moves down, my offer might sit there for four weeks and I wouldn't even know. So I check once a week to make sure that those little residuals have found a new borrower.

WHY I LIKE IT

It's just so transparent. I like that if you're putting out a loan you can see where you are in the "queue". You can see how many loans are being approved and how much money people have offered to lend. Sometimes you'll see you're in the queue at 9.2% but I've got $200,000 in loans sitting in front of me. If that money sits there for two weeks before it gets loaned out, I'm losing. But if I lower my offer by 0.1% it'll get loaned straight away. There's a lot of variability. They give you the stats about how much they've loaned out the week/month before and you can see the trends. So you can see, say, for a particular amount that I'm better off dropping the rate by 0.1%. Over the course of five years, 0.1% of $1000 is $3.80 or something. It's not a lot but if I don't have it loaned out for a week I've lost that already.

LESSONS LEARNED

When I first invested, I just put $5000 into a three-year loan and $5000 into a five-year loan. As time goes by and you reinvest, each profit will end up in another loan. In 10 years I'll have thousands of little loans. If I've got $40 invested in a $5000 loan with 20 other people and that loan falls over, I've really only lost $40 at most. I know RateSetter has the provision fund but I don't know what's going to happen in the future. It's a risk thing for me. When I topped it up in January, I just put it all on in $500 increments. I put $500 on one day, and it found itself a loan. I put $500 on the next day, and it found itself another loan. That way I've spread out my risk. I didn't think about that until after I had started.

TIPS FOR OTHERS

Cut up your investment into smaller loans because an individual loan could fall over. To date, they claim they've covered every bad debt ever through their provision fund. They've got a lot of money in the provision fund but I don't want to be that 1% that they don't cover.

HOW YOU CAN DO IT

RateSetter is a peer-to-peer lending platform. You select your lending market, amount to invest and interest rate and RateSetter selects the borrower (which could be an individual or a business). The minimum investment is $10 with no maximum currently. Your invested amounts can be lent to individuals either whole or as part of a loan. For an investment term of five years, the current interest rate is about 9%pa net of fees. Interest is paid to lenders monthly and can accrue in a holding account or be reinvested. RateSetter charges lenders 10% of gross interest earned on loans. In case of borrower default, you can apply to be compensated via the RateSetter provision fund. This money comes from charges paid by borrowers. It is not a guarantee or an insurance product – if it has insufficient funds to compensate you, RateSetter will direct you to a debt collection agency. Earnings you make are taxable.

AIRBNB

Rent out a spare room

SILVIA AND LUKE, 30, FROM THE GOLD COAST, have been using Airbnb to rent out their spare room for **TWO YEARS**. They get around **$55 A NIGHT IN LOW SEASON** but more in high season.

RICHARD WHITFIELD

> With the extra income we have upgraded our kitchen and done a bit of travel. Our next goal is to refurbish our bathroom.

WHY WE CHOSE AIRBNB

A friend of ours become a host on Airbnb and had a great experience, so we thought it would be a great avenue to supplement our income and meet some terrific people along the way.

HOW IT WORKS FOR US

We have about two or three new guests each week – it's been very busy over the past nine months. As we both have full-time jobs we need to be quite organised and change the room over in the evenings. We have a day of preparation time between guests. We like to always keep our place quite neat and clean even without guests, so that part isn't an issue. It is a team effort though. We manage the bookings and messages through the Airbnb app, which is very intuitive and helpful.

WHY WE LIKE IT

We genuinely love getting to know our guests. They have come from across the world into our home and wanting to experience the way Australians live. We also love to travel so it feels like we are travelling when we are getting to know our guests, their home country and culture. This could be over wine, dinner or still in our PJs for breakfast.

LESSONS LEARNED

The biggest lesson we have taken from this experience is our personal appreciation, patience and acceptance of people. Each guest comes with their own routine, traits, quirky behaviour, values and beliefs. We have learnt to be very flexible and accommodating.

TIPS FOR OTHERS

A big consideration for people thinking of renting a spare room is whether you're willing to share your space and belongings. Will you be OK if a guest breaks something or scratches a good pan? A big tip is to treat guests how you would like to be treated if you were travelling.

HOW YOU CAN DO IT

You can rent out a room or whole home. Airbnb verifies the guests, including phone numbers. After a visit, you review your guest and they review you.

You set the amount you want to charge. You can set the pricing, the highs and lows, or leave it up to Airbnb. You decide when you want to host and how often. For example, you can set a three-night minimum or block out times when you will be travelling or you want a break from hosting. Airbnb handles the money. It charges guests when they book and pays the money into your bank account once the guests arrive. Airbnb takes 3% of your earnings.

To set up an Airbnb you want a comfortable, clean space for your guests and need clean sheets, towels and toilet paper. Guests typically want good wi-fi too. As your space takes off, invest some of the money back into the room and its amenities.

Airbnb provides $1 million insurance cover for your home and contents at no cost. Also there is insurance in case a guest is injured. You need to include your Airbnb income on your tax return. And when you sell your home you have to pay capital gains tax based on what proportion of it, in floor area, is used to produce an income.

Avoid the bill shock

STORY STEPH NASH

Watching your favourite shows can be an expensive pastime but there are clever ways to keep costs down

It's the end of an era for CDs and DVDs. So long, 10-disk box set. Farewell, plastic CD stand. Technology and minimalism are now going hand in hand, so if you want to want to listen to a fresh track or watch a new blockbuster, you can now consume your media directly from your TV, laptop or smartphone. It's easy and remarkably efficient. But it can also become seriously expensive.

Something for everyone

TV and movie buffs know the pain of having to sign up to each and every streaming platform for fear of missing out on the latest release. There are three major video streaming platforms: Netflix, Stan and Foxtel Play. If you're into niche genres such as reality TV or car docos, you might also want one of the other platforms, such as Hayu or Amazon Prime. And then there's music. Spotify can get you almost everything but if you like Kanye West and Taylor Swift you'll need Apple Music too.

Netflix has its own "Originals" – a range of new TV series that are exclusive to the platform. Netflix hosts award-winning shows such as *The Crown*, *Stranger Things*, *House of Cards* and *Orange Is the New Black*, which is a big standout for viewers.

Stan, on the other hand, has whole seasons of classics such as *Friends*, *Seinfeld* and *Breaking Bad*, plus a new exclusive deal with America's Showtime network, which means the much anticipated release of *Twin Peaks*. It also hosts a range of new exclusives including *Billions*, *UnReal* and *Younger*.

Foxtel Play is the only place in Australia where you can legally watch *Game of Thrones* and some HBO programs.

A Netflix subscription costs $11.99 a month to watch on two screens at the same time. You can pay a bit less for one screen and for standard quality only, or a bit more for ultra-HD streaming and up to four screens. Stan costs a flat $10 a month for up to three screens at the same time. Foxtel Play has a different fee structure, with a range of packages with different price tags. The minimum price, for shows on the lifestyle or documentary networks, is $10 a month. If you want to go the whole hog, with all packages including sports and movies, it would cost $104 a month.

A subscription for the three platforms costs a minimum of $28 a month. Each platform has something going for it, and before you know it you've become a culture vulture and your subscription and data costs have soared. But we've come up with a few tips to minimise the cost of your streaming experience.

Change the way you stream

How you stream affects your data usage. When you've got a smart TV, it can be really nice to watch your favourite show in ultra-HD – but do this for long enough and it could mean serious consequences for your broadband bill.

The amount of data you use streaming a video depends on its resolution (or viewing quality). The higher the resolution, the more bandwidth (or internet speed) required to download the video. If your broadband plan is less than 100GB a month, you risk surpassing your limit if you're streaming and downloading high-definition video content. The below table shows the data required to stream Netflix, Stan and Foxtel Play at low-level and high-level resolutions.

As Joe Hanlon, editor of WhistleOut, says, the difference between the two settings is huge. If you're on a

DATA STREAM REQUIREMENTS

PLATFORM	LOW QUALITY/ STANDARD QUALITY	HIGH QUALITY/ HIGH DEFINITION
Netflix	0.7GB/hr	3GB/hr
Stan	0.57GB/hr-1.13GB/hr	2.89GB/hr
Foxtel Play	1.4GB/hr	3.2GB/hr

Source: Provider websites.

plan smaller than 100GB a month you'll have problems if you regularly stream in high definition. Switching to a lower-quality setting can drastically improve your data usage – that is, if you can bear the pixelation. If the pixels get to you, try watching from your smartphone instead (using wi-fi, of course).

"Low quality is about 500MB per hour whereas high definition is around 1.5-3GB per hour. It's a pretty big difference and it's the same for all services," says Hanlon. "If you're watching it from the TV in your house, you probably will notice it as it gets a bit blocky. But you can still save quite a lot of data if you're happy to put up with the lower quality."

To change the resolution, go into your settings and change the resolution or quality for all videos. Most platforms have an automatic or default resolution setting. Netflix and Stan's automatic setting means your stream will go up and down in quality depending on your bandwidth. Where possible, the platform will try to stream at the highest quality, so if you're conscious about your data it might be a good idea to switch to a lower setting.

Don't set and forget

The most annoying part of the exclusivity of each network is that once your favourite series concludes, you might find yourself paying attention to other shows on other platforms and still paying for the platform you're no longer using. Hanlon has a genius hack to fix that problem: switch off the platforms you're not using. It might sound incredibly obvious, but did you know that you could pause your monthly payments without closing your account?

"There are two or three shows that I love on Stan so I turn it on, leave it on for 10 weeks and turn it off again. And later in the year if there's something else I want to watch, I'll turn it back on to watch them and then turn it off again," says Hanlon.

"Some months you might have a $50 bill paying for all the services and another month you might have a single $10 Netflix bill. So don't think of it as an always-on media service. It works like a pause. They don't delete your account information and you don't have to sign up again – it just pauses the payment, so you'll still be able to watch stuff up until the billing cycle ends."

Free alternatives

If you're happy with the programs and movies that you watch on free TV but just wish you had more viewing freedom, then there are free streaming services:

- 9Now, tenplay, Plus7, SBS On Demand and ABC iview. The major television networks have their own streaming platforms via mobile app and smart TV app. These allow you to watch their programs in your own time. Catch-up TV is great if you've missed an episode or you'd like to re-watch part of your favourite show. These platforms, most notably SBS On Demand and ABC iview, also host a long list of movies. Sure, you might not get a new-release blockbuster but they're a good option if you like nostalgic titles and foreign films.

> If you're on less than 100GB a month you'll have problems if you regularly stream in high definition

- Crackle. Most smart TVs have the Crackle app. Highlights include Jerry Seinfeld's *Comedians in Cars Getting Coffee* and *The Bold and the Beautiful*. It also has an extensive list of 1990s throwback films.
- Cartoon Network. If your kids love Foxtel's cartoons, you'll be delighted to know you can watch a range of full episodes for free online. CartoonNetwork.com.au/videos hosts regular full episodes of *Ben 10*, *Adventure Time*, *The Powerpuff Girls* and *Steven Universe*.
- Popcornflix. If you're up for a B-grade movie marathon (or you're just comfortable with low standards when it comes to film), this is where you can watch movies you've probably never heard of.

Nab an unmetered deal

If you're a TV or music junkie, there are ways that you can stream to your heart's content without impacting your broadband bill thanks to the unmetered streaming deals available with certain internet service providers (ISPs) and telcos. Optus is the big one for being able to stream music and video content without it impacting your mobile data limits.

If you jump on a plan that includes a new phone of $100 or more, you get unmetered Netflix, Stan and ABC iview – not to mention unrestricted limits for Spotify and Google Play Music. There is, however, a strict rule for video streaming: it can only be streamed on a mobile device. You can't use Chromecast or AirPlay to cast your mobile stream to your smart TV, so consider that before you jump in. For broadband and TV streaming, Telstra and Foxtel are your go-to for unmetered deals. *M*

BROADBAND PLANS

PROVIDER	UNMETERED MUSIC SERVICES	UNMETERED VIDEO SERVICES
Telstra	Apple Music	Foxtel Go, Foxtel Play, Foxtel Anytime, BigPond Movies, BigPond Sports
Foxtel Broadband		Foxtel Go, Foxtel Play, Foxtel Anytime

Source: WhistleOut.com.au

PHONE PLANS

PROVIDER	UNMETERED MUSIC SERVICES	UNMETERED VIDEO SERVICES
Optus	Google Play Music Spotify iHeartRadio	Netflix: on plans including a new phone of $100 or more
	Pandora	Stan, ABC iview. Optus Sport: on plans including a new phone of $85 or more
Virgin Mobile	Google Play Music Spotify iHeartRadio Pandora	
Telstra	Apple Music	
Boost Mobile	Apple Music	

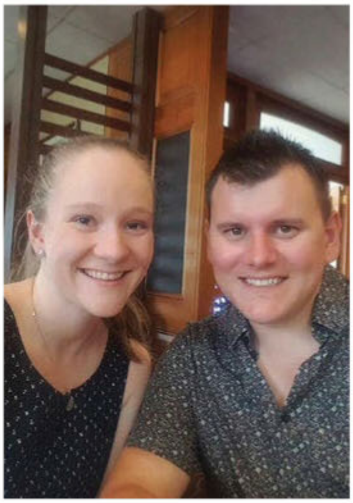
Source: WhistleOut.com.au

Stay on track

With so much on offer, how do you choose the best platform(s) for you? And even more important, how do you keep up with the schedules for new releases?

- JustWatch. It can help you identify what platforms host the shows you like. Go to JustWatch.com/au and type the name of the show or movie you're looking for into the search bar and view your options. JustWatch can also show you the most up-to-date new releases and popular titles on each platform.
- What'sOnNetflix. Netflix arguably has the most new releases on offer (thanks to its hugely successful Originals). WhatsOnNetflix.com can show you what's coming soon to global Netflix on a month-by-month basis – right down to the time of day when you'll be able to stream it in Australia. For Stan and Foxtel Play, Finder.com.au can keep you informed of upcoming new releases.
- Ozstream. What goes up, must come down. Episodes and movies on your favourite platforms unfortunately have a shelf life. Ozstream.net/expiring gives you a heads-up on what will be leaving your platforms, so you can pencil in your viewing dates before the shows are wiped from the database.

Mobile phone bill



COST CAN BE CUT WITH A LITTLE EFFORT

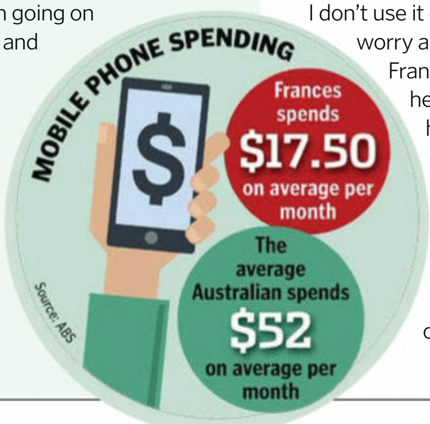
Name: Frances
Age: 25
State: Queensland

Frances (pictured with partner Stephen) has a demanding schedule, including full-time work, a busy social life and team sport, and she co-ordinates it all while keeping her phone bill below $20 a month. That is a whopping two-thirds lower than the national average.

"I feel most young people simply accept a large bill because it's just easier, and it's become the norm to have a high bill," says Frances, who has always had a pre-paid phone. "Although it takes minimal effort to convert to a smaller bill, people succumb to inertia and just stay with the same bill they've always had. People pay for convenience but you also pay for ignorance. Phone companies know how to target their marketing, so don't get suckered into paying a higher bill for something you don't use."

1 What is she paying?

"Over the last year, my phone has cost $210. This is an average of $17.50 per month," she says. Frances uses a Samsung Galaxy S4, "bought second-hand", she says proudly. As part of the Optus Crew Cap, she buys $30 of credit to last 60 days. It includes $100 of credit and bonus credit, and $100 of Optus-to-Optus call value, and free SMS to other Optus mobiles. "It only includes 100MB of data, so I only really buy data when I'm going on holidays and want to keep in touch."



2 How does she do it?

"I try to use wi-fi as much as possible ... it's very rare that I'm without a wi-fi connection, so I mainly use apps like Facebook or Viber to message or call people." Frances says she makes the most of her home internet, a bill she is already paying, instead of accruing a large phone bill.

"If I go on holidays and I'm desperate for the internet, I can buy 1GB of data for $10. Although this is an expensive way to use data, I don't use it often enough to worry about the cost." Frances says a lot of her older friends have quite cheap phone plans. "It's mainly younger people who are surprised at how much I spend on my phone."

3 How you can do it

Frances's tips

- Hang on to your old handset or buy second-hand when it comes time to update your mobile device.
- Use wi-fi or the internet as much as possible.
- Experiment with a no-spend month to see just how low you can go!
- Find apps like WhatsApp, Viber and Facebook Messenger that replace text messages and phone calls – they're free, and it's rare to be away from an internet connection.

MONEY'S TIPS

- Sign up for a plan that allows you to share data across multiple devices, for example, with your phone and tablet, or with your partner's phone.
- Review your data usage and revise your plan up or down accordingly.
- If you use your phone for work, don't forget to claim the work-related portion as a tax deduction.
- Reduce your data usage while away from a wi-fi connection by disabling automatic downloads, wi-fi assist functions, background app refresh and data-thirsty apps such as music streaming.
- Stick to no-contract plans and keep shopping around. There's always a deal going, and switching to a new plan is a quick, painless process. SHARYN MCCOWEN

Callout

Have you optimised part of your budget and want to share it with *Money* readers or maybe you need some help cutting costs? Email money@bauer-media.com.au. We'll be covering health insurance, car insurance, eating out, internet, home and contents insurance and financial planning.

STORY
ANDREW CROSSLEY

Insider knowledge and experience can smooth the way when you apply for a mortgage

Beat the loan crackdown

Times are getting tougher for property buyers. Over the past six to 12 months, every lender has made it more difficult for investors and first-home buyers alike to get finance in one way or another.

Rates on interest-only and investment loans have increased while loan-to-value ratios (LVR) have been reduced, forcing borrowers to use more equity or savings, in many cases making it too hard to purchase another property. Some lenders now refuse to accept a loan coming to them by way of a refinance from another bank if it is a stand-alone investment loan – that is, where the principal place of residence is not involved in the transaction.

The biggest negative facing first-home buyers or refinancers who just want a better rate is the cost of living expenses that lenders are now applying to their borrowing capacity calculators. It is becoming the norm that the better the suburb you live in the more you spend, and the more you earn the more you spend: living expenses are being dialled up or down based on these criteria. In addition to this, lenders are dissecting borrowers' lifestyles and really drilling down into basic living expenses such as food, shelter and – the biggest killer – the "extras".

These "additional living expenses" are now preventing people from borrowing more money, perhaps because they might have a second car, private health insurance, a mobile phone, school fees, gym membership or Netflix and Foxtel. These costs are all considered voluntary expenses and will be added to many lenders' borrowing capacity calculators.

Investors are worse off: this applies to them but also their existing debts are in many cases being converted to principal and interest payments on the borrowing capacity calculators, even though the repayments may be interest only, then a buffer rate/qualifying rate of up to 8% is being applied, even though rates can be less than 4% for investment debt.

Traditionally there have been three elements that influence the level of affordability for a borrower: the price of the property, the borrower's income and the interest rate. But, as outlined, many other factors are now having a negative impact on borrowers.

Happily, there is a way to minimise exposure to these additional impediments: use a mortgage broker. Brokers possess insider knowledge – I suppose you could call some of it "secrets" – that the banks and their staff simply will not or cannot tell you about. They are a vital intermediator between you and the lender. They carry out all the work for you and they speak the same language as the lenders. Four compelling reasons for using a broker are:

1 REASON
INSIDE EXPERTISE

Brokers have regular contact with lender/bank business development managers, which in turn provides them with insider knowledge on how best to package up a loan or submit a loan application to get the best outcome. Everyone's circumstances are different, and not many borrowers are in a perfect situation, but the more complete the application, with all the necessary supporting documents, the more likely there will be a favourable outcome.

With the broker collating all documentation, assisting the client to be ready ahead of time, and then liaising with the lender, the application is likely to be more successful. It's not just a matter of giving the lender a bunch of statements and expecting a loan to be approved. Good brokers provide clear and explanatory submission notes to summarise the strengths of the borrowers and paint a picture to the lender. They monitor the deal's progress, getting involved in expediting the loan or endeavouring to seek an exception to policy, where necessary, in order to help the deal move through the system.

Examples of this include assisting a borrower with the wording in the letter of employment to support the income, employment type and tenure of employment. This is very important when explaining anything that is earned over a base wage. The more thorough the notes provided in support of the application, and purpose of the funds, the better, particularly if there is a cash-out or an equity release component of the loan.

Anyone over 55 will find it more difficult to obtain a loan. Lenders won't admit to this, of course, but the borrower's age will certainly be closely scrutinised. Their experience in obtaining a loan can be made much more pleasant and the outcome more successful with the help of a broker. The broker would understand the exit strategy the lender will require, and can then assist the client in documenting the exit strategy. There are some exit strategies that are not acceptable, and you will have only one bite of the cherry with that one lender.

Because brokers often have direct access to the credit assessor who will determine the suitability of the borrower and the property being offered as security, they can help massage the deal through.

2 REASON
SMART CALCULATIONS

Borrowing capacity calculators differ among lenders. You may be able to borrow tens of thousands from one but I have seen instances where it is hundreds of thousands more with another. Brokers do all the work in comparing calculators and policies – it is not just about the rate – to try to get their client the loan that

> Brokers possess insider knowledge the banks ... simply will not tell you about

Spotlight on conflict of interest

There has been significant noise in relation to the review by the Australian Securities and Investments Commission (ASIC) into the mortgage broking market to understand the effect of brokers' remuneration structures on the quality of consumer outcomes.

ASIC, having analysed information on 1.4 million individual home loans as well as sales and commission on around $550 billion of new home loans, made six recommendations:

- Change the standard commission model to reduce the risk of poor consumer outcomes;
- Move away from bonus commissions and bonus payments, which increase the risk of poor consumer outcomes;
- Move away from "soft dollar" benefits, which both increase the risk of poor consumer outcomes and can also undermine competition;
- Ensure clearer disclosure of ownership structures in the home loan market to improve competition;
- Establish a new public reporting regime of consumer outcomes and competition in the home loan market; and
- Improve the oversight of brokers by lenders and aggregators.

Of course, in any industry there are good, average and bad brokers, and there are issues around the fact that certain incentives that brokers receive can and probably do cause a conflict of interest.

One of the more prominent points is the "soft dollar" benefits. Some brokers offer a loan to their clients because it will count towards a travel benefit or conference. Or they offer a loan because they will be paid more on that product. This is particularly relevant to loans that are "white labelled" (home branded) through the broker's aggregator.

Remember, this is not the majority of brokers. But there are some lazy/bad brokers who only sell three or four products to their clients. This is wrong.

Also bear in mind that the legislation for the industry could arguably be reviewed, as it does not stipulate that a loan must be suitable for a client; instead it refers to an assessment that needs to be carried out as to whether the "credit contract is 'not unsuitable' for the consumer".

Nevertheless, it is apparent to me that ASIC does place a high degree of value on mortgage brokers. It recognises that the public needs the services that brokers offer and that brokers "play a very important role in the home loan market".

CASE STUDY

Beware the value trap

Jodi and Shane, who had just bought a property at auction, had obtained a pre-approval already with the help of a broker, so the only outstanding conditions of the pre-approval were to supply a contract of sale and receive a satisfactory valuation of the property to determine its value.

The valuation was ordered to confirm the buying price and the suitability of the security to the lender. Guess what? The valuation came in less than the sale price. In this instance the valuer was not convinced that Jodi and Shane had paid fair market value. This presented a dilemma to the borrowers, as they didn't have any more cash than what they had already put aside to put into the property. This would also be a warning sign to the borrower, particularly if this property was an off-the-plan purchase from a property marketing company – it could be cause to pull out. In this instance, it was an established property, so the broker appealed the valuation, something a bank branch may not bother to think about doing. And disputing a valuation can sometimes work, but not often. Unfortunately, the loan was declined due to the low valuation and limitations placed on the loan-to-value ratio (LVR). So with a shortfall of $29,000, that was the end of the deal with that particular lender.

Welcome to the world of valuations, where nothing is clear cut. This is a situation where having a broker can help. In this instance, however, the broker was able to order an upfront valuation with another lender, who accepted the contract-of-sale price.

The borrowers were able to proceed with the deal, and it was done within two weeks. If the borrowers had gone directly to the bank, and the valuation didn't stack up, they would have had to potentially go pleading to family or friends for more money, and that was something they did not want to do.

Keep in mind that if they did not settle, they would have been in breach of the contract: it was "unconditional" (not subject to finance) as the property was purchased at auction. They would have lost the deposit and may have been charged re-advertising costs if the property was placed back onto the market.

Win a copy of *Property Finance Made Simple*

Andrew Crossley is a property investment strategist and the founder of Australian Property Advisory Group (australianpropertyadvisorygroup.com.au). He is also the author of the bestsellers *Property Investing Made Simple* and *Property Finance Made Simple* (Busybird Publishing, $24.95). We have 10 copies of *Property Finance Made Simple* up for grabs. For your chance to win tell us in 25 words or less your best tip for securing a home loan. Send your entries to money@bauer-media.com.au or *Money* magazine, GPO Box 4088, Sydney, NSW 2001. Entries close May 3, 2017.

best achieves the desired outcome. No one lender will do this for you: as they only sell their products, they are limited to their own calculator.

The broker can choose a lender that assesses existing debt using actual repayments, not converting them to principal and interest, at a lower qualifying rate/buffer rate than what you have access to, as some of the lenders that offer better borrowing capacity calculators are not widely advertised to the general public. These lenders offer better rates than the big four banks. An example is Homeloans, a mortgage manager that provides several lending solutions. One of its products has only a 20% buffer for repayments on a client's other mortgage debts.

3 REASON
CREDIT SCORE PROTECTION

Applicants sometimes create problems for themselves, such as by making inquiries with different lenders. In doing so they can degrade the quality of their credit history. Each time a person shops around, a hit may appear on their credit file, making it less palatable for a lender to want to deal with that borrower. More than two hits and you are effectively a poisoned chalice to most lenders. A good broker shops around for you, without affecting your credit file. They do all the legwork, submitting your application only after ascertaining that it meets that lender's policy.

4 REASON
HANDS-ON EXPERIENCE

I have found that many bank staff lack the personal experience needed to truly put themselves in the client's shoes. They may have forgotten what it was like to apply for their first home loan, or they may be very young and have no investment properties themselves, or they may not understand more complex trust structures.

Finding a broker who specialises in particular products or borrowers – such as first-home buyers, construction or commercial finance, property investors or non-conforming loans – increases the likelihood of being offered a tailored solution, not a product off the rack. This is important for anyone who ever wishes to purchase more than one property in their life. They need a strategy. A good property adviser will work with a good mortgage broker to map out a path for the borrower to be better able to keep borrowing money. There is an order in which you choose a lender based on your property strategy.

Getting your finance structure correct for investing is critical. It can enable you to more easily purchase your first property and put you on the path to achieving your investment goals. On the other hand, if it's not set up correctly it almost certainly will place premature limitations on what you will be able to do, resulting in frustration and missed opportunities. Your finance structure and strategy must be sustainable based on your circumstances and have the flexibility to enable you to manage it on your terms. Understanding structural differences in potential paths forward will help in the future, not just the next 12 months or three years. *M*

Should deposits be waived for first-timers with good rental history?

YES

BRYCE HOLDAWAY

Partner of specialist property investment advisory firm Empower Wealth

They should – however, as long as it's available only to those with three years of unblemished rental history and it being a prerequisite that servicing assessments are no more than 10% above current rental payments as the maximum they can borrow. This will safeguard the fabric of the financial system that we all rely on. As a result, this initiative would embrace only those people who are considered a good credit risk but are struggling to get ahead of the curve with respect to saving a deposit.

Ultimately, the markets that would qualify would be self-filtering given the need for the rent to closely reflect the mortgage repayment, which is unlikely in the metropolises of Melbourne and Sydney, but the positive flow-on effect could be to markets that could benefit from an injection of demand right now – namely some regional locations as well as the oversupplied new apartment market.

Equally, this will help level the playing field for the first-home buyer who is often competing with the property investor leveraging against existing equity rather than providing a cash deposit as well as getting a tax deduction on the interest that they are paying. In some states, such as Victoria, if they were to purchase under $600,000, the state government has proposed to abolish stamp duty from July 1, 2017, which would further benefit the eligible first-home buyer to get in on the great Australian dream.

WHAT YOU NEED TO KNOW

Australian couples need to save for an average of 4.4 years for a 20% deposit on a median-priced house, according to the latest Bankwest First Time Buyer Deposit Report.

NO

MICHAEL SALIBA

Principal franchisee, Smartline Personal Mortgage Advisers

While the millennial audience may react adversely to this statement at first, there is a bigger picture and a better answer. Not only should this not happen, it will not happen, and here's why ...

Can anybody say GFC?

The US sub-prime crisis that triggered the 2007 GFC stemmed from negative equity: the value of real estate assets was lower than the debt they were secured against, resulting in around 7 million Americans losing their homes.

Much of the crisis was caused by lending with minimal or no deposits and interest rate increases due to instability.

The Australian Reserve Bank cash rate is at an all-time low with housing prices at an all-time high. Any concerns yet?

The Australian Prudential Regulation Authority (APRA) keenly watches and regulates against such things and is why 100% lending won't happen.

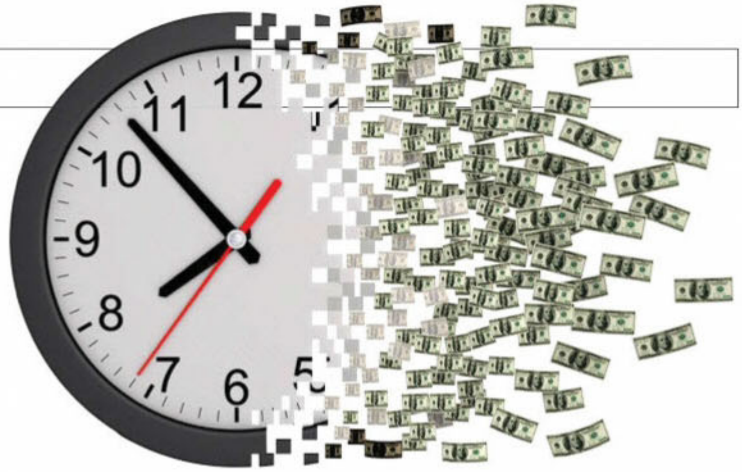
Even if APRA was in favour, equity isn't the only issue; repayments are too. The median rental yield on houses across capital cities currently stands at about 4%. So, as an example using the median house price in Australia of about $631,000 (ABS, September quarter 2016), your rental repayments would be about $485 a week, whereas your repayments on a home loan at the current average standard variable rate (about 5.5%) on a principal and interest basis would be $826 a week.

A deposit isn't the only start-up cost in establishing a mortgage. Without a deposit of 20% or more, you are charged lenders mortgage insurance (LMI). Using the above example, LMI for a home worth $631,000 would cost in excess of $25,000 to be paid by the borrower.

But wait, there's more ...

And, yes, don't forget that stamp duty of $20,000 to $30,000 is payable, depending on the state and the property.

Maybe a revisit to the first home owner grant scheme could be up for debate instead.



Safety comes at a price

First-time buyers will struggle to build a deposit if they leave their savings in cash

Even if house prices in Sydney fell by 50%, first-home buyers would still need $100,000 for a 20% deposit. While this column won't solve the affordability crisis – I'll leave this to the government – it will get you thinking about whether you've been saving money the wrong way.

Let's say you can save $100 a week. Put it under the mattress and it will take you 39 years to accumulate $200,000. Of course, nobody in their right mind would use a mattress for their savings but most budding home buyers do use online savers and right now they're only slightly better than money under the bed.

Figures from the Reserve Bank show that the average interest rate paid by bank online savings accounts (excluding bonus interest) is 1.25%, which means in real terms you're going backwards with inflation at 1.30%.

Ideally you want to be able to save in line with the asset you want to buy, in this case property. And never have there been so many options for first-home buyers to do just that. According to Anthony Millet, the CEO of BrickX, an online platform where savers can invest in property with just $100, the difference between investing in, say, cash versus property could have been as much as 114%, but more on this later.

Steve Mickenbecker, Canstar's head of research, product and strategy, says cash still has its place but with more than 30 institutions having cut rates on savings accounts since November last year the onus is on consumers to find a decent return.

"You can't just set and forget – you've got to manage cash accounts," he says. "With online savers you need to be making regular deposits or link your accounts if you want the bonus rates. With term deposits you need to manage the maturity. Don't just let the bank roll your term over again."

Of the savings accounts on Canstar's database, the maximum total rate (base plus promotional) is 3.05% from ME Bank. ING Direct and RAMS offer 3%. If you're happy to lock away your savings in a term deposit, Canstar's six-month top rate is 2.8% from Teachers Mutual Bank and UniBank. The top 12-month rate is 2.85% from Firstmac.

With rates expected to increase over the next 12 to 18 months, Mickenbecker warns savers not to lock in for long terms but rather spread their investments over several terms to catch any upswings.

While your money is certainly safe in cash accounts, you certainly won't reach your 20% deposit anytime soon. And the biggest problem, of course, is ensuring your deposit keeps up with property price growth. "The ability to save in line with the market over the last 15 years would have yielded significantly higher returns and also would have given those saving enough funds to get into the housing market," says Millet.

Using historical returns across different asset classes, he calculates that Melbourne housing saw a 173% return including rental income (see table). For other ways to build a deposit in property see page 65.

While there is merit in investing in the asset class you want to buy, Mickenbecker points out there are risks. "If there is a hiccup in that market you want to buy in and you're invested in either a fractional fund or managed fund that invests in the same asset class, you want to know how liquid this fund would be. If, say, Sydney property comes off and there's a rush for door, how will that investment fare? It's for these reasons that traditional investments like cash need to remain in your portfolios."

Finance expert and author of The Great $20 Adventure, Money*'s editor Effie Zahos, appears regularly on TV and radio. She started her career in banking.*

COMPARE THE RETURNS

$400 invested each month over 15 years

	Total return	Increase
Cash	$13,836	59%
Term deposit	$22,122	74%
ASX 200	$29,561	88%
Sydney houses	$45,775	118%
... Including 2% rental income	$64,887	153%
Melbourne houses	$53,411	132%
... Including 2% rental income	$75,217	173%

Source: BrickX

Savings account for your kids

Having a savings account for your child from the day they're born can be useful for getting a headstart on school fees, depositing occasional gifts of money and, when they're older, teaching important saving habits. With so many options, it can be overwhelming when shopping for kids' savings accounts, but remember that you don't have to go to a major bank for a great deal – you might actually get a better one with a smaller player.

Children's accounts can require a minimum monthly deposit or have transaction limits to earn bonus interest; others have balance growth requirements but this can be as low as $10. And if you do your homework, interest rates up to 3%pa are still available.

Don't wait for a sign

Discover the way banking should be

When you settle for one of the big four banks, it can feel like you're going nowhere. But you always have a choice. A choice to enjoy banking that rewards customers, not shareholders. A choice to save money and get ahead, enjoy a better banking experience and support your local community at the same time. So leave your bank behind and enjoy the way banking should be with Newcastle Permanent.

newcastlepermanent.com.au/discover

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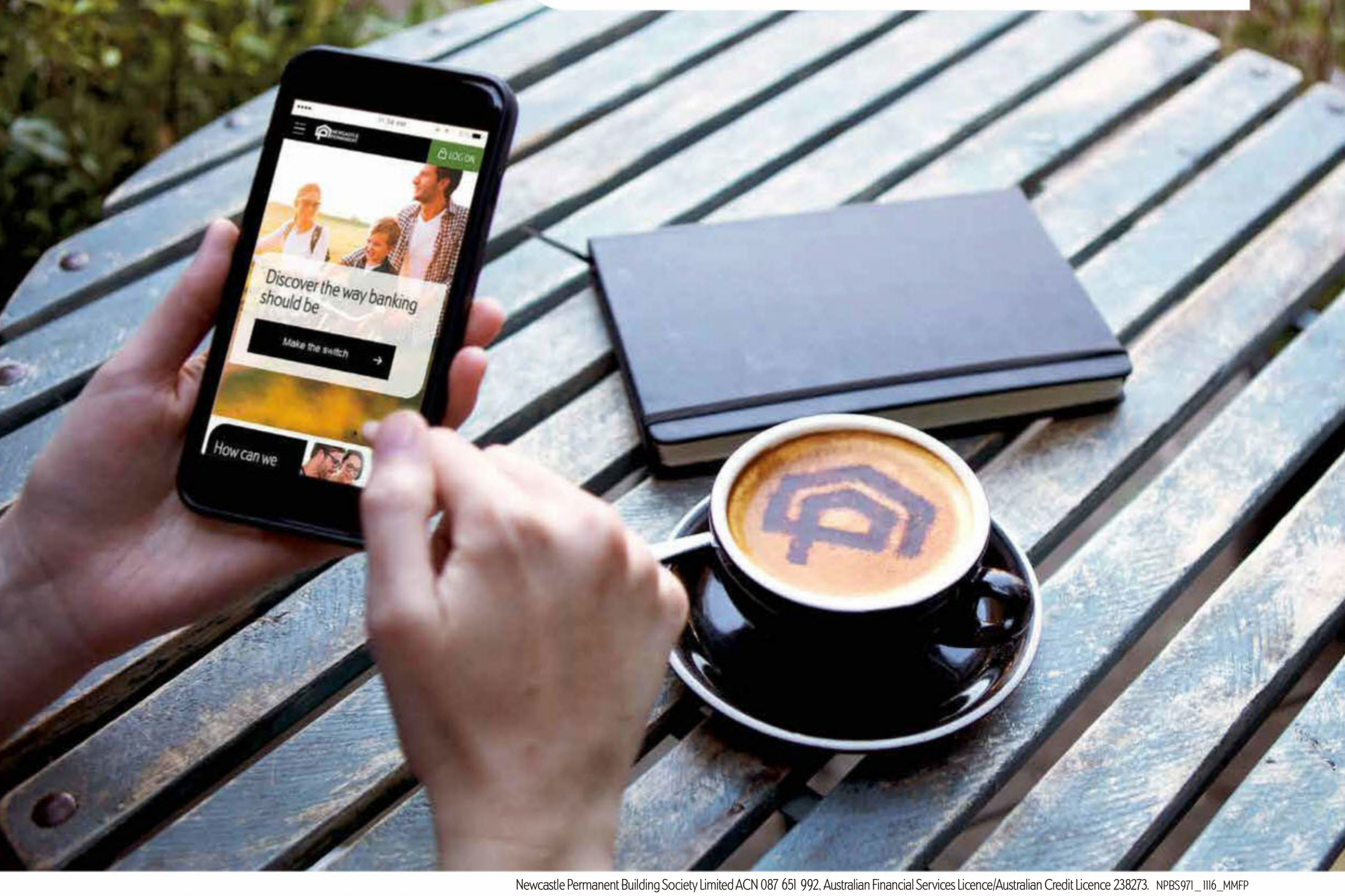
NEWCASTLE PERMANENT



Speed up the bookwork

MYOB's accounting package may cost more but it can save time and effort

MYOB Group must be doing something right, despite its accounting solutions seemingly more pricey than some of its competitors' products. The online accounting giant reported an after-tax profit of $96.8 million (up 13%) for the last calendar year.

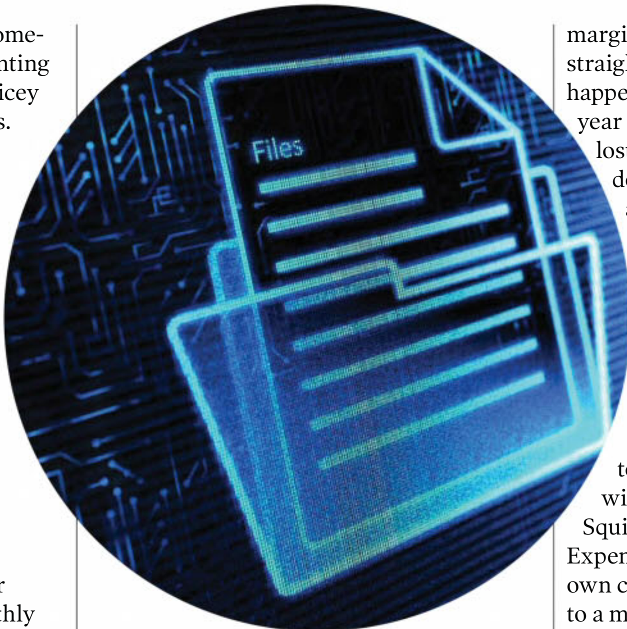
While the full-year result is certain to have been sweet music to the ears of its shareholders, MYOB's focus on providing seamless technology aimed at slashing bookkeeping time and red tape is evidently keeping it in the mix with small business owners too.

How fees work

If you're seeking the cheapest online accounting platform for your start-up business, then MYOB might not be for you. For example, there is an $18 monthly subscription for its entry-level solution, MYOB Essentials Connected Ledger. This package is aimed at laggard SMEs using shoeboxes or Excel spreadsheets to manage their accounts. Essentials Connected Ledger gives users BAS and GST reports, automatic tax updates, automatic bank feeds and secure data. In comparison, for an $8 monthly subscription Reckon One gives you most of this functionality, plus the holy grail of unlimited invoicing. To buy into unlimited invoicing with an MYOB solution, you're looking at an Essentials accounting subscription of $35 a month, which is significantly more expensive than Reckon.

Time is money

As a small business owner myself, I see shaving costs as an important consideration. However, when trading picks up, an accounting package that can reduce data entry is worth considering. Not long ago, MYOB recognised the data entry vortex confronting many SMEs and launched Smart Bills, a free function available through its cloud accounting solutions.



Smart Bills allows SMEs to drag and drop, or photograph an invoice with a smartphone, directly into an MYOB accounting solution. Users can even email bills to their MYOB accounts.

Once the invoices or expenses are in the system, Smart Bills uses optical character recognition (OCR) technology to capture key data fields and automatically enters them into a MYOB account. In addition, if a supplier's ABN is not already in the books, Smart Bills will lift it from the supplier's invoice and automatically add it to the details. This data capture enables future invoices sent by the supplier to be automatically matched. Smart Bills also provides multiple compliance benefits such as ABN validation and the electronic storage of source documents, which removes the need for SMEs to keep paper files for tax purposes.

Small business owner Margaret Whitfield, of bookkeeping firm My SOS, uses Smart Bills as part of her MYOB Essentials Accounting subscription, and says it has reduced her data processing and the margin for error. "Getting bills emailed straight in means that our data entry just happens. This [is] great at the end of the year – everything is just there, nothing is lost or misfiled," she says. "Having all documents stored makes life easier for accountants and bookkeepers, saving them hours previously spent manually entering every single client bill and invoice." Additionally, Smart Bills enables the sharing of documents between a business owner, an accountant and a bookkeeper.

In comparison, Xero doesn't offer OCR functionality directly to its customers. However, Xero collaborates with app partners such as Receipt Bank, Squirrel Street (formerly Shoeboxed) and Expensify. The app partners have their own costs, which are an additional charge to a monthly Xero subscription. For example, it will cost an additional $33 a month to process 50 expenses through Receipt Bank. With Squirrel Street, they'll hit you with $26.95 for 50 documents over and above the Xero subscription. Keep in mind that this OCR functionality is included in a monthly MYOB subscription.

"Even the most organised among us could surely think of better things to do than sorting through old invoices," says Tim Reed, CEO of MYOB. "Painstakingly re-entering details and trying to track down stray bills to balance books and remain compliant was eating into clients' time and sanity, especially at tax time. Faster processing of invoices helps manage cash flow and improves the accuracy of information in a company file. With Smart Bills, clients have insight into money owed by entering expenses as soon as they receive them, not just when they're paid."

Next month we'll check out what Xero has to offer.

Anthony O'Brien is a small business and personal finance writer with 20-plus years' experience in the communication industry.

A strategy you can trust

There is an option outside super for protecting and sharing wealth

With wide-ranging changes to super taking effect on July 1, it is worth considering whether it's time to put your non-super money into a family trust. A trust can tax-effectively distribute wealth among family members, protect your assets from creditors and help with succession planning.

Annual concessional super contributions will be capped at $25,000 from July and, for a wealthier retiree, the maximum that can be held in super will be $1.6 million. Family trusts are one of the few tax-effective vehicles other than super. "Family trusts are going to exponentially grow again," says Peter Bobbin, managing principal of Argyle Lawyers.

Here are some key questions and answers about family trusts.

How many are there? In 2014 there were 802,645, according to the tax office. Around 20,000 are set up every year, so Bobbin estimates there are 850,000 now.

> "A trust is an ideal tool for multi-generational wealth transfer"

How much do they hold? $344 billion.

How much money do you need to set one up? Just as self-managed super funds have a minimum recommended amount of around $250,000 to justify the annual costs, a family trust needs at least a similar amount to make it worthwhile. It needs to pay accounting fees and lodge tax returns.

Is there a maximum contribution amount? No, unlike super's many restrictions, there is no maximum for a family trust.

What are the attractive strategies available to family trusts? One year you can pay income to a low-income spouse; another year you can pay income to a child who is at university, because when they are 18 they can earn $18,200 tax free.

Michael Hutton, head of wealth management at HLB Mann Judd Sydney, says that through a family trust ownership of assets such as a share portfolio or holiday house can continue uninterrupted, even if a family member dies. This is because the individual doesn't own the asset, the trust does. Consequently, the assets don't form part of the estate. "Basically this makes family trusts an ideal tool for multi-generational wealth transfer while SMSFs, on the other hand, must be wound up on the death of the last member, which can also raise tax issues," he says.

How much do they cost to run? This depends on how complicated it is. Annual fees to a tax accountant can vary, says Bobbin. If it is purely for investment purposes, the fee can range from $3000 to $8000 while if it is more complex it can cost $8000 to $16,000. If it is very active, it could cost up to $30,000.

Should you set one up? HLB Mann Judd's Hutton says a trust should be considered in conjunction with an SMSF, as they work well together.

Who typically uses them? Financial planning and law firms set up family trusts so that they can protect their assets in case they are sued. If you are expecting an inheritance or are a high-net-wealth individual who has maxed out your contributions to super, a family trust could be useful. "This is particularly so if there are low-income beneficiaries in the family group to whom taxable distributions can be allocated," says Hutton.

How do you set one up? Most are set up with online accountants. Bobbin estimates around 90% are done online.

How do they compare with an SMSF? Family trusts are flexible and have no restrictions about when you access the money and no limits on the contributions. They don't have to be wound up on death, whereas super funds are for retirement and have a preservation age, contribution caps and maximum amounts.

What are the tax rates for family trusts? It depends on who is paid income. "Tax is dealt with on a flow-through basis," says Bobbin. "It is paid on whether the income is passed through to a child, a spouse or a company."

Will the tax office take away the advantages of family trusts? "They have made moves forever but the fact is that family trusts are still here. They are still the major structure and so many planners and others have them," says Bobbin.

Hutton says people tend to ignore family trusts as a wealth management tool because they believe their benefits have been eroded and they are overly complex and expensive. "In reality they are often simpler and cheaper to operate than an SMSF," he says.

Susan Hely has been a senior investment writer at The Sydney Morning Herald. *She is author of the bestseller* Women & Money.

On the starting blocks

In the age of the entrepreneur, women still have many obstacles to overcome

In today's society, entrepreneurship is more prevalent than ever. According to the US Census Bureau, in 2015 more than 400 million people globally described themselves as an entrepreneur.

This wasn't always the case. In the past the word "start-up" was virtually unheard of and a "garage" or "bedroom" business was seen as a euphemism for being practically jobless. How times have changed.

That's thanks largely to the internet, where the resources available to budding entrepreneurs are seemingly limitless. For example, the accessibility provided by platforms such as LinkedIn, Facebook and Twitter have made it easier than ever to network with people who previously remained out of reach.

So with women being natural communicators, you'd think that the landscape would be ripe with those who are striving to "lean in", as described by Sheryl Sandberg of Facebook fame, and "thrive", as encouraged by Arianna Huffington, the co-founder of *The Huffington Post*. Sadly, this isn't the case. It seems we haven't yet fully laid the groundwork to help the female entrepreneur succeed to the dizzy heights of equal representation.

Uneven landscape

Despite the flourishing activity in the start-up world, the gender scales remain uneven. Startup Muster, the largest survey of the Australian start-up ecosystem, revealed in its most recent annual report that 76% of business start-ups in Australia are founded by men and only 24% by women. Among funded start-ups it's even worse, with women representing less than 5%.

This is hardly surprising when you consider the discrepancies between male and female earnings, with women earning on average $27,000 a year less than men.

Until pay packets are equal, how are women going to feel inspired to go out and start a business of their own? Don't we have to remove any biases in pay discrepancies first, to make the general appeal of being in business as opportune for women as it is for men? I suspect so.

The statistics suggest that expecting women to strike out on their own in business simply to be in control of their own earning potential isn't a winning argument.

Things are changing

The good news is that while there are still more men than women in business, innovation and leadership, change is happening.

The Australian Institute of Company Directors reports the number of women on ASX 200 company boards has risen from 5% in 2009 to 42% in 2016.

On top of this, the federal government also reported the number of women business owners increased by 5.6% from 2015 to 2016. Prime minister Malcolm Turnbull also announced late last year that $3.9 million in funding would be dedicated to projects encouraging young women to pursue careers in science, technology, engineering and mathematics (STEM). This is an important initiative, particularly when you consider that many of the leading start-ups in Australia and overseas are leveraging technology to disrupt existing industries. The more these initiatives and organisations – such as the Tech Girls Movement – can empower young women to consider future careers in technology, the closer we can get to achieving a future where they are empowered to embrace entrepreneurship.

Empowering women

Empowerment is the cousin of confidence. So do women have a confidence issue? Of course we do! The University of California would agree with me. Its recent study published in the *Journal of Personality and Social Psychology* revealed that in nearly all cultures men have higher self-esteem than women. Not surprising, when you consider the pay disparities that still exist and the reinforced social expectations this creates.

When you also consider that among highly talented and successful women the "imposter syndrome" – where high achievers are unable to accept their success and believe they are a fraud – is common, it seems that women generally need to invest in greater self-belief. This is especially true if they are to take the bolder steps required to take on the risk (and reward) that comes with being an entrepreneur.

So the age of the female entrepreneur has not yet arrived. But it's on the horizon. We just need to finish balancing the equality scales to bring it forward and to make this the age of *any* entrepreneur.

Heidi Armstrong is finance expert for Money to Love, a TV and radio presenter and a thought leadership award winner.

Help, I've been scammed!

Even an expert can be caught out by those ever more resourceful fraudsters

$6.8 MILLION STOLEN IN JUST ONE MONTH

- **Scammers got away with $6.8 million in February alone.** The Australian Competition and Consumer Commission (ACCC) received over 13,000 scam reports during the month and statistics indicate that the over-50s are most at risk from fraudsters using email, internet or phone. The Scamwatch website (scamwatch.gov.au) is an essential destination if you want to avoid losing your hard-earned dollars.

Who would have thought a finance expert could be scammed? But that's exactly what happened to me in the Christmas holidays. On the insistent direction of my well-meaning partner Victoria, I transferred more than $5000 to an overseas bank account. She had taken over the process of booking our family holiday in Hawaii as I was deeply entrenched in work for the Christmas rush.

Our beautiful-looking three-bedroom condo, with parking, was a just a short walk from all the action, some of the world's best surf beaches and the largest shopping malls and had views to die for. It was also priced well compared with similar properties and the (fake) owner was terrific at responding to all our questions. Unfortunately, it was all too good to be true. So where did it all go wrong?

Rule No. 1: Hindsight is a powerful tool, and despite having my own properties on Airbnb and Stayz, I didn't think that communicating "off-site" with the owner was particularly unusual. But according to Airbnb's trust and safety team that was our crucial mistake. Never communicate or pay off-site. That means never communicate outside the Airbnb messaging system and never pay anyone outside the Airbnb payment system.

Rule No. 2: Always follow rule No. 1! This can save you thousands of dollars and hours of heartache in trying to track down your money through website providers and your bank. Delia Rickard, deputy chair at the ACCC, says: "Most legitimate websites and peer-to-peer platforms such as Airbnb set up secure payment systems where the operator acts as an intermediary between the traveller and property owner. Paying through the platform's system provides both owners and customers with safeguards such as refunds, cancellation policies and dispute resolution in the event that problems arise."

In my case, I contacted Airbnb immediately and was told to call my bank, which I did with a sense of urgency, and it attempted to recall the funds from my wire transfer. I honestly thought my money was done for and there was no hope of ever seeing it again. But luckily the good people in the fraud team at Commonwealth Bank were able to reclaim the funds before they settled into the scammer's account. Hendo was off the hook!

Scammers are getting smarter and more elaborate and are more active in a multitude of areas such as accommodation, betting, dating, domain name registration, false billing and that old favourite, the Nigerian lost money trick. But there are a few simple rules in making online transactions to help you keep your money safe.

To avoid anguish, visit scamwatch.gov.au to keep up to date with the latest scams, and keep an eye out for family members who may not have their wits about them on the web. And stick to the simple rule of not going off-site and you should be fine.

Sam Henderson is CEO of Henderson Maxwell (hendersonmaxwell.com.au) and host of Sky News Business's Your Money Your Call – Super.

Stray at your peril

Airbnb has one very simple rule that everyone must follow: never go off-site for payments. Here's part of the email from the Airbnb trust and safety team, which I'm sharing because some day it may save you thousands of dollars: "Because this transaction occurred outside of the Airbnb platform, we're not able to offer compensation for the loss sustained. I recommend you to contact your banking institution immediately to halt this transfer, if at all possible. I also recommend that you report this matter to local authorities. Best, Alice V."

WHAT IF? Annette Sampson

The treasurer looks for savings in the budget

Negative gearing, capital gains tax and super perks could be in the firing line

THE LOBBYING

Budget repair is still big on the government's agenda so it would be surprising if some savings measures weren't included in the budget on May 9 – even if they were just to offset any spending initiatives such as the much-talked-about plans to address housing affordability.

While we won't know what cuts are planned until then, there is no shortage of ideas. The government has received 237 submissions from industry groups and other interested parties containing a plethora of savings suggestions – some of which have garnered more attention than others.

MEDICARE LEVY

Several groups (and politicians) have suggested the government increase the Medicare levy or the Medicare surcharge for higher-income earners who don't have private health insurance.

A 0.5% rise in the levy could raise around $4 billion to $5 billion a year, according to the Australian Medical Association (AMA), which has argued that any extra money raised should go straight back into covering health costs. Australians, it says, are willing to consider increasing the levy for specific purposes, such as the 0.5% increase in 2014 to help fund the National Disability Insurance Scheme.

As lower income earners are exempt from the levy, this could be an easier sell than a broader measure such as increasing the GST (which was canvassed briefly last year before being dropped like a hot potato), though the AMA points out it would still fall short of solving the shortfall in health funding.

The Australian Council of Social Service (ACOSS) has proposed an alternative measure that could raise a similar amount without hitting middle-income earners. It has suggested the government extend the surcharge to all higher-income earners, not just those without private health insurance.

This would likely raise the ire of private health insurers (not to mention higher earners with health insurance), as would another proposal to abolish the tax rebate on private health insurance premiums, which ACOSS estimates could save another $3.4 billion in the coming year.

THE CHALLENGE Maria Bekiaris

To maximise rewards

Use your credit card more often to build up points

ANZ made news last month when it announced that it would no longer offer customers American Express companion cards with its rewards and frequent flyer cards. The bank joined a long list of credit card providers that have already watered down their rewards programs as a result of the Reserve Bank's changes to interchange fees.

Mozo data services director Andrew Duncanson, who has been predicting that the end was near for American Express companion cards, says this is only the first in a series of changes to come. While you may be wondering if it's time to ditch rewards cards the other option is to look at ways to maximise your points.

Start by making sure you have the right card. Canstar says you should think about how much you spend each year, what type

BEST-CASE SCENARIO
The government needs to be able to sell this budget as fair and good for the country. To be successful, any savings measures will need to be carefully targeted and their benefits easily demonstrable.

WORST-CASE SCENARIO
Another political bunfight that creates financial uncertainty for everyone.

THE WILD CARD
The senate and dissension within the government. Both could put a stop to any proposed cuts before they are legislated.

NEGATIVE GEARING AND CGT
You wouldn't want to bet the house on cuts to either of these after the political storm last time they were mooted. But politically sensitive or not, both have been widely touted as a necessary part of any housing affordability package, with the capital gains tax discount widely viewed as the more palatable option for the government.

The Committee for Economic Development of Australia says halving the CGT discount could save $3.6 billion and would take much of the power out of negative gearing, as more of any gains would be taxed. Another option is to introduce a stepped discount that rewards longer-term investors by increasing the discount the longer a property is held. At the moment, investors can claim the full 50% discount on investments held for just 12 months.

Of course, the government would be unlikely to risk trying to push any retrospective measures through the senate, so grandfathering of existing gains could reduce the potential savings. Chartered Accountants Australia and New Zealand has proposed bringing pre-September 1985 assets (which are currently exempt) into the CGT net, with their cost for tax purposes deemed to be their value at that time, and examining the principal place of residence exemption to rein in the practice of people buying houses, renovating them and selling at a profit on a regular basis.

SUPER
Some submissions have called for the government to further curb tax concessions through measures such as giving everyone a 15% discount on their marginal rate for super contributions, taxing super in the pension phase at 15% and increasing the age at which retirees can access their super. It's also worth noting that any changes to the CGT exemption could also flow on to super funds, which pay CGT on only two-thirds of any gains made on assets held for 12 months or more.

OTHER IDEAS
There is no shortage of other savings suggestions but some include simplifying and/or winding back some of the CGT concessions for small business, phasing out allowances such as family tax benefit part B and the energy supplement, and adjusting the age pension income and assets tests.

DID YOU KNOW?
In 1999, the old rules allowing capital gains to be reduced by inflation were replaced by the 50% discount. At the time inflation was around 6%. It is now around 2%, rendering the 50% discount much more generous.

Annette Sampson has written extensively on personal finance. She was personal finance editor with The Sydney Morning Herald*, a former editor of the* Herald's *Money section and a columnist for* The Age*. She has written several books.*

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of rewards you are most likely to use and whether the card costs are less than the rewards. It's also important to find out if the points are capped or will expire.

If you're getting a new card, look out for bonus offers. Some providers offer extra points when you apply for and are approved for a certain credit card or you spend a certain amount in a certain period.

The more you spend the more points you will earn, so look at ways to use your card more. Of course, you should only do this if you can pay it off in full each month.

Use it for everyday purchases. You can earn more points by making small changes, such as downloading a coffee app and linking it to your card, says Steve Hui, the founder and CEO of iFlyFlat. The same goes for linking it to your PayPal account. Or use it to pay for group bills such as dinner or even concert tickets, he suggests.

Add your partner as a secondary cardholder (assuming it doesn't cost too much). They'll get their own card and this will double your rewards earning potential.

Find out if there are any businesses partnered with your rewards card that let you earn points at a higher rate.

You also need to be smart about redeeming your points to get the most value. One way to work this out is to calculate the "point currency". This is basically how many points you need to get $1 of a reward. Canstar explains: For example, if you need 7000 points to redeem a $50 gift card, the point currency is 140 points for each $1.

You can use the points currency to compare rewards – the lower the number the better. So let's say 7000 points gets you a $50 gift card (140 points) or you could get a toaster you wanted worth $60 for 8000 points (133 points). You'd be better off getting the toaster. Or maybe you can get a flight from Sydney to Melbourne worth $200 for 17,000 points. The points currency is 85 so that definitely gives you the best bang for your buck.

The price is dodgy

STORY **TERRY RYDER**

Real estate consumers need to understand that they cannot place blind faith in the price statistics published in the mainstream media. When I described Australia's price data confusion at a seminar for property investors, many in the audience were incredulous.

Some had believed that if a national newspaper told them Sydney prices had risen 15%, based on figures from a well-known research entity, then that was a fact to be relied upon. If a research report portrayed a 10% decline in Darwin apartment prices, this was information you could take to the bank.

I showed that audience how different the reality was. With scary regularity, figures about prices from one source are contradicted by data from others.

In a nutshell, the problem with price data is this:

- There are a number of property research houses in Australia, each with a different methodology in calculating price levels and price growth in the major cities.
- Figures from one source are often different from those published by others. Sometimes the differences are quite stark – for example, one source says the market is rising while another says the same market is falling.
- The media do not make this clear. They report each set of figures in isolation and as fact.

Figures quoted for housing market growth can be wildly inconsistent and should be treated with caution

- This puts consumers at risk because investors base decisions on published data, unaware of these broader issues and problems.

As one example among many, news.com.au reported on February 3: "Figures released by CoreLogic show that Sydney house prices rose 15.5% in 2016 and jumped a further 2.7% in January."

The information is presented, without qualification, as fact – but the reality is, it's not fact. It's merely one view of the real restate world from one source. I don't suggest that the figures are wrong but that another set of figures will soon emerge from another source to paint a different scenario – and this, too, will be presented as fact, without any reference to the differences.

It raises a question that sits at the heart of the debate about house prices, affordability, debt levels and the threat of bubbles bursting: how much did Sydney house prices grow, on average, in 2016?

According to the latest figures from the Australian Bureau of Statistics (ABS), they grew at the annual rate of 3.3%. Many readers would regard that as reliable information from an authoritative source – indeed, the "official" government numbers.

But Louis Christopher's SQM Research, a highly respected data source, said the growth figure for Sydney was 7.5%. And Domain, part of the Fairfax media

empire, reported the Sydney growth figure as 10.7% while CoreLogic, whose data appears in media more regularly than any other source, claimed Sydney house prices grew 16.7% in 2016.

3.3%, 7.5%, 10.7%, 16.7% .... how can there be such differences in something that most consumers would consider to be a matter of fact?

Even within the one research organisation, there are contradictions. Domain senior economist Andrew Wilson says adopting one approach provides a 2016 growth result for Sydney above 10% but another approach provides a growth rate of just 4.4%.

There were similar differences from the four sources (SQM, ABS, Domain and CoreLogic) on house price growth in Melbourne, with annual growth rates ranging from 8.3% to 15.1%. For Hobart, two sources suggested annual price growth around 6%, while another said 10.3% and a fourth reported 11.7%. For Canberra, the claimed growth rates ranged from 5% to 12%.

All four sources agreed that Darwin house prices had fallen over 12 months but the rate of decline varied from 0.2% to 4.7% to 8.5% and 10.5%. Darwin was either levelling off, with prices down by less than 1%, or was still in dire straits, with a double-digit decline – depending on which source you believe.

The average annual growth rate for house prices

ANNUAL PRICE GROWTH
Houses Jan 2017

YEAR	SQM	ABS	DOMAIN	CORELOGIC
Adelaide	6.6%	3.9%	2.5%	4.5%
Brisbane	2.4%	3.4%	4.5%	4.0%
Canberra	11.9%	6.8%	5.0%	9.6%
Darwin	-4.7%	-8.5%	-10.5%	-0.2%
Hobart	6.6%	6.4%	10.3%	11.7%
Melbourne	8.3%	8.6%	10.3%	15.1%
Perth	-6.0%	-4.1%	-2.3%	-4.4%
Sydney	7.5%	3.3%	10.7%	16.7%
AVERAGE	**5.5%**	**4.1%**	**7.7%**	**11.6%**

Source: SQM Research, Australian Bureau of Statistics, Domain, CoreLogic

across the eight capital cities was either 4.1% (ABS), 5.5% (SQM), 7.7% (Domain) or 11.6% (CoreLogic).

Many writers and commentators have held up the CoreLogic figure as evidence that "Australian house prices" are still soaring, apparently oblivious to the other reputable sources with lower rates of growth.

At Hotspotting we often highlight these differences. We compare the latest figures on price growth in the capital cities from different sources – and the variations are often stark.

At one point last year, CoreLogic reported a 10.2% annual rise for Darwin's apartment market, while Residex recorded a 10.9% decrease. One portrayed a boom and the other a marked decline.

SQM said Hobart's apartment market is up a rather spectacular 21.7% but Domain reported an 11.7% decrease in the prices. One set of figures contradicted the other but both were reported in various media outlets as fact, without challenge. Some media coverage shouted about a boom in the Hobart market, while other articles said the market was tanking.

There are similar discrepancies with rental statistics.

In June 2016, SQM Research said Hobart unit rents were down 1% but CoreLogic said they were up 15%. Residex said Melbourne house rents were down 2.2% but CoreLogic said they were up 2.4%.

Residex recorded a 2.2% drop for Sydney houses but SQM reported a 3.3% rise. One source said Darwin apartment rents were down 9.6% and another said they were down 28.6%.

CONFUSION REIGNS

The Reserve Bank has expressed concern about the quality of some of the published data. In August 2016 it was no longer using statistics from CoreLogic because it believed those figures to be inflated, especially for Sydney and Melbourne.

Wilson agrees price statistics are a quagmire of inconsistency and confusion. He says the many differences in methodologies used by research entities result in contrasting results. Changing the parameters or the time frames can yield starkly different outcomes. He says one approach by Domain results in Sydney house price growth of 15%-16% in 2016 while a different method yields a growth figure of just 4.4%.

How is that possible? Wilson says the December 2015 quarter was a weak period, influenced by the APRA crackdown on investor lending. But the December 2016 quarter was strong, thanks in part to a rate cut in August. Comparing prices in the strong 2016 quarter with prices in the weak 2015 quarter yields a change of 15%-16%. "The variability between those two December quarters gave an extreme result," says Wilson.

But if you compare all sales in the 2016 calendar year with all sales in 2015, you get different median prices and a growth figure of 4.4%. In other words, 2016 overall was only 4.4% stronger than 2015 but the December 2016 quarter was 15% stronger than the December 2015 quarter. Change the parameters and you greatly change the growth result.

CoreLogic bases its price data on what it calls a hedonic home values index. Domain uses a composition-adjusted stratification index based on settled sales, while SQM publishes an index based on asking prices. CoreLogic publishes figures based on month-to-month changes but Domain maintains this time frame is too short and uses quarter-to-quarter figures. "Even quarterly data sets can be unreliable," says Wilson.

These methods are all quite different, which partly explains why the outcomes are so contrasting and emphasises why reporters should never treat anyone's figures as fact. "Yes, it's messy," says SQM Research's Christopher. "Each data provider has its own methodology and it does make it very confusing for home buyers and property investors. It's probably more confusing right now than ever before.

"In the past there wasn't enough information out there for consumers but now there's just too much and it's made more confusing by a media content to publish numbers which have been debunked by an authority as big as the Reserve Bank."

It's a serious situation. Consumers base big investment decisions on the published figures. I've heard investors talking about their intention to buy in Sydney because they read that prices are still rising at a double-digit rate. They missed the other media coverage that suggested prices were rising at much slower rates.

Wilson says the figures themselves are not the problem so much as the simplistic way in which they are reported. "The bane of my existence is the arguments over methodology," he says.

WHAT CONSUMERS SHOULD DO

We've arrived at a point where real estate consumers should treat everything they read on real estate prices with several grains of salt.

Property investment is a long-term venture and a smart investor will disregard short-term events

They should avoid basing big investment decisions on data from a single source. It's important to look at all the published information and try to see trends in the figures.

It's also important to understand that the published data for each city reduces price growth patterns to a single figure. This can disguise all sorts of different activity in various market precincts. The Sydney metropolitan area has over 700 suburbs and they're not all the same in terms of where prices are heading.

One good method is to ignore all the media static about price levels and growth figures. Property investment is a long-term venture and a smart investor will disregard short-term events and look at the long-term fundamentals, such as location, infrastructure, proximity to jobs nodes and factors that may boost a market in the future, such as proposed government spending on transport, medical or educational facilities. *M*

Terry Ryder is founder of hotspotting.com.au.

Get a foot in the door

STORY
MARK STORY

You don't need buckets of cash to buy into the market

Given that most Australians only ever own one investment property, the risks of buying at the wrong time and in the wrong location are significantly higher than if they had greater diversification. That's why owning a smaller piece of one or more quality property investments successfully avoids putting all your eggs in one basket.

The good news is there are many affordable alternatives to stumping up with a 20% deposit for a single property, which based on median house prices is between $100,000 in Adelaide and $224,000 in Sydney.

Shared approach

Co-investing in residential property with some mates is increasingly common for millennials who want to get onto the property ladder. To reduce some of the complexities whenever two or more borrowers are involved, some banks now offer products that isolate each portion of the loan.

One of the added benefits of apportioning mortgages into segments, says Ben Nash, of Pivot Wealth, is that individuals aren't unduly disadvantaged by being liable for the full amount, which can compromise their serviceability on any additional loans.

To avoid uncertainty around when to sell a property that's co-owned by two or more investors, another avenue Nash suggests millennials explore is using the value of another property (typically the family home) as security for borrowing.

If that isn't an option, he suggests assessing the viability of purchasing property on a deposit of just 5%. "The more you borrow in relation to the value of the property purchased, the more important it is to crunch numbers and seek good advice to manage risk."

Creative clients of Wayne Leggett, at Paramount Financial Services Group, built a granny flat on the property for themselves and transferred the title, without money changing hands, to their daughter, who moved into the main house.

The beauty of the granny flat sitting on the same title is that there are no tax issues, says Leggett. "We also had a retired couple who downsized by swapping their family home with their son's investment property."

Fractional funds

Among the options for micro-investing in residential property are fractional property funds such as BrickX and DomaCom. Operating like unit trusts, these funds herald a new era for cash-strapped investors who have either been locked out of the property market or simply prefer to invest in multiple properties in more affordable, diversified and accessible ways.

Fractional property investments take property assets and parcel them into small bits. For example, in the case of BrickX, a property is broken down into 10,000 “bricks” with an initial cost of around $100 each. As soon as property assets have been purchased by BrickX, investors get their share of the rent.

They also receive their share of capital gains once the property is sold or when they on-sell their bricks. On-selling depends on how fluid the secondary market is, so check this out before buying. Interestingly, the average time taken to sell bricks in December was 26 hours.

According to Anthony Millet, chief executive of BrickX, 50% of its investors are under the age of 35, with many using the platform to save for a deposit. As well as the choice and control provided by choosing which properties to invest in, Millet says the ability to exit without selling the whole property resonates with all investors.

Based on fees of 1.75% on entry and 1.75% on exit, Millet says investors have the certainty of knowing the same fee applies for one month or 10 years.

Admittedly, past performance is no proxy on future results. Yet capital growth and rental returns from the Sydney and Melbourne suburbs available on the BrickX website have achieved up to 19% annually. “When compared with our total 3.5% fee, BrickX is a very plausible way to get into Australia’s residential property market,” says Millet.

In the meantime, while rival firm DomaCom has acquired 40 properties on behalf of investors and currently has another 30 book builds there were no secondary market units available at the time of writing.

However, as DomaCom acquires more properties and unitholder numbers grow, it expects units will become available as people look to exit their investment. Assuming there are buyers, DomaCom investors can sell some or all of their units through an online liquidity facility.

To make it easier for investors to dip their toes in its advanced crowdfunding investment platform, DomaCom has dropped its minimum initial investment to $2500. It charges an annual platform fee of 0.88% on the value of the property, with property management fees coming out of gross rental yield.

Instead of participating in one of its bookbuilds, investors can also buy the listed entity responsible for managing the DomaCom Fund (ASX: DCL).

A property is broken down into 10,000 ‘bricks’ costing around $100 each

ASX-listed stocks

If crowd-funding investment platforms don’t appeal, another way to micro-invest in the residential property market is through the ASX. There’s no shortage of stocks directly exposed to the residential property market.

Some of these are “pure-play” property stocks with the bulk of their earnings wired directly to development of residential property including AV Jennings (AVJ), Tamawood (TWD) and Devine (DVN).

By comparison, Australian real estate investment trusts (A-REITs) are quite different beasts and include stocks such as Aspen (APZ), Stockland (SGP) and Mirvac (MGR). A-REITs typically make money by buying residential, commercial and/or industrial assets at a discount to their net asset backing (NTA) and selling them at a premium.

While A-REITs display the same characteristics as property, Leggett says they’re also exposed to the underlying risks associated with owning shares.

It’s also possible to invest in a diversified portfolio of A-REITs via ASX-listed exchange traded funds (ETFs). Saving you from having to be a stock picker, ETFs typically capture the performance of an index, including the largest, most liquid of the A-REITs listed on the ASX.

Admittedly, the fortunes of any index can bounce up and down. But in addition to offering cheap underlying exposure to the performance of an index, ETFs also have attractive tax benefits, relative to managed funds, plus distributable income and franking credits. Examples of A-REIT ETFs include VanEck Vectors Australian

Property ETF (MVA) and SPDR S&P/ASX 200 Listed Property Fund (SLF).

Added benefits of investing in residential property through these sharemarket options are the low cost of buying and the dividend payments many stocks offer, with an average 6% yield being significantly higher than yields from property rental. Then there's the minimal capital requirement, with investors able to buy a parcel of shares with as little as $500. Also adding to your after-tax position is dividend imputation (franking credits), which is another tax benefit exclusive to investing in shares.

As with property, shares as an asset class are traditionally regarded as long-term investments. However, they provide better liquidity, and you can turn shares back into cash by selling at any time on the ASX.

Another compelling reason for investing in residential property via the sharemarket is the potential for capital growth, combined with the power of compounding returns. While different asset classes perform better at different times, research by Goldman Sachs reveals that shares repeatedly outperform other key asset classes over the long-term.

Contributory secured first mortgages

Taking a diametrically different approach to investing in property via shares are contributory secured first mortgages (CSFM) covering commercial, industrial and residential property.

These investments are designed to provide an attractive yield, without capital growth exposure, relative to term deposits and minimal default risk over one to three years. For example, while term deposits are currently paying under 3% CSFMs will pay between 5.5% and 7.5%.

Chris Morcom, private client adviser at Hewison Private Wealth, says these investments spread investor exposure over different mortgages, with a maximum allocation of $250,000.

He says two key benefits of investing a minimum $20,000 in a contributory mortgage fund provider are, first, income stability, with monthly interest income providing a high degree of cash flow certainty; and, second, capital stability, with each investment (or syndicate fund) secured by a registered first mortgage over real property assets.

However, he says investors must recognise that any inability of the borrower to repay, due to any fall in value, could put some of their capital at risk. "These investments generally aren't liquid and if they go into default, investors won't be able to access their money until this is rectified," he warns. "So suitability could depend on your time frame and need for access to capital."

Property syndicates

While they lost favour during the GFC, especially after the collapse of Centro Properties and Octaviar, commercial property syndicates and unlisted trusts with predominantly industrial and retail assets are still being managed by the likes of AMP, Charter Hall, Centuria and Australian Unity.

Residential buy-and-hold syndicates remain limited, courtesy of low yields and investor returns. Meanwhile, due in part to fund costs, residential development syndicates are more prevalent, and tend to be two- to four-year projects for apartments or longer for land subdivisions.

For example, the Silk Oak Fund offered by Momentum Wealth successfully raised $6.5 million from investors to acquire three neighbouring lots in two off-market transactions. Currently in the planning process, this 40-apartment development syndicate is predicted to deliver returns of between 50% and 60%.

There are new residential syndicate opportunities like the Silk Oak Fund opening up all the time. However, Momentum Wealth's Damian Collins says they tend to suit investors with a reasonable amount of wealth as the minimum investment can be anywhere between $50,000 and $100,000.

"Syndicates can give investors exposure to much larger, higher-quality assets delivering better returns at more palatable price points," he says. "Equally beneficial, syndicators should better understand the impact of all associated fees and management costs."

While fees charged by syndicator/fund managers vary significantly, Momentum Wealth typically charges a research, acquisition and due diligence fee (about 3%-5% of the site purchase price), a debt sourcing fee (about 1% of the debt raised) and a tendering and project management fee where the property is developed (typically around 3% of the project value).

Collins says expected rates of return quoted by syndicators is after all fees have been paid by the trust.

Risks and complexities

While micro-investing in the property market has its merits, Leggett recommends those saving to buy their own property avoid capital risk by sidestepping growth assets.

But if you're still keen about micro-investing into property, Nash reminds investors to clearly understand the complexities of each investment vehicle. The product disclosure statement should clearly spell out all the fees and how limited liquidity could delay converting your investment back into cash, he says.

"If you're planning to invest $15,000 you've saved for a future mortgage, ask yourself whether you really want to risk losing some or possibly the lot," he says. "While a lot of people are trying to find 'sexy' ways to invest smaller amounts into property, super funds remain a reliable option with tax benefits as part of a broader strategy." *M*

Investors face big question

Prices in the hot property markets appear to be cooling, so is it time to cash in?

When is a good time to sell your investment property? It depends on lots of variables – where it is, how long you have held it, what your circumstances are and whether you have another use for the money.

In early March an investor sold his unrenovated small terrace in the inner Sydney suburb of Surry Hills under the hammer for $1.47 million. He had made almost $110,000 every year since he bought it about six years ago when Sydney house prices were in a trough.

Undoubtedly the inner-Sydney market is red hot, and Melbourne is not too far behind. If the investor had held onto his Surry Hills property it's unlikely he would have enjoyed the same level of growth, as prices are now out of the reach of many. He may have to pay capital gains tax on his windfall, but as he lived in the house before renting it out and then moving overseas he may be able to claim it as his principal Australian residence. This means he won't have to share his good fortune with the taxman.

Some real estate experts say never sell, just use the equity you build in each property to buy more. But what if you continue buying in Sydney's overheated market and there is a "significant downward correction", which is Organisation for Economic Co-operation and Development-speak for a market crash?

In a report released in early March, the research arm for the world's richest nations said: "Australian house prices and household debt have reached unprecedented highs, in part because policy rate cuts have lowered debt servicing costs. A continued rise of the market, fuelled by both investor and owner-occupier demand, may end in a significant downward correction that spreads to the rest of the economy."

And it's not as if it hasn't happened before! Some of us can remember the crash of 1987, with interest rates rising to 17.5% in 1990.

If you have a long time to retirement and have only had your property for a couple of years, you may decide to ride out the cycles and hold long term. Those following this strategy should be confident they can keep their jobs and be able to service their debt even if interest rates spiral.

Moving pictures

Looking for a housemate to help pay the hefty mortgage or share the rent? Check out Real Estate Tube (realestatetube.com). The online platform allows people to create and upload fun, engaging videos to attract an ideal house share or housemate.

It's designed to help people make faster and better choices when it comes to sharing, create more engagement and help property listings stand out, says Steve Makris, who created the concept with co-founder Isaac Suter.

He believes it will became a force in the real estate industry. By 2019, 80% of all consumer internet traffic will be video, Makris says. In a sea of text-based information, video content provides welcome respite for the eyes and brain.

But what if you're close to giving up full-time work and the value of your real estate portfolio has increased substantially. You could use the rental income to help pay for your dream retirement but with rental yields so low this may not even provide as much as you could get from parking your money in the bank.

The average gross dwelling yield across the combined capital cities fell to 3.2% over February, according to CoreLogic, reaching a record low. In Sydney it fell to 2.9%. Five years ago the average capital city yield was a full percentage point higher at 4.2%.

The rewards of negative gearing won't be as lucrative in retirement as when you're earning a big pay cheque. The opposite is true for capital gains tax, which is based on total income, so the less you earn from work the lower your CGT is likely to be.

And keep in mind that if Labor does win the next federal election it's likely to weaken negative gearing and capital gains perks, a move that would put pressure on real estate prices. Its policy is to limit negative gearing to new houses after a certain date and to halve the CGT discount from 50% to 25% for assets bought after a certain date.

So for many investors, especially those with Sydney or Melbourne properties, it's worth at least considering whether it may be a good time to sell.

Pam Walkley, founding editor of Money *and former property editor with* The Australian Financial Review, *has hands-on experience of buying, building, renovating, subdividing and selling property.*

Take the investor route

First-timers need not despair: there is a way to get into property

It's a bit of a weird time for first-home buyers, particularly if you're looking at getting into the more expensive markets of Sydney and Melbourne. With the future not looking so certain for property values, the big question for first-home buyers is: do I go owner-occupier or investment?

Investing seems to be a more affordable option for first-home buyers at the moment, as it enables them to purchase cheaper properties that might be far away from where they work and want to live. The big benefit is rental income, which can help pay off the mortgage faster.

All the while you're renting where you really want to live while still getting your foot in the property market. We call this "rentvesting", and it can be a really great thing if you don't have a big enough deposit to buy where you want to live. So how do you do it?

Getting a loan

Organising a loan is the first step in buying a property, and with all the investment lending changes at the moment there's a bit to think about. Commonwealth Bank recently cut its maximum loan-to-value ratio to 90% for property investors, meaning that the minimum deposit is now 10%. The CBA minimum used to be 5%, so you now have to save quite a bit more to be able to get a loan.

While some of the lending changes may affect you, Michael Beresford, director of property investment service OpenCorp, says it will ultimately depend on your lender. The only big thing for consideration is an increase in the amount of money you will need to have on hand to compensate for a future interest rate rise.

"Regardless of lending restrictions, what is really important is that all investors, especially first-time investors, leave themselves a buffer," says Beresford. "This is to ensure they can cover costs if interest rates go up and not have to be coming up with

Investing seems to be a more affordable option for first-home buyers

that increased money out of their pocket month to month."

Location, location

Once you find out how much you can borrow, you can then determine where you can buy. When looking for an investment property, search for something that's within your budget, will at least retain its capital value and return a reasonable rent. Better still, the ideal scenario would be for the property to eventually increase in value.

Beresford says that to maximise the profitability of your rental property, you should be looking for areas in high demand, in close proximity to everyday amenities, such as schools, transport and employment hubs. "You want to ensure there's minimal supply or competing properties trying to attract a tenant in close proximity to your property," says Beresford. "That will not only attract a better-quality tenant who's likely to stay long term, reducing your vacancy risk, but also you're not likely to incur unexpected costs to hold the property."

Costs for buying an investment property are almost the same as for buying an owner-occupied home. While you have to factor in the usual stamp duty, legal fees and bank fees, you will also have to think about maintenance and possible renovation costs. Remember, keeping your property in good condition is vital for maximising your rental income.

Cash flow risk

In terms of risk, Beresford says investment properties are, in a way, less risky than buying an owner-occupied house, as you're technically also getting rental income. To help you keep the money coming in, set up a depreciation schedule for tax time, fill out a tax variation form for better cash flow and always think long-term in making decisions.

"Get rich quick means lose money fast, so make sure you're taking a long-term approach to the investment that you're purchasing," says Beresford. "The most important thing to be looking for is the quality of investment which will maximise the chances of the property performing well over time, both from a capital growth perspective and a rental perspective."

Staff writer Steph Nash has a bachelor of communications degree.

Survive the uncertainty

STORY SUSAN HELY

Our **10-point strategy** will help investors get through what looks like another tough year

These are unusual times for investors. The International Monetary Fund says growth is below average for the sixth consecutive year. "The world is in a malaise. It is a very unusual period," says Chris Probyn, global chief economist of State Street Global Advisors (SSgA). "And 2017 is not going to be any different."

The era of record low interest rates and monetary easing is coming to an end, says Probyn, who is anticipating at least a few interest rate rises in the US this year. Inflation is emerging after a long absence and the US dollar is expected to rise, particularly if corporate tax rates change.

"A general feeling of unsettledness is reflected in many questions I've been getting from clients in recent months," says Bill McNabb, CEO and chairman of Vanguard.

"There are plenty of question marks over the global economy as the UK prepares to implement Brexit, the Trump administration rolls out its policies, central banks in Australia and elsewhere shift their thinking on monetary policy and interest rates, and growth – especially in China – continues to worry market watchers," says McNabb.

What can investors do?

1 LOWER EXPECTATIONS

No one is expecting double-digit returns this year. Vanguard's outlook for global stocks and bonds remains the most guarded in 10 years.

Investors should be realistic but not pessimistic about portfolio returns, says Jeffrey Johnson, head of investment strategy group at Vanguard Asia-Pacific.

Vanguard has downgraded its long-range equity returns for the next 10 years from 7%-10%pa to a more guarded 6%-9%pa for Australian and global equities. It makes the point that the long-term outlook is not bearish and can even be viewed as a positive when adjusted for the low-rate environment. Its prediction for bond returns is 1%-3% pa.

If you see investments offering high returns, do your homework.

2 SPREAD YOUR BETS

"We have hit the buffers. There is nowhere to go," says Rick Lacaille, global chief investment officer from SSgA, referring to the lack of asset classes that offer great returns. It is important to be diversified across different asset classes.

Vanguard's McNabb says that because his portfolio is fully diversified, it always contains something that underperforms expectations. "But there are almost always surprises on the upside too. This is the power of diversification and a 'secret' to investment success," he says.

Which ones does Lacaille favour? "We are long on equities," he says. He believes there is more strength to come from US markets in spite of the rally making their stocks expensive. "The US equity market is the one we like. It is expensive but it has earnings growth potential," he says.

Lacaille is overweight real estate investment trusts (REITs). He is neutral about emerging markets.

Lacaille favours investment-grade credit instruments and warns against lower-grade junk bonds because defaults are increasing. SSgA head of investments in Asia Pacific Kevin Anderson says, "We like good-quality, B-grade junk bonds." He says that 2016 was a tough year for stock pickers, both globally and in the US.

3 PREPARE TO WORK HARDER

"10 years ago it was a lot easier to generate 7% return. But to get 7% in 2017, you have to do a lot more," says Anderson. "You have to put more factor tilts, more private equity, emerging market bonds and high yield bonds." He says instead of leaving 30% of your portfolio in fixed income and 70% in growth assets, you need to get a better return from your core investments and add in more asset classes.

4 SEARCH FOR INCOME

"Income is still the biggest asset," says Lacaille. Relative to bond yields, dividends from equities still look attractive. He says that globally the price-earnings multiples of high-dividend equities have come down since 2016.

"Look for dividend yield sustainability," he advises.

The Australian economy has the mildest economic recession from the GFC. "2.4% growth in Australia is something that Europe and Japan would kill for," says Probyn.

But there are worrying signs for investors, such as a weakening housing sector, a sluggish mining outlook, slow wage growth retarding consumption and the big government deficit, he says.

The Australian sharemarket is in the enviable position of providing a dividend yield, including franking, of around 5.7% for the ASX 200 index.

5 FOCUS ON THE LONG HAUL

Stick to a long-term investment plan and don't get distracted by the short-term noise. "The problem with these natural inclinations is that they can make us forget about our long-term investment plans. That's never a good thing," says McNabb.

Discipline is crucial over the next five years, as they are slated to be more challenging for investors than the previous five, says Johnson.

6 KEEP FEES DOWN

Minimise your investment costs in a low-return environment. A 2% fee can really hurt a return of 4%. Understand the fees you are paying and whether you are getting value for money. Annual fees to cover investment management costs can vary from fund to fund and are best kept to a minimum. Fee differences have little, if anything, to do with the quality of investment management. The annual fee is usually deducted regardless of circumstances. If the asset class, or the manager, or both have a bad year, you still pay.

7 REBALANCE YOUR PORTFOLIO

If you hold your own investments, one golden rule is to rebalance consciously. It keeps your exposure to shares on a steady course.

> **Investors should be realistic but not pessimistic about portfolio returns**

Most investors have a target asset allocation that divides how much they hold in shares and defensive assets. But asset allocation gets out of kilter fairly easily because no asset class stays the same forever. For example, when the market zooms higher, the typical 70:30 ratio changes and your shares may be worth 75% of your portfolio. You're feeling wealthier. But you are also in a riskier position. If the sharemarket crashes, you'll lose more.

"In investing, there is always going to be uncertainty – and a little pain," says McNabb. "It's difficult to continue to invest in a tumbling market. Likewise, short-term noise can tempt us to not rebalance on a regular basis. Disciplined rebalancing is vital to achieving long-term goals."

8 MASTER VOLATILITY

In times of uncertainty, it's easy for investors to make bad decisions, says McNabb. "Markets often respond to surprise events with volatility. We had plenty of those in 2016, and I expect similar market-rattling events to occur this year."

Lacaille expects news to cause much bigger shocks in 2017. But so far in 2017 volatility has been low according to the CBOE Volatility Index, known as the VIX Index.

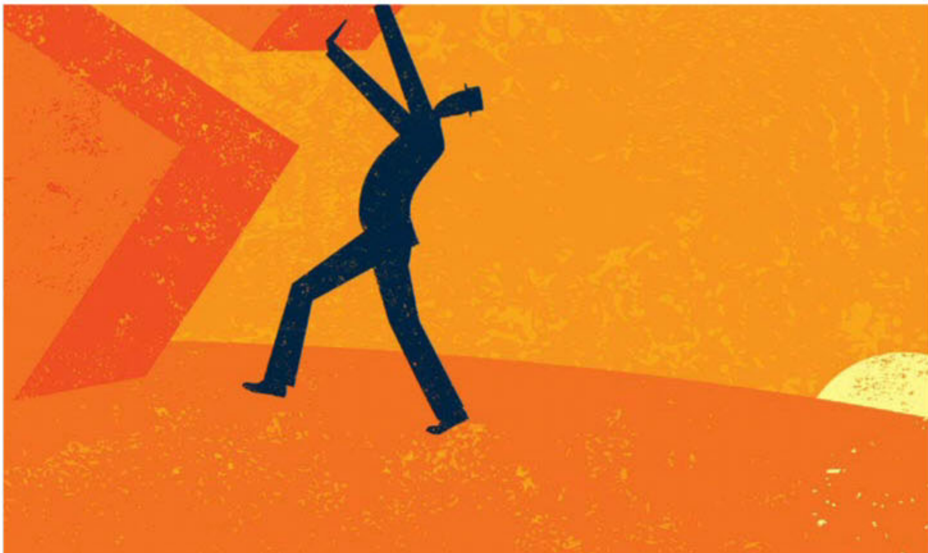
"Some investors may interpret volatility as a sign of trouble and flee to whatever they perceive as a safe haven. Others may see buying opportunities at every turn."

9 HOLD SPARE CASH

Keep some money for the market dips. It could be a good time to buy.

10 WHAT REALLY MATTERS

There is so much distraction on the political front, particularly with Donald Trump in the US and the European elections. But does it really matter to investors? Be careful in predicting how markets might respond. Often markets react in a different way to what was anticipated. In 2017, there are three important themes, says Anderson. They are income, growth and protecting your money. *M*



STORY DAVID BASSANESE

A multi-asset-class portfolio can achieve the ideal balance between risk and return

Hit the sweet spot

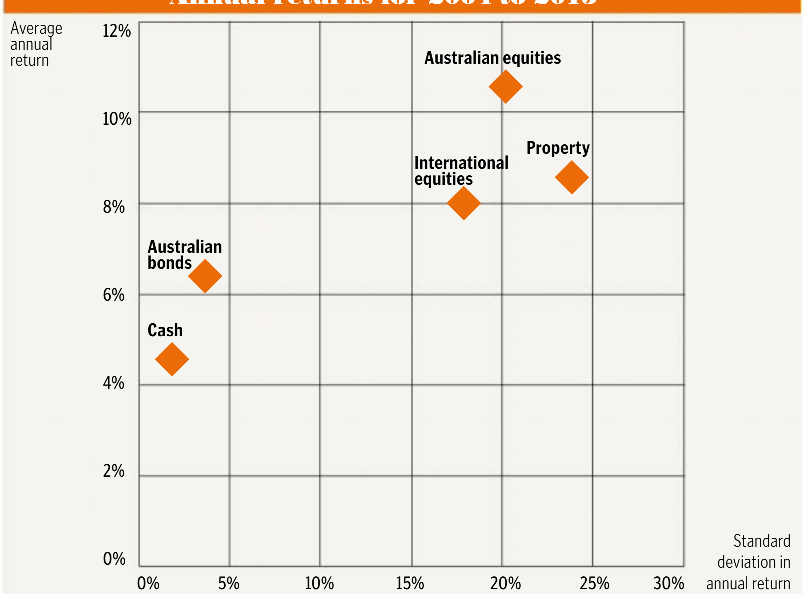
There are various ways that exchange traded funds (ETFs) can be used as part of the investment strategies for both long-term and shorter-term traders. Here is how you can achieve diversification using a multi-asset class portfolio of ETFs.

By investing in one asset class, even on a diversified basis, investors are basically stuck with the risk and return characteristics of that asset class.

As seen in the chart at right, equities, for example, typically produce the highest long-run returns but also have the greatest return volatility (as most recently seen during the GFC, when Australian equity returns slumped 38% in 2008). Cash and bonds tend to produce lower returns but with less volatility or "risk", as broadly defined. At least over the past decade or so, listed property also had volatile returns, largely due to significant swings before and after the GFC.

Wouldn't it be great to be able to develop a portfolio that offers the correct blend of risk and return that you are most comfortable with? By investing across asset classes, that is precisely what multi-asset-class portfolios aim to do.

RISK v RETURN FOR MAJOR ASSET CLASSES
Annual returns for 2004 to 2015



What's more, another advantage of a "multi" over "single" asset class portfolio is even greater diversification, allowing investors to reduce risk without necessarily sacrificing a lot in returns.

The key reason is that, as with different securities within an asset class, asset classes themselves tend to perform differently over time. For example, equities tend to do best in periods of strong economic growth with low inflation and interest rates. Bonds do best in high (but falling) interest rate environments, while commodities perform best in high-inflation environments.

Indeed, in the 12 years from 2004 to 2015, the correlation in annual returns for Australian bond and equities was negative 0.75. Equities tended to do well when bonds did not, and vice versa.

Blending different assets within a portfolio, therefore, can allow you to better withstand changing market environments. Indeed, research shows that blending different asset classes with low correlation in their returns into a single portfolio can often produce a better long-run return performance – for a given level of year-to-year portfolio return volatility – compared with only owning a single asset class, such as only bonds or equities.

The exact asset blend that is best depends on each investor's relative risk and return preferences.

The table below shows the average annual returns – and the volatility (or standard deviation) in those returns – investors would have experienced had they invested across a range of asset classes over recent years, with weights attached to each asset class varying within their portfolio. The weights used broadly conform to typical weightings used within the financial industry for long-run "model portfolios" for different risk exposure.

"Higher-risk" portfolios with a greater weighting toward equities would have produced the highest average annual returns over this period but also with the greatest return volatility.

For investors, however, the main point is that there are now several relatively cheap and transparent ETFs that can provide broad exposure to each asset class. Depending on the particular ETFs chosen, average management fees for developing a similar multi-asset class portfolio could be about 0.5%pa, or even less.

For example, relatively young investors with several decades until retirement might opt for a higher-risk core portfolio, comprised mainly of equities and relatively fewer lower-return cash and bonds. However older investors, either in or close to retirement, might prefer a less volatile portfolio that provides steadier annual income returns, as might best be achieved with a portfolio heavily weighted toward cash or bonds.

Further diversification is also possible through including international equities, foreign currencies and even commodities, such as gold.

ETFs offer a way for investors (especially those running a self-managed superannuation fund) to develop a highly diversified multi-asset portfolio that meets their desired risk-return profile (as decided either by themselves or in consultation with their financial planners) at an often much cheaper cost than using actively managed funds.

MULTI-ASSET PORTFOLIOS FOR DIFFERING RISK LEVELS: based on returns from 2004 to 2015

	LOW	LOW/MEDIUM	MEDIUM	MEDIUM/HIGH	HIGH
	Asset weighting per portfolio				
Cash	15%	10%	5%	5%	5%
Aust. bonds	60%	55%	45%	30%	5%
Property	10%	10%	10%	10%	10%
Aust. equities	7.5%	12.5%	20%	30%	40%
Int. equities	7.5%	12.5%	20%	30%	40%
Defensive	75%	65%	50%	35%	10%
Growth	25%	35%	50%	65%	90%
ANNUAL RETURNS					
Average	6.8%	7.1%	7.7%	8.6%	8.9%
Std. deviation	3.5%	4.9%	7.6%	11.3%	15.4%

Source: *The Australian ETF Guide* by David Bassanese

STRATEGIC ASSET ALLOCATION

One issue to consider when developing a multi-asset portfolio is how actively managed you would like it to be over time. Are you a "set-and-forget" investor, or one who would like to try to actively tilt your asset allocation based on market conditions.

Strategic portfolios are those that blend exposures to different asset classes based on the long-run expected risks and returns of each asset class. As such, these portfolios aim to provide the best long-run returns for a buy-and-hold investor, subject to their maximum risk tolerance. Clearly, investors who either can't stomach a lot of return volatility or can't risk a major loss (as they're either in or near retirement) will need to settle for more investments in less volatile (or lower-return) assets, such as cash or bonds. Those who can afford to take on more risk can invest in more growth assets, such as equities.

Although expert views differ on the margin, the broad asset allocations referred to in the table are likely to be close to what many industry professionals would regard as reasonably optimal strategic asset allocations for different risk levels. As noted, investors might seek even greater diversification by swapping some Australian equity exposure (usually around a third to a half) for international exposure, or allocate 5% to 10% of their portfolio to commodities and/or international currencies.

For long-term strategic investors, all that is then required is to "rebalance" their portfolio at regular intervals. Opinions differ on the appropriate timing, but a reasonable compromise might be once a year.

For example, if equities have done particularly well in a given year (for example, their weight in your portfolio has increased from, say, 50% to 60%), rebalancing would involve selling down some equities at year end so that their overall weight fell back to 50%. Instead, you would buy exposure to the asset classes that had not done so well, so that their weight in your portfolio was restored to the long-run desired levels.

Annual rebalancing allows investors to take advantage of any short-run momentum within asset classes within a given year (which can be a feature of markets), while also eventually reducing exposure to any potentially "overheated" asset classes so that the portfolio remains in line with the investor's risk profile. Annual rebalancing also has the advantage of ensuring any realised capital gains are eligible for a capital gains tax discount.

TACTICAL ASSET ALLOCATION

For strategic investors, the only changes to their multi-asset portfolio over time would be for rebalancing purposes. For tactical investors, however, changes in the asset allocation might also be pursued based on either a fundamental and/or technical analysis of respective asset classes.

For example, your strategic asset allocation might suggest that 60% of your portfolio should be in equities and 40% in bonds. The tactical inter-asset class decision, however, is whether you should invest more or less than 60% in equities over the short term due to expected short-term asset class returns.

Indeed, although equities might be expected to return 10%pa on average over the long term, year-to-year asset class returns are rarely smooth. Over any given period (or say two to five years), it is likely that some asset classes (such as equities or bonds) will produce returns above their long-run expected average, while other asset classes will produce below-average returns. In theory, if we knew in advance which asset classes would produce the best returns over the short run, we could tilt our portfolio accordingly and enjoy even higher long-run returns.

Of course, determining which asset classes will perform best over the short run is not always as easy in practice.

• Fundamental or valuation-based strategies

One way to predict likely short-run returns between asset classes is based on valuations.

Most valuation-based tactical asset allocation strategies tend to exploit regression to the mean. When, for example, asset returns have had a strong run, their valuations tend to reach expensive levels. Regression to the mean dynamics suggest that a period of below-average returns for that asset class is then likely for a few years. Similarly, after a major market downturn that forces valuations to cheap levels, regression to the mean analysis suggests a period of above-average returns is then likely.

The trick in momentum investing is to jump on a wave as early as possible – and get off before it crashes

• Momentum- and trend-based strategies

Another more mechanical option is to make tactical switches between asset classes relying on relative price momentum and/or trending behaviour.

Indeed, financial research suggests that momentum effects – or the tendency of asset classes (or asset class sub-segments) that have performed strongly (poorly) over the recent past to keep performing well (poorly) for a while longer – are evident in many markets. This happens because markets can be slow to recognise and adjust to new fundamentals, and also because often "herd-like" behaviour can develop among investors.

In essence, asset prices seem to be driven by momentum in the short term but by valuations over the long term. These two forces are reconciled by corrective "regression to the mean" periods, which push prices back to fair value once momentum has driven them too far (either to the upside or downside).

In fact, if momentum effects become too strong, it can create "bubbles" where valuations reach extreme levels. This often results in large, jarring corrections at some stage. America's dot-com bubble earlier last decade is one such example.

Related to momentum investing is trend investing, such as only investing in an asset class that is trending up based on, say, whether current prices are above or below a moving average of past prices. Trend signals could also be used in place of relative performance in choosing between investments – that is, invest in one investment choice when the ratio of its price relative to that of an alternative investment choice is trending up.

Of course, the trick in trend or momentum investing is to jump on an identified wave as early as possible – and also try to get off before it comes crashing down! In choosing a time period, there's a trade-off between being sure that an apparent shift in relative performance is not simply noise versus having a signal early enough to profitably act on it.

Longer-term time periods (say one or two years) suffer from lags. This means that one can miss out on an early trend and hold on too long once a trend changes. Investing in something that has performed well for numerous years also exposes oneself to the risk of a corrective "regression to the mean" period. Indeed, it is often noted that past performance is not necessarily an indicator of future performance. In fact, it may be a potentially better indicator of a poor performance ahead!

However, very short-term trends (say a few days to a few weeks) may be too erratic, meaning one may overreact and jump on trends just as they are about to change once again. This problem is known as "whipsawing".

Most research on momentum investing tends to find that a past performance period of between six months to one year tends to perform best, in terms of being most likely to predict the relative strength of returns over the next month or so.

CORE/SATELLITE PORTFOLIOS

Some investors may decide that they want to try to add an "alpha strategy" overlay that attempts to beat the benchmark performance of one or all core indexed asset class investments in your portfolio. In this case, ETFs also then lend themselves to another complementary strategy: core/satellite investing.

The idea behind core/satellite investing is to first use low-cost index funds (such as ETFs) to achieve, at a minimum, the "beta" returns from each asset you seek to be exposed to. This is the "core" portfolio element. The second, or "satellite", element of the portfolio is to add some portfolio "tilts" within one or more asset classes to try to generate extra "alpha" returns within each asset class.

Core/satellite investing has several benefits. Most obviously the approach allows for more granulated risk control. What you're doing is effectively unbundling the "beta" (or market) and "alpha" (market-beating) returns from a certain desired asset class. By investing in an index fund, you know exactly how much of your portfolio will be "beta" and track a certain asset class – and so how much exposure you may then wish to allocate to "alpha" investments that may be more volatile but offer potentially higher longer-run returns within that asset class.

With active funds, you never can be too sure of your beta versus alpha portfolio exposure, especially if the fund's senior managers and/or investment strategies change.

By retaining core beta exposure, moreover, you can also probably afford – at the margin – to consider more aggressive (though volatile) active investment opportunities that may have an even lower correlation with your beta investment holdings, and be more likely to outperform over time.

• Passive v active managed funds

One source of alpha investment exposure you could seek is via an actively managed fund – assuming that you can find one you are happy with and are confident might offer market-beating returns.

For example, if you decide you want 60% of your portfolio to be in Australian equities, the traditional approach would be to allocate, say, 20% to three separate actively managed funds. Each fund would be expected to at least provide returns that matched the market, plus a little extra "alpha" return. You'd then watch each one carefully and swap funds when and if you thought that one fund was not doing its job, or you had a specific new investment theme (such as resources or global markets) that you wanted to pursue.

A core/satellite approach, however, might instead invest, say, 45% of the money earmarked for equities into a single low-cost "core" equity ETF, and the remaining 15% equity allocation among the preferred actively managed funds, which are known in this case as equity "satellites". The overall equity allocation remains 60% in each case, though there's clearer separation between alpha and beta components with the core/satellite strategy.

This approach has numerous advantages. For starters, it can help reduce management fees. By buying an actively managed fund, you might be paying a high management fee to a manager, even though a good chunk of their return is only beta. You might instead get this beta return with a lower-cost ETF. For example, if all three active funds charged a 1.5% management fee and an equity ETF charged only 0.25%, then allocating three-quarters to the ETF and one quarter among the active funds would reduce overall equity management fees to 0.56% – more than halving the cost.

Another advantage is that core/satellite investing also saves on transaction costs and taxation, if you decide to swap active managers. For example, if your portfolio contained 20% of an active fund that consistently lagged the market, then selling it for something else would involve turning over one-fifth of your portfolio. But if, due to a larger index fund holding, the active fund accounted for just 5% of the portfolio, then making the change only involves turning over a much smaller portfolio share with lower transaction costs and lower potential capital gains tax to pay.

Of course, while you might leave decisions over how to beat asset class benchmark returns to an active manager(s), you might also try to do it yourself, through various intra-asset class tilts. In this case, ETFs can provide both the core and satellite parts of your portfolio. *M*

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Davis Bassanese is chief economist at BetaShares. This is an edited extract from his book *The Australian ETF Guide* (RRP $39.95), available in both traditional and online bookstores, and at australianetfguide.com.au.

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Keep the cash flowing

Buffeted by low returns and volatile sharemarkets, retirees need new strategies to secure a comfortable lifestyle

STORY SUSAN HELY

Could this be the worst time to retire? Retirees are in a bad place. The official cash rate is at a record low of 1.5%, term deposits are paying around 2.5% and long bond yields are 2.8%. Australian equity markets continue to move sideways, although dividend yields are still healthy at around 5.7%, including franking credits, as are rent-collecting property trusts. Lower-yielding global sharemarkets have been very strong over the past year but there are concerns about the expensive US market.

"We are going through a period of low yield and it is going on for much longer than what people thought," says Andrew Boal, regional head of Australasia at Willis Towers Watson and convenor of the Actuaries Institute's superannuation practice committee.

All this means that if retirees want the same return on their savings they were getting 10 years ago, they need a different investment mix. A decade ago retirees could comfortably invest 40% of their portfolio in fixed income and double what they get today from bond yields. "Future returns [from fixed income] are likely to be lower and more volatile," says Sam Morris, investment specialist at Fidante Partners.

These days retirees need to take on more investment risk for a decent return. Healthy, repeatable investment income is available but the values of these high-yielding assets are volatile.

Certainly leaving your money in cash means you are going backwards. With the Reserve Bank expecting inflation of around 2% over the next year, the after-tax return from your cash isn't keeping up with the cost of living. If you have a large slab in term deposits paying 2.5%, the net return is 1.3% if you are on the top marginal tax rate. But this is below expected inflation. If you are investing through your super fund you are marginally ahead in real terms, but only just.

If you invest conservatively and leave 40% of your retirement savings in term deposits you will run out of money more quickly than you would if investments were working harder for you. Because the income generated is low, you will need to eat into your capital to maintain your standard of living. Retirees don't want to go broke and certainly don't want to be poor when they are old and facing high healthcare and aged-care accommodation costs. The age pension is a social safety net in case you run out of money but at about $880 (including supplements) a fortnight for a single person ($1350 for a couple), it is only around 28% of male total average weekly earnings.

The prospect of outliving their retirement savings, known as longevity risk, is troubling retirees. The number of retirees who say they won't have enough money to last them until the end of their life has jumped over the past three years to 51% in 2016, from 33% in 2013, according to the latest research from Investment Trends.

"There are a lot of external factors eroding superannuation, such as poor market performance and changing interest rates. As well, many more people – some 25% – are worried about regulatory changes to superannuation," says Recep Peker, research director at Investment Trends.

And pre-retirees need to watch out for unforseen events such as retrenchment or ill health during the last years of their working life, says Peker. They will have to dip into their retirement savings earlier and the nest egg will have less time to benefit from compounding returns.

Retirees need their money to last on average 20 to 30 years. If they draw on their capital because they are not getting enough income it won't last long. Less capital results in less income, leading to more capital drawdown and even lower income generation.

Another important feature of income from shares and property is that while not without risk, over the long term the growth rate has been close to the inflation rate. The income they derive today is less likely to go backwards in real terms so their lifestyle is more durable.

Retirees need to work harder at diversifying investment risk, says Boal. "Diversifying the portfolio will help to buffer the investments."

One of the biggest risks to retirement savings is turning your back on the sharemarket, particularly dividend-rich Australian stocks.

The Australian market is unique because it pays healthy dividends that also enjoy franking credits. Pension-phase super investors get a full refund of the credits, so for them it represents extra income, says Don Hamson, managing director of Plato Investment Management, which is launching a listed investment company, Plato Income Maximiser (ASX: PL8). He calculates that dividends have provided a total return of 6.1%pa over the 10 years to December 31, 2016, including 1.6%pa franking, for tax-exempt investors such as pension-phase superannuants. This is based on the S&P/ASX 200 Franking Credit Adjusted Annual Total Return Index (Tax-Exempt).

Another important feature of income from shares and property is that while not without risk, over the long term the growth rate has been close to the inflation rate.

Worried that the money will run out

Financial security is the biggest retirement concern of 50- to 75-year-olds, with only just over 20% feeling on track for a comfortable lifestyle.

More than one in three do not feel they have enough money set aside for retirement, according to a survey of 1000 people carried out by Pure Profile for St.George Bank.

After financial security, they are most concerned about health issues and losing independence, maintaining a sense of purpose and estate planning.

Some 73% said they have never received professional financial planning advice. Of those who did get advice, 55% went to a financial adviser, 21% visited a super fund and 14% went to a bank. Some 26% of respondents confessed to having never reviewed their financial plan while 24% reviewed it once a year and 22% once every six months

It is important to have a financial plan, particularly if you are over 50, and once you have one to continually evaluate it so you can live a full life with security in retirement, says Ross Miller, general manager of retail banking at St.George.

Also the dividend income generated by the market is around half as volatile as the value of the market itself. For example, with the index level at 5700 you might expect that in two out of three years it would range between 1000 points more or 1000 points less – almost 20% either way.

But the dividend yield, including franking, for the ASX 200 index in two out of three years might be only 0.5% more or less in a well-diversified portfolio.

If you invest narrowly in only a handful of companies, the dividend income is likely to be much more volatile. And, of course, there is scope to diversify into commercial property trusts as well, with an income yield of twice that of expensive residential property.

If you can live off your investment income, dominated by dividends and distributions, you won't need to draw on your capital. Fluctuations in value will be less of a concern, although hard to ignore altogether. It's only when you are forced to sell your assets, due to insufficient income generation, that volatility in value becomes a pressing problem.

But even if a couple have only $200,000 in their superannuation, an income-oriented strategy could generate $11,000-$12,000 a year without having to consume capital. The $200,000 might bounce around in value over time, both up and down, but the trajectory

won't be steadily downhill, and maybe it will be a little positive. Your dividends and income are likely to buy the same in 10 years as they do today. At that level of assets, the age pension is not reduced.

So you will have to take on more risk to get the income generation of 10 years ago but that risk may not be as worrisome as the alternative: running out of money early.

Boal says how you invest depends on how much you have in savings. He says there are three groups of retirees: people with not much super, those with $600,000 to $1 million and those with over $1 million.

If you have less than $100,000 in super you will depend on the age pension. This will deliver a modest retirement, which the Association of Superannuation Funds of Australia (ASFA) retirement standard for December 2016 estimates to be $23,603pa for a single homeowning female ($36,851 for renters) and $34,992 ($51,760) for a couple.

The second group will be able to have a comfortable retirement if they own their home and have $640,000 as a couple (about $1.07 million renting) and $545,000 ($917,000) as a single. Both groups will have to draw on their capital and not just live on their income, says Boal. They have to make their money last 25 to 30 years.

He recommends that they invest their savings in an account-based pension set up in their super fund or self-managed fund. He suggests they combine the account-based pension with a deferred lifetime annuity for old age, perhaps when they reach 85, as an insurance strategy for five years until they are 90. They can buy it at any stage.

He says most people don't want to spend all their retirement savings because they want to leave money to their children or relatives. For this reason they prefer investing in an account-based pension that allows them to leave money to their children if they die early. "If you live to 90, then your children are in their 60s and the bequest motive is not quite as important," says Boal.

He says that buying a deferred lifetime annuity to provide a guaranteed income in the later part of life, say age 85 to 90, can give people some peace of mind that they will not run out of money when they could be frail and have high health costs.

Boal says the question for them is what is the best way to invest their money to get them up to 85. He recommends a balanced portfolio that is diversified and aggressive because of longevity risk. But to be better off over the whole investment period, people need to be more agile with their spending. If sharemarkets go down, they need to cut back; if markets go up they can spend a bit more.

If a couple are spending $59,808pa (or $43,538 for a single) to have a comfortable retirement (according to the ASFA standard for December 2016) and the markets fall, they don't travel that year and cut their spending back to $50,000. "This will help the money to last," says Boal. "Be aware that the age pension will be a buffer."

When Investment Trends surveyed pre-retirees about how much income they would need for their retirement, the average amount was $3600 a month. But when it asked retirees how much they spent in retirement, the average was $2000. "People can spend more and this shows that they need more advice," says Peker. *M*

> **Most retirees don't want to spend all their money – they want to leave some for their children**

Regrets, they have a few

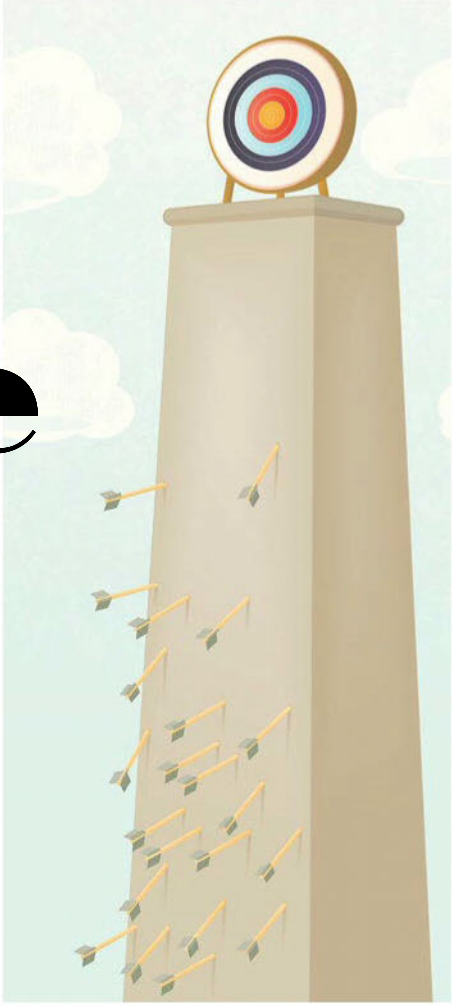
When research house Investment Trends surveyed retirees about what they could have done better in the lead-up to their retirement, 75% wished they had done something differently.

At the top of the wish list was contributing more to their retirement savings (44%). Some 25% wished that they had begun investing earlier in their working life and 24% wished they had saved more outside superannuation.

There is one group of investors who tend to give up on saving for retirement. This tends to be largely female, says Recep Peker, research director at Investment Trends. "It suggests that some women believe the 'women are going to be behind in saving for retirement' mantra," says Peker.

Fees battle heats up

STORY PAM WALKLEY



Investors stand to benefit as a newcomer slashes the cost of active management

Vanguard's entry into low-cost active managed funds in Australia will put added pressure on the fees charged by fund managers, most of which have failed to produce returns that meet, let alone beat, their benchmarks.

The new funds – Vanguard Global Value Equity Fund, Vanguard Global Minimum Volatility Fund and Vanguard Global Quantitative Equity Fund – are initially being offered as wholesale funds with a minimum investment of $500,000.

But Vanguard expects to launch exchange traded funds (ETFs) based on these funds later this year, says Robin Bowerman, the company's head of market strategy and communications. And this means retail investors will be able to invest in these options with as little as $500.

S&P Dow Jones Indices, which tracks the performance of over 1100 actively managed equity and bond funds in Australia, has found that many managers have consistently underperformed their benchmarks.

In its latest research on the sector, it found that eight out of 10 active managers of funds trying to beat the S&P/ASX 200 Index in the year ending December 30, 2016, underperformed, achieving an average return of 9.2% against an 11.8% gain by the index.

And this trend is not new: the same research shows most active fund managers have been underperforming over three, five and 10 years.

Undoubtedly fees have impacted the performance of active managed funds. Vanguard's three new funds, all of which give investors exposure to global equities, will charge a management fee of 0.45% a year. This compares with the average cost of 1.23% for Australian active equity funds, according to Vanguard, which bases the figure on its analysis of Morningstar data at December 2016.

Providing low-cost, high-quality funds that let investors keep more of their returns is central to Vanguard's long-term approach, says Bowerman. Research consistently shows that keeping costs low can improve the odds of success across both index and active funds. The basis of this culture is Vanguard's mutual structure in the US, which means it's owned by its investors not shareholders.

And while this is the fund manager's first foray into active funds in Australia, it started life as an active manager, says Bowerman, and it now manages more than $1.5 trillion in active assets globally.

Based on its overseas funds, low fees have not resulted in poor performance. Over the past five years, 96% of Vanguard's funds have outperformed their industry peer group and 93% have outperformed over the past 10 years to December 2016, according to statistics from Lipper, a Thomson Reuters company.

One of the reasons the manager can offer these funds at a relatively low cost is that they are quantitatively driven, meaning investment selection is rules based, says Bowerman. This reduces the number of analysts needed.

And as Vanguard has grown – it now has global funds under management of $5.4 trillion – it has benefited from economies of scale, which it has passed through to investors in the form of lower management costs, says Bowerman. He points to Vanguard's record of reducing fees in Australia; it has delivered 17 individual fund management expense ratio (MER) reductions to clients in its 20 years of operation.

The three funds recently introduced to Australian investors are already up and running overseas and have track records:

- Vanguard Global Minimum Volatility invests in global equities, including Australia, and aims to provide lower volatility relative to the global equity market. Since inception in July 2015 it has returned 7.45% a year compared with its benchmark of 6.11%pa (FTSE Global All Cap Index – AUD hedged).
- Vanguard Global Value Equity seeks to provide long-term capital appreciation through an active approach that invests in global equities demonstrating value characteristics. It was launched in September 2016 and the three-month return was 12.09% to December 2016, compared with the benchmark (FTSE Developed All-Cap in AUD Index), which returned 6.92% over the same period.
- Vanguard Global Quantitative Equity uses a proprietary quantitative process to evaluate international equities to identify those offering a balance between attractive valuations and attractive growth prospects relative to their peers to build a portfolio of between 200 and 400 securities from the 1500 in the index. Since inception in January 2016 it has returned 10.76%pa compared with 9.95%pa for the benchmark (MSCI World ex-Australia Index with net dividends reinvested in AUD.) *M*

Why the market is struggling

Dysfunctional politics are hurting business investment and the economy

Do politics affect investment markets? The answer, if you look at America, is quite clearly yes. Expectations of Donald Trump, as CEO-in-chief, delivering significant pro-business policies has seen markets climb rapidly to all-time highs.

And much of that is about tax policy. The promise of significant cuts – for business and individuals – has underpinned the US stockmarket rise. Policies that seem more protectionist have also provided a buffer for local manufacturers and service providers that have previously felt the pinch of foreign competition.

But there's something peculiar. In places like Australia, where politics have become dysfunctional because of indecisive parliaments, business does its best to go around the political system, rather than through it.

There are good examples here. One is industrial relations, where most new jobs formed in the past 12 months have been part-time or casual. There are good reasons for this. One is that casual or contract workers may cost more per hour but they are easier to move on when the work has been completed. Another reason is that businesses, uncertain about the future and their cash flows, are not prepared to commit to permanent staff.

This is about confidence, not only in the economy or in consumer behaviour but also in the political system. Companies, large and small, need confidence to invest. But if confidence is down, long-term thinking tends to go out the window. And this reflects directly on politicians: their mixed messages and their inability to make ground-breaking changes that would, in the long term, create better opportunities.

It's already hurting Australia. Given record low interest rates and a dollar that broadly favours exporters, manufacturers and service companies, our stockmarket – technically – should have done better.

Here's a simple example: why would you invest potentially hundreds of millions of dollars in a piece of infrastructure, requiring long-term returns to recoup your money, if a new government and a change in parliament renders it a loss maker in a matter of months. Simple answer: as a board, a CEO or a shareholder ... you won't do it.

Go to the complex area of climate change – but it could be health, education, defence or something as simple as alcohol. There's a view inside politics that if we wait three years the government will change and we can reverse a whole lot of policy. But that does nothing – not only for those trying to plan projects that will span decades but also businesses trying to work out a strategy for the next five years.

So as companies think shorter term, worried by the prospect of more policy changes, the opportunity for strategic investment and greater employment from the private sector also dissipates.

There is also a view inside government that it should play a role in deciding which industries succeed or fail regardless of the market forces at play. So-called social taxes are one example. Already there are hefty taxes on cigarettes and tobacco. There is excise on alcohol (though not to curb consumption – yet, you suspect). There is a serious conversation about sugar taxes (to emulate a move by the British government) and so-called fat taxes to encourage those who are overweight to unburden themselves and, hopefully, the health system.

But governments know these taxes also raised vast amounts of revenue from those who are less capable of avoiding them.

One of the best examples of the way politics directs investment is the lack of electricity generation created in the past 10 years that has now created – in the prime minister's words – a crisis. And this is the classic example of why companies – unsure of the policy direction of the two major political parties – have walked away from the area altogether. AGL, which once explored for and produced gas for Australia, now chooses to re-sell energy and to generate renewable energy sources.

Australia is in the process of closing vast amounts of electricity generation along the eastern seaboard, with too little replacement for a growing economy and population. Again, if you are in business you will think twice about investing in Australia without a government undertaking about energy, tax and infrastructure spending.

In the past month, during the interim reporting season, I asked six senior CEOs with multinational businesses based in Australia about their investment plans – what they thought about energy and tax policies. Almost to a person they said that while Australia has no decisive policies they will consider other places to be more desirable for future investment.

So if you wonder why the Australian stockmarket is lagging or why nothing seems to be being built here, ask your local politician what they are doing to create stability in the Australian economy.

Ross Greenwood is Channel 9's finance editor and Radio 2GB's Money News host.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Strict rules for early access

In an emergency you may be able to tap into your retirement savings

What happens if you have lost your job, can't find another and are struggling to pay your mortgage? In limited circumstances you may be able to access some of your super. However, strict conditions apply.

There are two ways to apply for the early release of super. You can apply on the basis of severe financial hardship or on compassionate grounds. In both instances it will depend on whether your super fund's rules permit it.

"Some funds don't allow you to get early access," says Fiona Guthrie, CEO of Financial Counselling Australia. This underlines the importance of checking with your fund to see what rules apply.

If you are permitted to access your super it may be subject to benefits tax.

SEVERE HARDSHIP

You may be able to withdraw some of your super if you have received eligible government income support payments continuously for 26 weeks and you are unable to meet your day-to-day living expenses.

You will need a letter from Centrelink to prove it. The minimum amount you can withdraw is $1000 and the maximum is $10,000. You can make only one withdrawal in any 12-month period.

If your fund's rules don't allow for this option, you may be able to apply on compassionate grounds instead.

Where to apply: super fund's trustee.

COMPASSIONATE GROUNDS

You may be allowed to withdraw some of your super on compassionate grounds if your home loan repayments are in arrears and you risk losing your home. Your name needs to be on the mortgage documents and the property must be your normal place of residence (not an investment).

The amount available can be up to three months' payments plus 12 months' interest every 12 months.

To find out what documentation is required go to: humanservices.gov.au/customer/services/centrelink/early-release-superannuation.

Whatever you do, don't fall for a scam, as you risk losing your money. "Faced with tough times, such as bank foreclosures and retrenchments, some people might get caught up in illegal schemes to take their money out of super," warns ASIC.

Guthrie strongly recommends people go on to the national debt helpline ndh.org.au and talk to one of its financial counsellors. "The earlier you act the more options you have," she says. "They can help you look at all the options."

Sometimes the best option is selling the home even though that's a gut-wrenching thing to do, especially where job prospects are bleak. "Early access to super can be useful but on the other hand it might be that you end up having to sell the home anyway, in which case you are worse off – you've lost your home and you've lost a fair whack of your super."

Where to apply: Department of Human Services.

YOU MAY HAVE TO BITE THE BULLET

Josh Mennen, a lawyer at Maurice Blackburn, says it's important to get on top of your debts early and be pragmatic.

First, you should apply for a hardship variation on your home loan. "A borrower can seek to vary the terms of their loan on the basis that they are unable to pay it, or if they did pay it, it would put them in significant financial hardship," he says. "The lender has a legal obligation under those circumstances to engage with them and try to renegotiate the contract.

"For example, they may extend the duration of the loan but reduce the payments to interest only. Whilst a borrower is involved in that discussion, the lender is prohibited from taking recovery action from the courts."

But if your work prospects are poor, pouring super into the loan may add to your woes. "The worst outcome is for the mortgage to be foreclosed and for the bank to take possession of the property in a forced sale because a forced sale is going to result in a poor realisation of the property's value.

"You've already exhausted your super trying to make ends meet but the inevitable has happened anyway. Only the bank wins in that situation. It's important to work out at the earliest point in time whether it is possible to retain the property or whether you need to bite the bullet and sell it."

Super is quarantined from creditors if you go bankrupt. "That's consistent with government policy to try and preserve it as best as possible," says Mennen. So in this instance, the safest place for your super money would've been in your fund, which why trustees are strict about early access.

Vita Palestrant was editor of the Money section of The Sydney Morning Herald *and* The Age. *She has worked on major newspapers overseas.*

STORY NERIDA COLE

Tips for $1.6m pension limit

The rules are changing but there are strategies for maximising the tax advantages

It's time to tackle the $1.6 million pension balance transfer cap. First, this is not a limit on what you can hold in your total super, just what you can hold in the tax-free retirement phase. If you have more than $1.6 million in retirement accounts, or expect to get to this level, don't be deterred – super is still expected to be an attractive option. With three months to go in our super rules countdown, here's what you can do to help keep your retirement plans as tax effective as possible.

- Working couples should look into the little-known but very valuable strategy of annual spouse splitting. This rule allows the employer's super guarantee, as well as concessional salary sacrifice contributions, to be transferred to your spouse's super account at the end of each financial year. When fully maximised this could allow a couple to hold $3.2 million in tax-free accounts at retirement. Retirees have another option up their sleeve – they could take money out of super and re-contribute it to their spouse as a non-concessional contribution. Age and work test requirements apply and it will pay to check lump sum tax and contribution limits too.
- Excess amounts can be left in super. If re-distributing to a spouse isn't an option, alternatives include taking the excess out of super and holding it in your own name or rolling it back to the accumulation phase of super. The second option is expected to be more tax effective and more administratively efficient. Money held in accumulation accounts receives very favourable tax concessions, including a maximum of 15% payable on earnings (dividends, interest) and 10% on capital gains for investments held for at least 12 months. This compares with personal marginal tax rates, which can be as high as 49%. Although seniors currently have access to a generous tax offset that can help bring down personal tax, there have been calls for this to be wound back. Further, earnings in accumulation accounts are not assessed for Commonwealth seniors health care card purposes. From an administrative point of view, having a portion of money in the accumulation phase usually won't result in extra fees and charges (compared with holding it all in a pension account), yet the tax reporting and financial statements would be taken care of by your fund. This saves valuable time and cost compared with managing these requirements yourself if investments are held in your personal name.

> **Spouse splitting could allow a couple to hold $3.2m in tax-free accounts**

- CGT relief and estate planning. If rolling back a portion of your money to the accumulation account, fund members have the option of claiming CGT relief. Because different calculations apply depending on how the fund is structured, it will be important to get advice to work through the strict eligibility criteria, particularly if you have an SMSF with sizeable unrealised profits.

Retirees with multiple pension accounts also need to consider which accounts should move back to accumulation phase and which should stay in the pension phase. Where accounts have different estate planning tax components, keeping the accounts with the highest tax-free percentages in pension phase is expected to help if funds are not spent during retirement and upon death pass to adult children.

If you have a transition to retirement income stream, it is not limited by this $1.6 million pension transfer cap but faces separate changes from July 1. So if you have one, should you keep it going? Next month I'll talk you through this and how the new rules impact these accounts.

Nerida Cole is Dixon Advisory's managing director – head of advice.

Tiddlers in the

STORY GREG HOFFMAN

Careful evaluation is a must when 10 small companies make a pitch to investors

It felt a bit like the TV show *Shark Tank*. Ten budding companies had 10 minutes each to make their pitch to investors at the Small Cap Showcase run by Wholesale Investor in March. In this column, I'll take you through my evaluation process when approaching these tiny listed stocks and my views on some of the companies that presented their case.

First, I look for a business I can understand with a competitive advantage. Next I want a credible manager at the helm (many of these tiny companies are effectively a "one-person show"). Finally, I want to understand the numbers. Is the company appropriately financed? Do its growth plans seem realistic? Is the current valuation a fair one (or, better yet, a bargain)?

Nvoi (ASX: NVO) was the opening company and CEO Jennifer Maritz was the first of three female executives to make a presentation, an encouraging improvement on the typically all-male line-up of senior executives. That was fitting given the conference was held the day after International Women's Day.

Nvoi is a $15 million tiddler launching "micro exchanges" where employers and employees can find each other. Maritz showed the cost savings against a traditional employment agency model but when she started talking about this becoming a "billion-dollar company" I switched off. I wish her and Nvoi all the best but such blue-sky talk always turns me off. I prefer managers firmly focused on the job at hand, not promotional ones throwing around the "b" word.

On the research list ... Philip Kapp, MD of **JustKapital (JKL)**, was next. He was one of the weaker presenters and was explaining the idiosyncratic business of litigation funding. Yet his message captured my interest.

An experienced lawyer, Kapp built a plausible case for his business's new growth avenue of funding disbursements for law firms. Commercial banks have apparently left a lucrative gap in the market and JustKapital is profitably filling it. This is a complex business that I haven't fully got my head around yet, but it's now on my research list.

On the watchlist ... The impressive Dr Catriona Wallace followed the buttoned-down Mr Kapp. Wallace is CEO of **Cre8tek (CR8)**, which came to the ASX in November last year through a backdoor listing (where a larger company lists via a "reverse takeover" of a smaller, already listed company).

Cre8tek's main focus is its Flamingo business, which provides "conversational commerce" technology to its clients. If you've ever been assailed by a "chatbot" on a website, you'll get the idea. Chatbots engage customers through dialogue boxes that give the impression that you're interacting with a human when, in this case, it's actually a computer.

Wallace described impressive results for clients and outlined a plausible growth opportunity. My stumbling block as a potential investor is figuring out whether Cre8tek will be able to develop a sustainable business without being sideswiped by the myriad outfits in Silicon Valley working on similar technology.

I recently heard a less impressive pitch from an unlisted "artificial intelligence" company with no revenue (and no plan for generating any in the near future) which was being valued at $20 million. Cre8tek's valuation of around $30 million (at 5¢ a share) is at least more reasonable than that given it's generating revenue and kicking goals on the customer front – a few days after the conference it announced yet another new contract. I won't be buying the stock in the coming months but

shark tank

will add it to my watchlist and pay attention to its full-year results in August.

Speculative play ... **Imugene (IMU)** is developing a vaccine for the treatment of gastric cancer. It's an industry and technology well beyond my ken, so I wasn't listening closely to CEO Leslie Chong until she mentioned that Platinum Asset Management is Imugene's largest shareholder. Platinum has no shortage of brain power and does plenty of research. Even though it's a small investment for the giant funds manager, it's a decent tick for Imugene.

Chong also struck me as an extremely credible and capable executive (she was previously a "senior clinical program lead" for biotech giant Genentech in San Francisco). Uncharacteristically, I found myself daydreaming of turning a small speculative play in this stock into 20 or 30 times my money. For now, that's remained a pure thought bubble and I can't recall ever having invested in a biotech company. It's probably a permanent pass for me but those interested in small speculative biotech plays might want to look further into it.

Bulletproof (BPF) is an established business that recorded respectable revenue of $47.2 million last financial year and is forecasting 14% growth to $54 million this year. It's broadly in the fashionable "cloud computing" area, providing consulting services to clients planning, managing and maintaining their transition to "the cloud".

> I found myself daydreaming of making 20 or 30 times my money

It all seemed OK until I saw the profit and loss statement. I was expecting a consulting firm like this to be generating profit margins in the realm of 7%-10%. Instead, once I adjusted for some one-off revaluation gains, it seems Bulletproof managed less than 2% in 2016 (and only 2.5% in 2015). That was enough for me to set it aside until management can demonstrate its ability to grow the profit margin as well as revenue. Profitless prosperity holds no appeal for me.

Chris Noone, CEO of **Collaborate Corporation (CL8)**, made the case that "access is preferable to ownership" for the younger generation. This $8 million minnow (at a 2¢ share price) is focused on the "sharing economy" and carving out a niche via websites like DriveMyCar and MyCaravan where owners of cars and caravans can put them up for rent when they're not in use.

Noone talked about some interesting deals the company has done with the likes of Uber, Subaru and fleet car company Orix. But I want to see this activity translate into some serious revenue before considering any possible investment. Collaborate generated just $381,459 of revenue in the six months to December 31. It's a "no" from me at this point.

The wash-up

You can find the slides from the presentations of each of the companies I've mentioned on the ASX website. Head to asx.com.au and look for the "Prices and research" dropdown menu. In there you'll find the "Announcements" option, where you can then search by ASX code and time frame. It's probably easiest to select the 2017 button underneath the default "Past week" setting.

While there weren't any stocks that were immediately investable for me, I'm happy to have added JustKapital to my research list and Cre8tek to my watchlist. I'll check back in on the others in a year or two.

And although I'm more of a conservative belts-and-braces type, Imugene is the other stock that may tickle the fancy of those who can handle the prospect of a complete wipeout in search of big-time gains.

Greg Hoffman is an independent financial educator, commentator and investor. He is also non-executive chairman of Forager Funds Management.

Cheques are in the mail

This is the season for counting our blessings, even if they are modest

I like autumn! Reporting season is over and now the dividends flow. Mind you, unless you were overweight resources, the dividend flow will be much like it was last year.

After a year of modest economic growth, company earnings growth, ex-resources, was also modest. To be honest, the next six months seem set to deliver more of the same. But let's be positive. Inflation is low, we still have franking credits and modest dividend growth is better than going backwards!

So what's in store? There are a lot of good things happening in the Australian economy. Exports are on the rise, commodity prices are higher than expected, the agricultural sector is having its best year in decades, infrastructure spending is firm, home construction continues at high levels, inflation is low, unemployment is steady and new jobs are being created. All of this underpins corporate activity and the sharemarket. Low interest rates also support the market.

In the month ahead, budget speculation will emerge. Loss of our AAA credit rating, should that happen, would not assist market sentiment but it wouldn't be the end of the world. If there are changes to negative gearing for property or changes to capital gains tax, the chances are that investors might move towards the sharemarket.

We will also get another read on inflation. It's likely to be below 2%, which suggests that the Reserve Bank won't lift its cash rate any time soon.

In light of the stable local economic news, investor attention could move offshore. The US economy continues to grow and sentiment will be further boosted by the foreshadowed corporate and personal tax cuts, plus potential infrastructure spending. Neither of these will happen overnight but the market is forward looking.

The news out of China should also be positive. It is cutting its output of low-grade iron ore and seeking to buy higher-grade ore on world markets. While further surges in iron ore prices seem unlikely, a collapse is not likely either. Chinese demand for Australian services (tourism and education) remains firm, as does the demand for agricultural products. All this supports our economy, property market and sharemarket.

There are also signs of muted recovery in Europe. If these pick up steam, it would give heart to international investors which could then flow into improved sentiment towards the Australian market.

You may have noticed that bond yields in Europe and the US have risen in recent months. While this can be a drag on share prices, it's also a signal that the worst of "the great recession" is behind us. Most recently, the European Central Bank (ECB) lifted its forecasts for European economic activity. So what could go wrong? Further rate rises in the US, after last month's 0.25% hike to 1%, could unsettle markets, as might a "far right" victory in the French elections. If Britain can leave the European Union, why not France? And then there's Greece. Debts extended a few years ago will need repaying. Is another Greek tragedy just around the corner? I doubt it but we can't rule it out.

Speaking of tragedies, the recent outpouring of protectionist rhetoric in the US does not bode well for markets. Trade disruption or geopolitical disruption, be it sourced in the US, Mexico, China or Europe, threatens to put a dampener on investor sentiment. Watch this space.

Having considered some potential near-term risks, let's finish on a positive note. The move towards higher interest rates in the US and possibly in Europe is a sign of improving health. In Australia, short-term interest rates seem set to remain low well into 2018. Even when they do rise it's likely to be a gradual affair.

> **The outpouring of protectionist rhetoric does not bode well**

The outlook for corporate operating conditions in Australia remains broadly favourable and from that should flow reasonable earnings. Your autumnal dividend cheques are in the mail.

Hans Kunnen is the chief economist at Compass Economics. He is also the author of Borrow + Build, *a primer on borrowing to invest in the Australian sharemarket.*

When the 'hyenas' go to work

Keep an eye on the stocks that are the favourite target of the short sellers

Each week the Australian Securities and Investments Commission (ASIC) publishes a list of stocks that have been "sold short". In basic terms it means stocks that have been sold by people who don't own them.

It is not that easy to genuinely short a stock. You can do something similar through CFD (contract for difference) accounts but I wouldn't deal with them, and nor would the big players, the hedge funds and the institutions.

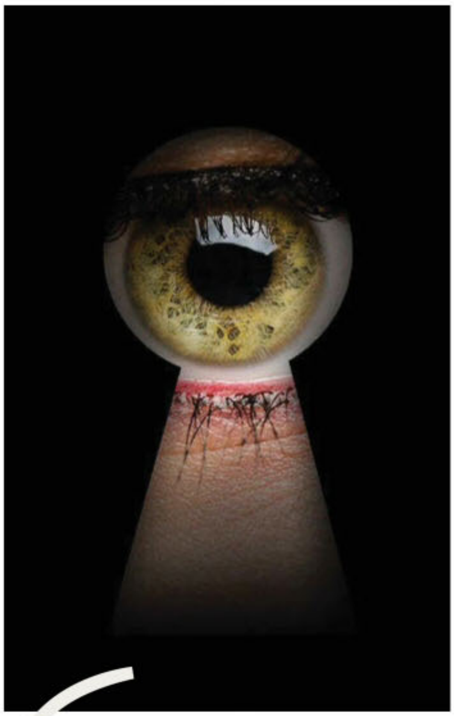
Only some brokers offer the facility to set up a shorting account, because it is generally a time-consuming, more risky activity for the same commission and the retail clients who tend to want to do it are generally more demanding of time and resources and require more monitoring than a good old plodder.

To short something you have to contact a broker and ask how much stock is available to borrow. They contact the back office, which contacts one of the big share custodians. Australian custodians hold about $3 trillion worth of stock which they are generally happy to lend out to brokers for a small fee, which is, of course, passed onto the client. With that much idle stock around you can short most things, although when there is a lot of action and volatility the stock that's available to be borrowed can dry up, and the smaller the stock the less the liquidity and the less stock will be available to borrow.

Once the broker tells you how much stock you can sell short, you pick the amount and they'll sell that borrowed stock for you. There is a lot more to the detail than that but that's the bones of it.

When someone shorts a stock they do it in the belief that the price is going to fall, so they sell with the view to buying it back at a later date at a lower price, locking in a profit and returning the borrowed stock.

Of course, sometimes a stock can move in the opposite direction to the shorter's expectations – that is, it starts going up –



Custodians hold about $3 trillion worth of stock which they are generally happy to lend out

and you may see those same people who shorted the stock scrambling back into the market to buy back the amount of stock they shorted to limit their losses as the share price goes higher. This is called "short covering" and is often quoted as an excuse for why a share price is flying up after a recent selldown.

The ASX monitors shorting through its business rules, which require all member firms (brokers) to tag any trade as a short trade if it is a short trade.

Most recently the GFC caused shorting activity to run riot with some significant criticism that, in an atmosphere of fear, short selling was smashing share prices and undermining the integrity and confidence in the US and the global financial system. Both Australia and the US imposed a shorting ban during the GFC while they tried to stabilise the market sell-off.

When they removed the ban the list of stocks that were being shorted began to be published daily, showing how much of the trade related to shorting. The publishing of the list followed the outcry about shorting from regulators and investors alike and met the call for more transparency.

The shorting ban and the extra transparency were not popular with a lot of fund managers, particularly hedge fund managers who made a business out of shorting stocks. Their annoyance makes it apparent that short-selling information levels the playing field against them, which means it adds value to other investors.

Shorters tend to target individual, vulnerable stocks that have already started to drop. They rarely short stable stocks in steady uptrends. It's like hyenas. They rarely do the initial damage but if they see a wounded animal they swoop in and ultimately they become the problem.

ASIC now publishes the list of most shorted stocks and in the Marcus Today newsletter we analyse which stocks are being targeted and those that have been targeted but are now being bought back. All investors and traders should keep shorting activity in their peripheral vision because it highlights stocks that have an "issue", are often highly traded, are often volatile and can bounce sharply once the shorting ends.

Marcus Padley is a director of MTIS Pty Ltd and the author of the daily stockmarket newsletter Marcus Today. For a free trial of the newsletter go to marcustoday.com.au.

SECTOR REITs

Healthy fear of heights

It can be more profitable to own a modest steel shed than a glitzy skyscraper

A real estate investment trust, or REIT, is an entity that owns income-producing real estate. Think of a managed fund that concentrates on property rather than stocks and you have the idea for a REIT. They offer investors a partial interest in the rental income, capital appreciation and/or development profits of a variety of property classes, from residential to industrial.

Property categories include commercial (which encompasses the sub-categories leisure, retail, office, healthcare, industrial and hotels) and residential. And, of course, there is rural or farmland. The big names in property REITs in Australia include Lendlease, Mirvac, Stockland, Westfield, GPT, Scentre, Vicinity, Goodman Group and Dexus.

The obvious benefits of REITs include diversification through a low correlation with the broader market (although that might arguably be untrue most recently), income source diversification and stability, and a possible hedge against inflation. Listed REITs also offer the immediate benefit of liquidity.

But there are downsides. Management can travel "off-piste", with debt-fuelled expansion aspirations ahead of the GFC bringing many REITs to their knees.

Another downside more relevant today is the end of a 35-year decline in global interest rates, which has been a tailwind for asset values globally.

Property investors must ignore all the talk about a shortage of land, net migration and Chinese demand. And rural property investors should be cautious about talk of the rising Asian middle class and its appetite for protein and the westernisation of tastebuds. These same arguments were used to promote rural property in Omaha in the 1960s! Value drivers are typically CPI, market rent reviews, vacancies, refurbishments and the difference between property yields and bond yields.

It is vital that investors understand the financially damaging implications of rising interest rates. In July 2016, US 10-year Treasury bond rates fell to 1.36%, their lowest level since 1773, when Captain Cook first crossed the Antarctic Circle. Since then rates have risen to 2.61%, raising the cost of funds for banks, which pass these costs on to borrowers.

At the same time higher bond rates led to increased discount rates (known as capitalisation rates in property circles) – the rate used by professionals to calculate the "present value" of future rental streams from a property. When discount rates rise, present values decline, meaning the value of those future income streams in today's dollars is less and so the property is "worth" less. Indeed, it is quite possible the $4.7 billion of revaluations in the listed REIT sector for the six months to December 2016 represents a peak.

The change in direction for interest rates is occurring after 35 years of asset-inflating declining rates, which have conditioned investors into believing the mantra of many property bulls that rates will stay lower for longer and asset prices will remain elevated. But speculative bubbles are appearing in everything from fine art and wine to collectible number plates and high prices, along with record low yields, will ensure investors lock in inadequate returns for many years if not a lifetime.

Irrespective of whether interest rates are rising or falling there are some basic economics to be aware of. The most attractive economics can be found where

Prices as at close of business 17-Mar-17.

land, rather than the building, comprises a high proportion of the total value of the property. While there are tax advantages related to depreciation of buildings, the long-term economics of a high-rise office tower – where land is small and the building large – are undesirable. This is because buildings date and as newer buildings compete for business top-tier tenants move.

Buildings move too, from A grade to B grade and then C grade. As they age they become more expensive to upgrade and raise to a standard suitable for top-tier tenants. Left to date for too long and landlords (that's you if you are an owner of units in the REIT) may discover that rents from second- and third-tier tenants are declining and that the demolition or replacement of a building is too costly.

The art deco-inspired Empire State Building stood as the world's tallest building for nearly 40 years, from its opening by President Hoover in May 1931. And while the building became famous two years later for being the scene of King Kong's death, it failed to generate a profit until 1950.

In 1951 it was sold for a world record price of $US51 million and it gradually began to date. Between 1993 and 2011, 6500 windows were replaced, 32km of fibre optics and copper cabling was retrofitted and an energy-efficiency retrofit program was completed. The elevator system was modernised for the second time, the first being in 1966, and in 2010 a $US550 million renovation commenced, without which the building's current popularity with tech companies would not exist.

Owning office buildings over the long term is an expensive exercise, with much of the rental income required to be reinvested for maintenance and upgrades. Any long-run economic benefit comes from the land underneath.

Tenanted industrial property, on the other hand, enjoys much more attractive economics. It is located on a relatively larger piece of land, with little more than a steel shed sitting atop, and owners benefit from much lower maintenance outgoings and relatively cheap replacement costs.

Roger Montgomery is the founder and CIO at The Montgomery Fund. For his book, Value.able, see rogermontgomery.com.

❶ Bunnings Warehouse Property Trust

The trust owns 80 warehouses enjoying 99.9% occupancy. Annual rents amount to $150 million and the weighted average lease expiry (WALE) is 5.5 years. Importantly, however, the WALE has been declining from 5.9 years on June 30, 2016, and 6.4 years on December 31, 2015. This is important because it is expected that several shorter-lease properties will be vacated as Bunnings moves to relocate to now vacated Masters locations. More than 23% of the portfolio expires over the next three years and while the management has outlined longer-term alternative uses for various assets, the risks have increased. Five properties have already been vacated, representing nearly 7% of annual rent. A further 16 are expected to be vacated as Bunnings relocates to preferred locations left by Masters. While capitalisation rates on newer properties have compressed in the low-interest rate-environment, this will change and, combined with the shortening lease expiry profile, it increases the risks.

ASX code BWP
Price $2.78
52wk ▲ $3.91
52wk ▼ $2.74
Mkt cap $1.78bn
Dividend 17¢
Dividend yield 6.2%
PE ratio 11.4

■ **SELL**

❷ GPT Group
❸ Stockland

Retail sales have been grinding lower generally thanks to a weaker currency and tourism. Low wages growth and already record high debt levels are offsetting any wealth effect from rising property prices. Increased competition from international hard discounters in the fashion and supermarket sector are also pressuring margins. Apparel makes up almost 30% of rents in regional malls and Australian retailers face an ongoing threat from the likes of Zara, Uniqlo, Topshop and H&M. More importantly, the size of these international operators allows them to negotiate lower rents that are generally around half those of local operators.

And all this is occurring before Amazon arrives in Australia to unleash the kind of offers that overseas consumers have been enjoying for years. Retail landlords and retailers themselves have described December and January in generally weak terms and further insolvencies, such as Marcs, Rhodes & Beckett, Pumpkin Patch, David Lawrence, Howards Storage World, Payless Shoes and Herringbone are expected to weigh on sentiment, even though the gross lettable area of these operators is less than 0.5% of their totals. GPT noted that "retailer profitability will remain a headwind".

ASX code GPT
Price $5.01
52wk ▲ $5.72
52wk ▼ $4.38
Mkt cap $9.02bn
Dividend 23¢
Dividend yield 4.7%
PE ratio 7.8

■ **SELL**

ASX code SGP
Price $4.54
52wk ▲ $5.11
52wk ▼ $4.03
Mkt cap $11bn
Dividend 25¢
Dividend yield 5.5%
PE ratio 12.2

■ **SELL**

“Higher interest rates with high leverage will cause a significant unwind”

Chris Brycki

Started Stockspot in 2013 to help more Australians access unbiased and transparent investment advice and portfolio management online. He spent his early career as a portfolio manager at hedge funds and UBS. During this time Chris saw traditional industries such as retail and media being disrupted by innovative technology companies. He decided to do the same to wealth management. Chris is a member of ASIC’s Digital Finance Advisory Committee and in 2015 was named in the Top 35 Influencers of Financial Planning by Adviser Ratings. He holds a bachelor of commerce from the University of NSW.

What was your first job?

It was a summer internship at Merrill Lynch in 1998 when I was 13 and fascinated by investing and the stockmarket. The tech boom was in full swing and they were preparing for the float of pay TV provider Austar. Two years later I remember reading that Merrills had all but shut down its Australian operations. It was my first experience of a full market cycle.

What’s the best money advice you’ve ever received?

Res tantum valet quantum vendi potest. It’s Latin for “A thing is worth only what someone else will pay for it.” It perfectly captures the importance of cycles and psychology when investing.

What’s the best investment decision you’ve ever made?

When I was in Year 1, a friend came back from a family holiday to Indonesia with a 1000 rupiah note. He showed it around class and I was so impressed I offered to buy it for $1. When I got home from school that day I showed it to my little brother. Clearly impressed by all the zeros, he offered to give me all of his savings – which amounted to about $30 – in exchange for the note. To this day this has been my only thirty-bagger.

What’s the worst investment decision you’ve ever made?

When my brother went to my parents to brag about how rich he was, they took the role of financial regulator and instructed us to unwind the transaction. I ended up with the 1000 rupiah note, which is only worth about 10¢ today. It hasn’t been a good investment but for the 90¢ I lost it has been a great lesson on exchange rates and the impact of inflation on fiat currency.

What is your favourite thing to splurge on?

The ferry to work. It costs triple the bus but it’s so much more enjoyable and showcases our beautiful Sydney harbour. It’s always a great way to start the day.

If you had $10,000 where would you invest it?

When I do have spare savings it all goes into low-cost exchange traded funds (ETFs) across a range of different assets. That’s the smartest way I’ve found to grow my wealth. It’s also the reason I built Stockspot.

People take too much risk buying individual stocks. Others don’t know where to start so they leave their cash in the bank, which is even more dangerous in the long run as bank interest won’t keep up with the price of things you want to buy. Exchange traded funds and automated investing can help novice and expert investors grow their wealth without worrying or the hassle of do-it-yourself investing.

What would you do if you only had $50 left in your bank account?

Convert it into rupiahs – I’d feel a lot richer.

Do you intend to leave an inheritance?

Warren Buffett once said that he wanted to leave his kids enough to do anything but not enough to do nothing. Growing up I learned that money can give you more freedom and flexibility but happiness comes from doing what you love. That’s the lesson I want to pass on to my kids some day.

Do you think property is a good investment in the current market?

Residential property is much closer to the top than bottom of its cycle in Australia. By any measure residential property is more expensive than Australian shares, so the contrarian in me would be reducing rather than increasing property as a percentage of my personal wealth.

That doesn’t mean property won’t keep rising, because it might, but eventually it will return to its long-term trend. Higher interest rates, when they do happen, combined with high leverage will cause a significant unwind at some point.

Complete this sentence: money makes …

a great magazine title.