TOP SHARE PICK IN THE RISKY RESOURCES GAME

REALITY CHECK: WHY A HOLIDAY HOME CAN BE A MINEFIELD

DIVIDENDS: TAKE THE CASH OR REINVEST?

Money

CREATING FINANCIAL FREEDOM

APRIL 2022 AUS $8.95 NZ $9.95 ISSUE 254
www.moneymag.com.au @MoneyMagAUS

F.I.R.E.
FINANCIAL INDEPENDENCE, RETIRE EARLY
SPECIAL
PAGES 32-45

BREAK FREE

Live the life you want

SAVE $2.7M IN 20 YEARS

RETIRE AS EARLY AS 28

6 CASE STUDIES SHOW HOW

DANGERS OF INVESTING WITH THE FAMILY

NO MORE SECRETS: SUPER FUNDS COME CLEAN

WHEN YOUR BUSINESS JUST CAN'T GO ON

Money

DIGITAL SUBSCRIPTION

SUBSCRIBE & RECEIVE

- **11 DIGITAL ISSUES** of *Money* for only **$44.99** – by automatic renewal
- **LATEST ISSUE** added to the *Money* app each month
- Your subscription may be **TAX DEDUCTIBLE**

SUBSCRIBE BEFORE APRIL 30, 2022 TO ENSURE YOU RECEIVE THIS SPECIAL OFFER

ALREADY A SUBSCRIBER?

Simply renew your digital subscription to receive this offer.

Savings based on cover price of $6.95. Offer valid from 30/03/2022 30/04/2022 to Australian residents only and not available in conjunction with any other offer involving *Money* magazine. For terms and conditions, visit magshop.com.au/money-magazine. If you do not want your information provided to any organisation not associated with this promotion, please indicate this clearly at the time of subscription. Subscription

Money's best digital subscription offer of 2022!

AN ANNUAL SAVING OF 41%

APPLY CODE M2204MON AT MAGSHOP.COM.AU/MONEY-MAGAZINE

copies do not receive free gifts offered at retail. Automatic renewal: After the first payment of $44.99 for 11 issues, the subscription will automatically renew and be billed as $57.99 every 11 issues thereafter until cancelled. For all mailing enquiries, please direct to: Magshop Reply Paid 5252, Sydney NSW 2001 Australia (Please allow 10 business days for a response).

CONTENTS

32
COVER STORY
On track for financial independence

20
INTERVIEW
Josh Harris, co-CEO of a carbon farming business

51
CALLING IT QUITS
When a small business has to make a tough decision

ON THE COVER

- **32** Live the life you want
- **51** When small businesses shut up shop
- **54** Should you buy a holiday home?
- **62** Greater transparency for super funds
- **68** Joint ventures with family
- **77** Top pick in the resources sector
- **78** Reinvest dividends or take the cash?

UPFRONT

- **6** **Editor's letter**
- **8** **Our experts**
- **10** **My money, my life:** financial tips from a reader
- **12** **News & views**
- **16** **In brief**
- **20** **Interview:** Alan Deans
- **24** **Ask Paul**
- **28** **Smart spending**
- **31** **Paul's verdict**

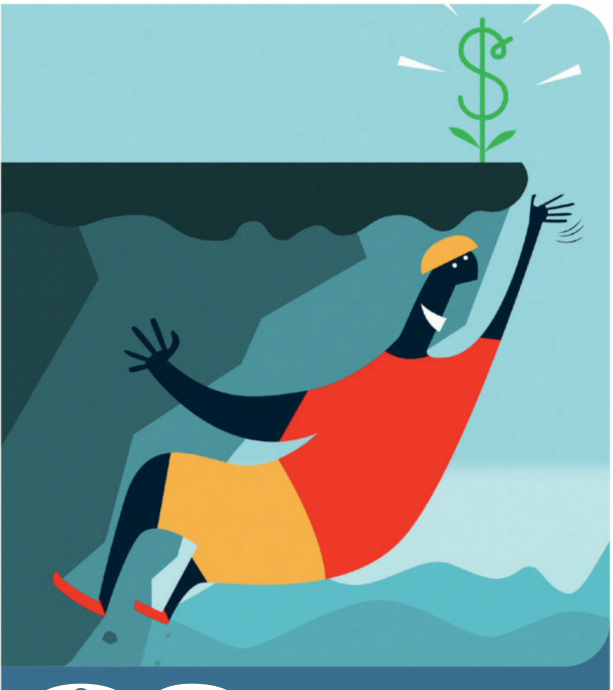
MY MONEY

- **46** **Careers:** Phil Slade
- **47** **Banking:** Michelle Baltazar
- **48** **Diary of a super fund:** urgent reaction to the Ukraine war
- **50** **Mind games:** Phil Slade
- **51** **Small business:** Anthony O'Brien
- **52** **Family money:** Susan Hely

Disclaimer: The information featured in this magazine is general in nature and does not take into account your objectives, financial situation or needs. You should consider the appropriateness of the information having regard to your own circumstances. Before making an investment, insurance or financial planning decision you should consult a licensed professional who can advise you whether your decision is appropriate. Rainmaker Information Pty Ltd does not have an interest in the promotion of any company, investment or product featured in this magazine.

MONEY NEWS DELIVERED TO YOUR INBOX EVERY WEDNESDAY AND SATURDAY

SIGN UP FOR YOUR FREE NEWSLETTER AT
MONEYMAG.COM.AU



54
HOLIDAY DREAMS
Reality of becoming a vacation homeowner

62
NOTHING TO HIDE
Super funds have to reveal where they invest

82
CUT YOUR LOSSES
How to set a stop-loss and gain some certainty

PROPERTY

54 **Holiday homes:** Nicola Field
58 **Renovations:** Tracie Ellis
61 **Real estate:** Pam Walkley

IN EVERY MONTH

8 **Privacy notice**
86 **Databank**
75 **Need help?**

90 **My working life**

INVESTING

62 **Super:** Vita Palestrant
66 **What if...:** Annette Sampson
68 **Keeping it in the family:** Helen Baker
72 **Create your own index:** Chloe Walker
76 **Managed funds:** Max Riaz
77 **Best in breed:** Scott Phillips

SHARES

82 **This month:** Marcus Padley
78 **Dividends:** Take the cash or reinvest? asks Nicola Field
84 **The great escape:** Alexandra Cain follows the millennials
89 **Outlook:** Alex Dunnin

SAVINGS & GIVEAWAYS

6 A 12-month subscription to *Money* for our Letter of the Month.

14 Win one of five copies of *The End of Technophobia* by Tracy Sheen.

31 A six-month subscription to *Money* for featuring in Paul's verdict.

79 Win one of five copies of *On Your Own Two Feet: The Essential Guide to Financial Independence for all Women* by Helen Baker.

SUBSCRIBE AND RECEIVE 11 ISSUES FOR ONLY **$74.99** PAGE 91

SIGN UP FOR OUR **FREE** WEEKLY NEWSLETTERS MONEYMAG.COM.AU

EDITOR'S DESK

Savings with bite

Most people love giving their pets quirky names. Here in the office, one of my colleagues named her cat Stevens. Dave and Alison, a couple we interviewed for this month's cover story, named their pet dog, Boss. Imagine the fun they have talking to their neighbours and friends about their beloved canine.

But the name is perhaps fitting given their incredible success story. Dave and Alison may never have to deal with a terrible boss in their lifetime after becoming part of the financial independence, retire early (FIRE) movement. Thanks to their money skills, both have enough savings to stop working 9-to-5 while still under the age of 30.

While the path to financial independence will differ for every *Money* reader, their experience, featured in our special cover story (pages 32-45), shows that financial security is within everyone's reach. We are grateful to them and to Jason, Leo and Alisha, Michelle and Serina – all of whom shared their FIRE stories. I hope that their experiences will become a source of inspiration for many others.

As I write this, the world is in the thick of a geopolitical crisis due to Russia's invasion of Ukraine. Besides the humanitarian woes, the conflict also sent shudders through financial markets. We invited Ian Patrick, the chief investment officer of a major super fund, to tell us what he had to do for fund members in response to the war (Diary of a Super Fund, pages 48-49).

We have three new offerings in this issue: My Money, My Life (page 10), Next in Finance (page 72) and My Working Life (page 90). These features are designed to help you find different ways to look after your money. Let us know what you think and send us your ideas.

Michelle Baltazar,
Editor-in-chief

Feedback

Letter of the month

Couple keep their heads despite a windfall

Reg's Toon (February 2022) about an ring ("Do you have any with cheaper stones?" – "We can do gravel") – took me down Memory Lane ...

The young dating couple were joint winners in the lottery. But what to do with it? They took Monday off work and went to town. He bought a motorbike, she a stereo and a microwave, putting the balance in a joint bank account, and they continued with life as per normal.

Down the track they got engaged and visited a jewellers to buy a ring. She picked out the ring she loved and then asked, "How much?" It was far pricier than they could have imagined, and she chose a more modestly priced ring.

They left the shop then burst out laughing, realising they could have afforded the first ring but, no, they were happy with their purchase.

After marriage, they continued renting until seeing a small block of land that suited them. A modest home was moved onto the land.

Thanks for bringing back the memory of this lovely couple. I wonder, looking back, if they would have done anything different. Somehow I doubt it, for they kept their win under wraps, telling me only because we were his employers and he wanted the day off.

Ann

Cheap mobile plan to beat black spots

Regarding the letter (February 2022) regarding cheap mobile phone plans, my wife and I have been happy Vodafone subscribers for about 20 years. But there are areas where Vodafone coverage is nil, such as up the mid-north coast of NSW, in particular Blueys Beach and Elizabeth Beach.

So I subscribe to an Aldi 365-day plan (through Telstra). Blueys and Elizabeth do

get Telstra reception. All I do every year is throw $20 onto the subscription. Now I have a mobile that takes two SIM cards and when we are up there I just change the phone settings to Aldi as the main number.

Naturally, this idea is not ideal for internet and downloading data, but for the odd phone call it is well worth it.

David

An extravagant picnic

I was just given the best giggle for the weekend by your magazine. I am a new reader and bought it to begin the journey into investing, trying to gain some semblance of understanding and support through the diverse articles. However, as I was reading through all the wonderful advice, I got to the "Smart Spending" pages (February 2022).

Picnics ... what a coincidence. The family and I have been enjoying the beauty of our country during the pandemic and have recently found some gorgeous national parks to take advantage of some budget-conscious adventures. The laughs came from the picnic basket included in your pages. Now, obviously I am all for a little extravagance, but $1140 for a picnic basket?

I'm sorry, but I do believe that is the direct opposite of smart spending. If Alessi Australia is an advertiser in your magazine, I can understand the ad placement, but if not all I can say is, do I continue to read?

It's a picnic basket I'm sure Yogi would greatly admire, but perhaps not smart spending.

Ali

Prize worth winning

Each month we'll award one letter a 12-month subscription to *Money* magazine.

Write to:

Letters, Money, Level 7, 55 Clarence Street, Sydney, NSW, 2000 or email money@moneymag.com.au

REG'S TOON

SUBSCRIBE

Contact us

To send a letter to the editor, write to: Money, Level 7, 55 Clarence Street, Sydney NSW 2000 or email money@moneymag.com.au

For all inquiries and letters, please include name, address and phone details. Letters may be edited for clarity or space. Because of the high number of letters received, no personal replies are possible.

How to get *Money*

Subscribe to the print or digital edition, as well as our free weekly email newsletter via the *Money* website or:

Online: magshop.com.au/money-magazine

Call: 136 116

The Money team

EDITORIAL
Founder & editorial adviser
Paul Clitheroe
Editor-in-chief
Michelle Baltazar
(02) 8234 7500
michelle.baltazar@moneymag.com.au
Managing editor
Julia Newbould
julia.newbould@moneymag.com.au
Art director
Ann Loveday
Designer
David Matthews
Senior sub-editors
Bob Christensen, Debra Duncan
Senior writers
Susan Hely, Pam Walkley
Digital editor
Sharyn McCowen

CONTRIBUTING WRITERS
Helen Baker, Alexandra Cain, James Carlisle, Mark Chapman, Peter Dockrill, Alex Dunnin, Tracie Ellis, Nicola Field, Peter Forrestal, Glen Hare, Martin Marais, Anthony O'Brien, Marcus Padley, Vita Palestrant, Ian Patrick, Scott Phillips, Max Riaz, Phil Slade, Gaurav Sodhi, Helen Tarrant, Chloe Walker, Graham Witcomb

CONTRIBUTING ARTISTS
Frances Andrijich, Michele Mossop, Martin Ollman, Reg Lynch, Rob Shaw, John Tiedemann, Richard Whitfield

PHOTOGRAPHS
Getty Images

PRE-PRESS
Peter Suchecki

ADVERTISING
Director – head of media sales
Stephanie Antonis
(02) 8234 7547
stephanie.antonis@rainmaker.com.au

Partnerships manager
Sam Starrat
(02) 8234 7531
sam.starrat@rainmaker.com.au

MARKETING
Marketing manager
Julian Clarkstone
julian.clarkstone@rainmaker.com.au

MANAGEMENT
Managing director
Christopher Page
Executive director
Alex Dunnin

Syndication enquiries:
money@moneymag.com.au
ISSN 1444-6219

Which personal finance rule do you break and why?

SUSAN HELY
Senior writer at *Money.*
"I don't budget. I know it is a golden financial rule but I avoid it. I'm sure I could be much better off if I examined my consumption so I can make better choices.

I am so impressed by the rigorous budgeting of people on the financially independent journey, constantly shaving their spending and allocating money to what is important to them. I do believe it is the way to go."

DEBRA DUNCAN
Senior sub-editor at *Money.*
"Planning for a comfortable retirement seems to be high on everyone's list, and it's certainly not a bad idea. For me, though, it's less about working towards retirement (who knows when I'll retire anyway) and more about focusing on achieving financial independence. That way I might just get to enjoy the fruits of my labour sooner."

ALAN DEANS
Contributing writer at *Money.*
"It can be very useful to stash away money to cover an emergency. The Rule of 6 relates to the number of months' outgoings you might need. I don't like a pile of cash sitting in a bank earning very little interest. Instead, I pay off my credit cards each month so they are ready to use. It doesn't matter how you do it, but having a back-up plan lets you sleep easy.

SAM STARRAT
Partnerships manager at *Money.*
"I love credit cards. So much so that I replaced both my debit cards for credit cards years ago. They can earn reward points or frequent flyer miles and perks like travel insurance. I treat them the same as a debit card spending only what I can afford and making sure that payments are made in full to avoid any interest or late payment fees. Now for a holiday."

Follow *Money* on Facebook
facebook.com/MoneyMagAUS

Follow *Money* on Twitter
twitter.com/MoneyMagAUS

Visit *Money* online
Check out our website and while you're there sign up for our free weekly email newsletter. You'll get our top money stories plus exclusive finance tips.
moneymag.com.au

RAINMAKER INFORMATION
INDUSTRY INTELLIGENCE

Money is published by Rainmaker Information Pty Ltd (ABN 86 096 610 996), Level 7, 55 Clarence Street Sydney NSW 2000.
The trademark *Money* is the property of Rainmaker Information Pty Ltd and is used under licence. Printed by Ovato Warwick Farm - 8 Priddle St, Warwick Farm NSW 2170

IMPORTANT DISCLAIMER The information provided in this magazine has been obtained or derived from sources believed by *Money* magazine to be reliable. However, *Money* does not make any representation or warranty, express or implied, as to its accuracy or completeness. We recommend persons making investment decisions contact their financial advisers. Rainmaker Information Pty Ltd, its related bodies corporate, and their directors and employees, do not accept any responsibility arising in any way (including negligence) for errors in, or omissions from, the information provided in *Money* magazine. **PRIVACY NOTICE** This issue of *Money* is published by Rainmaker. Rainmaker may use and disclose your information in accordance with our Privacy Policy, including to provide you with your requested products or services and to keep you informed of other Rainmaker publications, products, services and events.

Our Privacy Policy is located at www.rainmaker.com.au/privacy. It also sets out on how you can access or correct your personal information and lodge a complaint. Bauer may disclose your personal information offshore to its owners, joint venture partners, service providers and agents located throughout the world, including in New Zealand, USA, the Philippines and the European Union.

In addition, this issue may contain Reader Offers, being offers, competitions or surveys. Reader Offers may require you to provide personal information to enter or to take part. Personal information collected for Reader Offers may be disclosed by us to service providers assisting Rainmaker in the conduct of the Reader Offer and to other organisations providing special prizes or offers that are part of the Reader Offer. An opt-out choice is provided with a Reader Offer. Unless you exercise that opt-out choice, personal information collected for Reader Offers may also be disclosed by us to other organisations for use by them to inform you about other products, services or events or to give to other organisations that may use this information for this purpose.

If you require further information, please contact Rainmaker's Privacy Officer either by email at privacy@rainmaker.com.au or mail at Privacy Officer Rainmaker Information Pty Ltd, Level 7, 55 Clarence Street, Sydney NSW 2000.

FREE Download Now!

Blackmagicdesign

Introducing DaVinci Resolve 17

Edit and color correct video with the same software used by Hollywood, for free!

DaVinci Resolve is Hollywood's most popular software! Now it's easy to create feature film quality videos by using professional color correction, editing, audio and visual effects. Because DaVinci Resolve is free, you're not locked into a cloud license so you won't lose your work if you stop paying a monthly fee. There's no monthly fee, no embedded ads and no user tracking.

Editing, Color, Audio and Effects!

DaVinci Resolve is the world's only solution that combines editing, color correction, visual effects, motion graphics and audio post production all in one software tool! You can work faster because you don't have to learn multiple apps or switch software for different tasks. For example, just click the color page for color, or the edit page for editing! It's so incredibly fast!

Professional Editing

DaVinci Resolve is perfect for editing sales or training videos! The familiar track layout makes it easy to learn, while being powerful enough for professional editors. You also get a library full of hundreds of titles, transitions and effects that you can add and animate! Plus, DaVinci Resolve is used on high end work, so you are learning advanced skills used in TV and film.

Creative Color Correction

DaVinci Resolve's color page is Hollywood's most advanced color corrector and has been used on more feature films and television shows than any other system! It has exciting new features to make it easier to get amazing results, even while learning the more advanced color correction tools. There's PowerWindows™, qualifiers, tracking, advanced HDR grading tools and more!

Designed to Grow With You

DaVinci Resolve is designed for collaboration so as you work on larger jobs you can add users and all work on the same projects, at the same time. You can also expand DaVinci Resolve by adding a range of color control panels that let you create unique looks that are impossible with a mouse and keyboard. There's also edit keyboards and Fairlight audio consoles for sound studios!

DaVinci Resolve 17 .... **Free**

Optional Accessory
DaVinci Resolve Speed Editor **$625**

Learn more at www.blackmagicdesign.com/au

7 tips that will make an impact

This month we start a new feature in which readers discuss their financial experiences. Reader **Jack Talbot** reveals what he has learnt – and what he wishes his younger self had known.

While money isn't everything, I'd say I've always had a passion for business, entrepreneurship, investing, and implementing debt to create wealth and value. This interest led me to a career in finance, where I have spent the better half of 10 years as a commercial and corporate lender.

In early 2021 I decided to bite the bullet and start my own business as a mortgage broker. It's been a risk that has paid off and given me the opportunity to chase dreams that would have been left unrealised in a banking career.

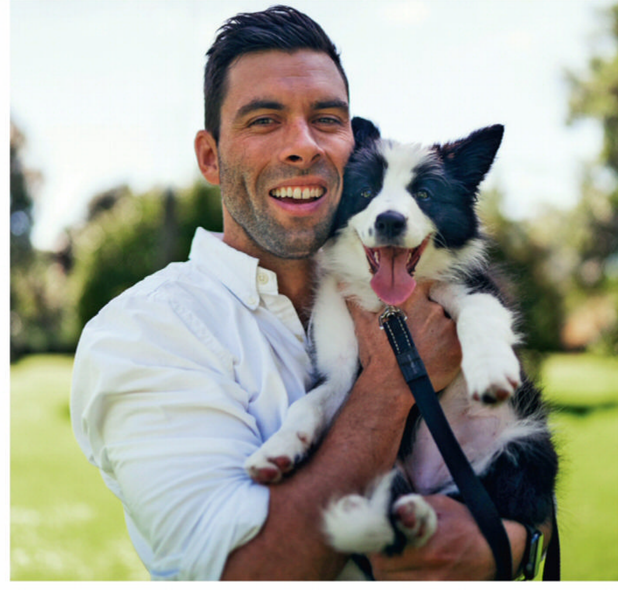
I've learnt a huge amount; being at the coal face during the royal commission was eye-opening. Watching the event unfold from the inside view of an employee as well as through the external lens of the media taught me a lot about perspective and politics.

I spend a lot of time researching investing and wealth-creation strategies. *Money* magazine has always been great at providing insights and ideas in this space, so I jumped at the opportunity to contribute to this new column for readers.

Here are seven easy tips I've learnt from my time in finance that I wish I'd known earlier. They won't make you rich overnight but they will have a considered impact.

1. Get proactive with your super

Hands up those still in the first super fund allocated to them? Do you know what your portfolio generates on average each year? Is your portfolio matched to your risk profile and your stage of life? It's easy to be complacent with super – after all, retirement is a long way off and you're busy! But investing three hours of your time today could make a difference of $400,000 at retirement. This is the



easiest and quickest way to create wealth for your future self right now.

2. Create an "asset plan"

Think about what assets you want to buy and when. Create a plan for one to two years, three to five years and six to 10 years. Understand how much each asset costs and calculate how much you'll need to earn to cover the debt you'll take on to purchase the asset. A broker can help. Your objectives are much easier to reach if you understand what the road looks like between here and there.

3. Be realistic with your plan

Don't be too hard on yourself when setting financial goals and budgets. If you don't give yourself a bit of breathing room, you will end up throwing the whole plan in the bin within two weeks. To budget successfully, you need to change your lifestyle over the long term. If you're too strict, you'll end up feeling deprived and give up.

4. Pay yourself first

First work out how much it costs to run your life and to pay basic living expenses. Then what's left can be divided into two: one amount to spend, one to save. When you are paid, immediately allocate your cash to each area and be disciplined in keeping them separate.

Hint: a credit card will make this extremely difficult to do. For example, if you have allocated $1000 to spending and you have a $1000 credit card bill, after you have cleared the credit card bill your only option is to eat into your savings or accumulate another credit card bill for next month.

5. Don't fall into the "debt trap"

Credit cards are a wonderful invention, allowing the banks to turn their clients into ongoing annuity streams. Unfortunately, they are counter-intuitive for consumers for saving money and managing finances. I can hear you thinking, "But I get free frequent flyer points if I use my card."

Fact: Qantas makes more money from its frequent flyer program than it does flying customers around the world. One of the most significant forms of income for the Qantas frequent flyer program is selling Qantas points to financial institutions for distribution to customers through loyalty programs. The bank isn't giving these points away for free.

6. Buck the trend

We all hear stories of a friend of a friend who made $500,000 through a cryptocurrency trade or a penny stock doubling in value overnight. Resist the urge to follow a trend blindly. Novice traders seem to fall into the trap of thinking financial instruments like crypto and equities create value. In reality, they don't create value, they transfer value. That means if you put in $1 and it becomes $2, this value hasn't been created; the additional dollar has been transferred from someone else's pocket to yours. Don't be fooled into thinking these markets generate infinite amounts of money. If you're in a market and someone gets rich, it's been funded by another player. Be aware that player could be you.

7. Be patient

Take your time to create wealth. There will always be isolated instances where you will make 20% overnight on a trade, but repeat that scenario 100 times and you will almost certainly not finish in a positive position unless you have information the rest of the market doesn't. Stick to the tried-and-tested staples: superannuation, property and blue-chip investment portfolios where diversification is key.

If you would like your contribution to be considered for My Money, My Life, email money@moneymag.com.au or write to Money, Level 7, 55 Clarence Street, Sydney NSW 2000. Please submit no more than 700 words.

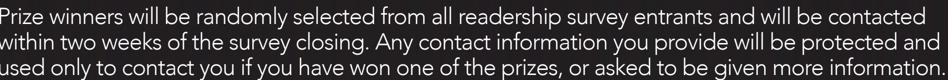
HELP SHAPE THE FUTURE OF *MONEY*

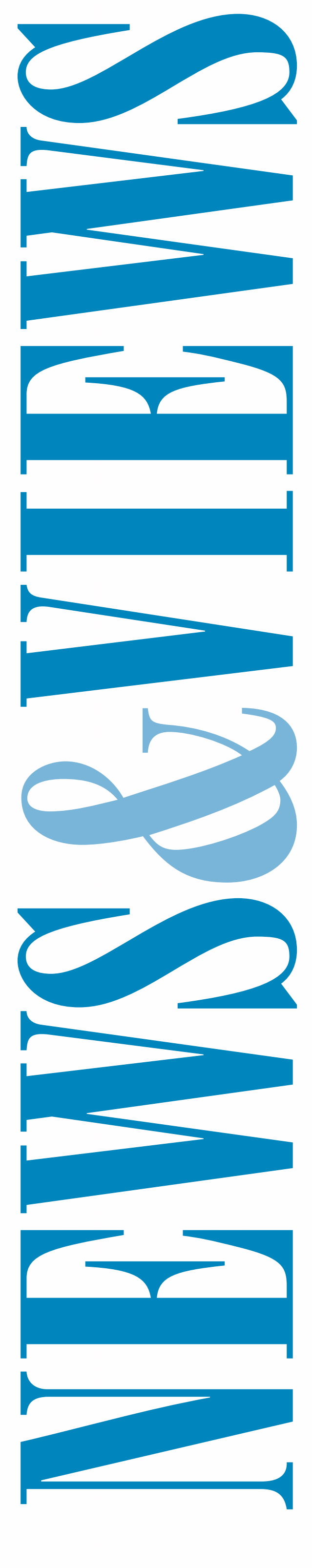
You could win a $500 mastercard gift card or win one of 15 $100 gift cards by completing our readership survey!

What are we doing well, and what can we improve to help you on your journey to financial freedom?

Scan to begin

SURVEY CLOSES TUESDAY MAY 31, 2022





THE BUZZ

For $40m, you can join the ultra-rich club

THERE IS AN EXCLUSIVE club in Australia with 20,874 members. Meet our ultra-high-net-worth individuals (UHNWI), whose dealings are revealed in the Wealth Report 2022 by property giant Knight Frank.

To be classified as an UHNWI, net wealth needs to be at least $40 million (or $US30 million), which is a long way ahead of the average bank balance of the rest of the population at $522,000.

The gap between the rich and the really rich grows wider once you start looking at where they invest their money. Knight Frank found that once they hit the magic $40 million mark, the wealthy start to ease up. At this point, they set aside around 16% of their wealth, or at least $5 million, on passion projects.

The top three investments last year for this cohort were art, cars and wine. Jewellery and watches came fourth and fifth. What's not immediately apparent from this shortlist is the rising interest in the ultimate billionaire's toy: a jet plane.

Covid has led to depleted airline networks and stretched commercial flights, ushering Australian UHNWIs into the new world of private aviation, according to Knight Frank. Last year, Sydney was ranked 260th in the world, clocking 2481 private jet flights in 12 months. But to put this in context, Sydney is still a baby in the sector: number one on the list is New York boasting 135,648 private jet charters over the same period.

At least UNHWIs are generous. Knight Frank found that 57% are more likely to back philanthropic investments compared with an average of 37% for the rest of the world. There is an increased interest in healthcare and disease prevention (78%) and conservation, the environment and climate change (75%), according to the report.

Just as property is one of the main sources of wealth for the country's richest 250 individuals (an annual list compiled by a leading newspaper), property is also top of this cohort's big-ticket purchases. Demonstrating that rich people's money often works harder than average, the Knight Frank Luxury Investment Index returned 123% over the past decade, beating the Australian Prime Residential Index, which delivered a none-too-shabby 51%.

Finally, in a show of modern wealth, non-fungible tokens (NFTs) are predicted to be part of the UHNWI strategy in the not-too-distant future. "Australia's Penfolds is the first producer to make an NFT announcement, but no doubt more will come," says Miles Davis, from fine wine management company Wine Owners.

MICHELLE BALTAZAR

ON MY MIND

How the office is changing

About 40% of Sydney's workforce is back in the office and 24% for Melbourne. It is projected that all Australian CBDs will have close to 100% of the workforce back in the office within the next 12 months. What does this mean for the commercial sector?

Over the next few months, we will start to see greater fluidity in how the "office" environment looks, including more hot-desking and workplace sharing, as well as more open-plan spaces and fewer cubicles, encouraging greater social interactions. We will also see the need for "satellite" offices, where companies have a main CBD office with smaller offices in fringe suburbs that allow employees to experience the office environment closer to home.

This gives employers a way to incentivise employees back into the office, and gives employees the chance to experience social interactions and career networking/growth.

Smart business owners will have a great opportunity to maximise their square footage for the best impact – such as downsizing their CBD office into smaller satellite offices, or utilising the space to create an open-plan environment that staff enjoy.

Helen Tarrant, a leading commercial property specialist and founder of the buyers agency Unikorn Commercial Property.

CALENDAR OF EVENTS

Tuesday, April 5
RBA interest rate decision

Thursday, April 7
Balance of trade

Tuesday, April 12
Westpac consumer confidence

Wednesday, April 13
NAB business confidence

Thursday, April 14
Unemployment rate

Wednesday, April 27
Inflation rate

NEWS BITES

Fraudsters often take advantage of disastrous events, so Westpac is warning Australians to be on high alert for a spike in scams in the wake of the 2022 floods crisis in Queensland and NSW. Scammers take advantage of Australians' generosity and support during these difficult times, and set up fake donation sites. Westpac urges Aussies to thoroughly check the legitimacy of charitable organisations.

A global survey by Toluna, which included 500 Australians between 18 and 64 years, revealed that although 65% of Aussies are aware of cryptocurrency, most do not yet fully understand what it is, with 52% claiming they will never invest in the asset class. In fact, 44% say they view cryptocurrency as "risky and volatile".

It seems more Australians are opting to purchase insurance online, with figures showing 48% have done so in 2022 compared with 20% in 2017. Only 14% prefer to purchase through an adviser (50.4% in 2017). Australians with life insurance also seek advice from internet review sites (28%) and the internet more generally (25%), as opposed to family (21%), friends (14%) and financial advisers (17%).

Money mistakes we make

There are three common mistakes trashing a huge number of people's finances. In fact, of more than 300 individuals I'm working with, I could count on two hands the number who weren't making at least one of these mistakes when we first met. These small mistakes can mean big losses.

Top of the list is "wearing your money". Every flashy car, Gucci loafer and expensive handbag is money diverted away from long-term wealth. Which would you prefer: looking wealthy now or being wealthy later?

Second is "doing nothing". Option paralysis can trash your finances. It's nice to scroll through beautiful homes and investment advice online but simply wanting to do something does not constitute a plan. Doing nothing is still a decision and no plan will work unless you do it.

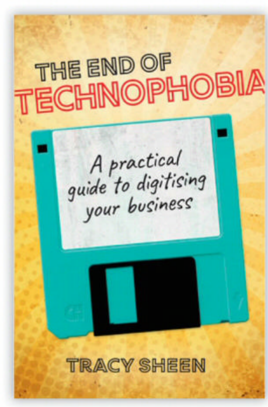
Finally, "not budgeting". Budgets do not restrict, they empower. Nothing will work without a budget. You want a house? You'll need a budget. Retire early? Budget. Holiday? Budget. A budget is not a restriction. It is telling your money where to go rather than wondering where it went.
Glen Hare, Fox & Hare Financial Advice.

$17b

is the national credit card debt amount, according to recent data from the Reserve Bank of Australia. RateCity's Sally Tindall says: "Watching credit card debt tick up is a real concern and a sign some Australians are doing it tough."

NEWS & VIEWS

BOOK OF THE MONTH



THE END OF TECHNOPHOBIA: A PRACTICAL GUIDE TO DIGITISING YOUR BUSINESS

Tracy Sheen; Publish Central, $34.95

Bamboozled by the number of apps and digital tools that promise to streamline your business? Tracy Sheen helps you navigate this minefield in her guide to successful marketing in the digital age. She starts by helping you look at how you're capturing and tracking the key metrics in your business so you can implement strategies to finetune areas that need attention. Then it's on to software that protects your business from cyber threats, the best digital organisational tools and online payment systems, and website analytics and social media. Job done.

Five readers can win a copy.
In 25 words or less, tell us about one business digital tool you use and love, and why. Enter online at moneymag.com.au/win or send entries to Money, Level 7, 55 Clarence Street, Sydney, NSW, 2000. Entries open March 28, 2022 and close April 27, 2022.

APP OF THE MONTH

AUDIBLE
COST: $16.45/MONTH
OS: IOS AND ANDROID

Want to listen to your favourite personal finance books while commuting, running errands or working out at the gym? The Audible app lets you download audiobooks and podcasts to listen offline, hear a preview before you commit to a new book, and adjust the narration speed to suit you.

Listening in bed? Set the sleep timer to make sure the audiobook doesn't keep playing to the end if you fall asleep.

Simply download the Audible app, sign in with your Amazon account, and sign up for an Audible membership.

You will receive one credit each month to purchase an audiobook of your choice.

You can also purchase additional audiobooks, which you get to keep even if you cancel your subscription.

Audible also offers a free two-month trial so you can try it out before you commit to a monthly payment. At the end of the trial, you will be charged $16.45 a month.

SHARYN McCOWEN

TAX TIP

Negative gearing works for shares too

It's a well-known tactic with rental property, but share investors can use negative too. If you've got an appetite for risk, you can claim a tax deduction for money borrowed that finances a share portfolio. The reason is that there is an expectation the shares will derive assessable income, in the form of dividends or capital gains, and therefore there is a "nexus" to the interest, which makes it tax deductible.

The shares may well produce a taxable income stream in the form of dividends but the interest deductions on the loan will hopefully go a long way to offsetting this.

Even if the shares don't pay dividends in a particular year, it is still possible to claim the interest on the borrowings so long as there is a reasonable expectation that the shares will generate assessable income over time.

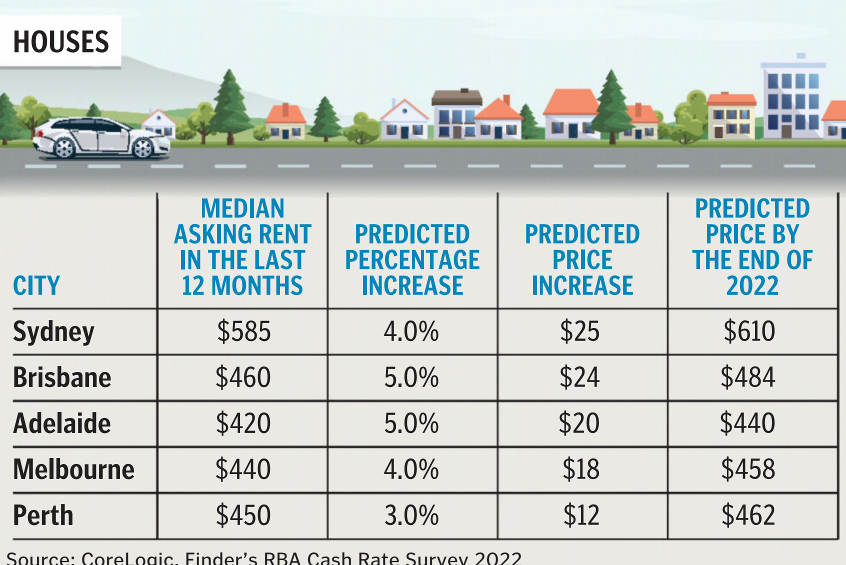
In addition, if the shares increase in value, any capital gains will attract the 50% CGT discount (if you hold the shares for at least 12 months) and may also attract a lower tax rate anyway if you sell them when you are on a reduced income, for example in the lead-up to retirement.

This isn't a strategy for the faint hearted; it's very easy to find your losses multiplying in a falling market, with a loan to repay but a greatly diminished investment portfolio from which to repay it. You need to aim for a return on the shares that is greater than the cost of the interest rate you are paying.

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

SNAPSHOT How rents are expected to rise

House and unit rental price predictions (weekly) by the end of 2022



HOUSES

CITY	MEDIAN ASKING RENT IN THE LAST 12 MONTHS	PREDICTED PERCENTAGE INCREASE	PREDICTED PRICE INCREASE	PREDICTED PRICE BY THE END OF 2022
Sydney	$585	4.0%	$25	$610
Brisbane	$460	5.0%	$24	$484
Adelaide	$420	5.0%	$20	$440
Melbourne	$440	4.0%	$18	$458
Perth	$450	3.0%	$12	$462

UNITS

CITY	MEDIAN ASKING RENT IN THE LAST 12 MONTHS	PREDICTED PERCENTAGE INCREASE	PREDICTED PRICE INCREASE	PREDICTED PRICE BY THE END OF 2022
Sydney	$480	4.0%	$18	$498
Brisbane	$400	5.0%	$18	$418
Adelaide	$360	4.0%	$14	$374
Melbourne	$390	3.0%	$13	$403
Perth	$400	3.0%	$11	$411

Source: CoreLogic, Finder's RBA Cash Rate Survey 2022

Great minds think alike

Money magazine and Canstar's
Insurer of the Year

budgetdirect.com.au | 1800 112 134

Insurance issued by Auto & General Insurance Company Limited. Read awards information, PDS and TMD at budgetdirect.com.au to decide if products suit you. Home Insurance is not available above the Tropic of Capricorn.

MY MONEY

▶ MORE MONEY STORIES ON P46-53

ENTREPRENEURS

How to be the next unicorn

Clearco, one of the world's largest e-commerce investors, is making its mark in Australia. Since it opened its office in October last year, it has invested in more than 350 Australian e-commerce companies, including iPantry, the Beard Market and Vegan Grocery Store.

With entrepreneur circles mainly dominated by men, Clearco makes a case for more female entrepreneurs by using artificial intelligence to remove some of the biases against women.

Its system has worked. To date, it has funded 25 times more female-owned businesses than traditional venture capitalists do, and 50% of its global portfolio is made up of businesses led by women.

Michele Romanow, the co-founder, a serial entrepreneur and one of the "sharks" in Canada's equivalent of the *Shark Tank* series, shares her top three tips for women (and men) to spearhead the country's next unicorn:

1. Start now and take action

Don't get trapped in a cycle of waiting for the perfect time to start a business – that time doesn't exist. You need to jump in and get the ball rolling. Worrying doesn't solve a problem – the only thing that solves a problem is an action. Being a woman in business means you'll have to face rejection and all you can do is get back on the horse.

2. Be genuine and responsible

Great leaders are genuine, authentic and deeply responsible. That sounds very easy when you say it out loud, but it's hard in reality. Everyone has a plan until they are punched in the face. It's pretty easy to not take responsibility, but you need to sit back and ask yourself: "What was the role that I played in this disaster? How do we all collectively own this so it becomes an organisational learning and not something we continuously repeat?"

3. Find a strong mentor

A single mentor relationship can change your whole life. One of my great mentors and a woman who has inspired me is Ruma Bose, Clearco's chief growth officer. When you think about building a great mentor relationship, also think about the things that you can do that add to their life. All great relationships are based on mutual benefit.

Cash finds new fans on TikTok

It's not just '80s shoulder pads that are back in style. Social media influencers are swapping their cards for cold, hard cash as a way to watch their expenses.

The hashtags #cashstuffing and #100envelopechallenge are doing their rounds on social media platforms such as TikTok, YouTube, Instagram and Facebook with students, young parents and influencers using coins and notes to show how they save more money.

#cashstuffing is the TikTok version of "buckets" and "jars" that were popular with the Gen-Xers a couple of decades ago. The principle is the same, with envelopes labelled groceries, bills, splurge, clothes, transport, savings and the like.

Meanwhile, the #100envelopechallenge is about setting aside a certain amount every day for 100 days until the amount saved hits $5050. Similar to one of the popular half-marathon challenges where each day represents a kilometre covered until the runner hits 21km in 21 days, each day in the #100envelope challenge represents a set amount of dollars saved until the participant reaches the $5050 goal.

"Cashless payment systems, cards, buy now, pay later apps and phone payments all reduce the user's ability to budget and save by minimising the 'pain of paying'," said Jason Bryce, spokesperson for the cashwelcome.org campaign. "Inevitably young people, students and everyone on a budget recognises the power of physical currency to impose discipline and give budgeting power back to the user."

COMPILED BY MICHELLE BALTAZAR

PROPERTY

VACANCIES

Renters turn the tables on landlords

Landlords often have the upper hand when it comes to rentals, but new research for RentRabbit.com.au has found the top 20 capital city rental markets where the tides have turned in favour of renters over the past 12 months. But only Victoria, NSW and the ACT made the list, with no suburbs from the other states passing the criteria.

"To make sure conditions in those suburbs had turned in favour of renters, their vacancy rate needed to have increased by at least 1 percentage point over the past 12 months, while their median weekly rent needed to have either fallen or remained unchanged during that period," says the rental property review website.

The top 20 comprise 12 house markets and eight unit markets. All the suburbs had a vacancy rate of at least 2%, while weekly rents ranged from $310 to $850.

RentRabbit.com.au co-founder Ben Pretty says the research shows that renters have had more luck finding a place in Melbourne, Sydney and Canberra but are really struggling in Brisbane, Perth, Adelaide, Hobart and Darwin.

"For the sake of families and people on average incomes, I'd like to see a more balanced rental market. For that to happen, supply needs to increase, which means we need more investors to enter the market and more new builds to come online."

Leading the league tables are: Derrimut (Vic), Mount Duneed (Vic), West Pymble (NSW), Campbell (ACT), Hughes (ACT), Girraween (NSW), Heckenberg (NSW), Coolaroo (Vic), Pendle Hill (NSW) and Cabramatta West (NSW).

The other 10 are: Dingley Village (Vic), Berala (NSW), McKellar (ACT), Emu Plains (NSW), Bannockburn (Vic), Notting Hill (Vic), Campbellfield (Vic), Kingsville (Vic), Oak Park (Vic) and Ivanhoe East (Vic).

Suburbs that made the grade were all within commutable distance of the capital city CBD and had at least 1000 properties.

▶ MORE PROPERTY STORIES ON P54-61

Moving is an expensive business

The financial cost of moving house is far higher than most people can afford, according to a new report, *Eviction, Hardship and the Housing Crisis*, by the Tenants' Union of NSW. It is especially difficult for the 30% of renters who are evicted.

The report estimates that the average costs for moving house are around $4000. This can include hiring removalists or a van, packing materials, cleaning, taking time off work, travelling to property inspections, school relocation, mail redirection, utility disconnection and reconnection, and replacing furniture or appliances.

On top of this, evictees also have to come up with the rental bond required to secure a new tenancy.

"Housing is an essential service. We need to recognise eviction – or the removal of that essential service – as the significant, traumatic and costly event that it is," says Leo Patterson Ross, the group's chief executive.

He is calling for changes to tenancy laws that could potentially require landlords to cover the renting household's relocation costs where the tenant was not in breach of the contract, plus higher fees for eviction matters so landlords prioritise dispute resolution before going to court.

COMPILED BY MICHELLE BALTAZAR

▶MORE INVESTING STORIES ON P62-77

SAVINGS

Covid pushes super pool to new record

Voluntary member contributions helped push the superannuation asset pool to a new record of $3.47 trillion at the end of the 2021 calendar year.

The latest statistics from the prudential regulator APRA show total assets grew 14% year on year.

Member contributions jumped a whopping 59% ($36.4 billion) as a function of Covid-induced activities, such as the booming amount of cash Australians have saved during lockdowns and border closures, and their stronger engagement with financial advice.

"This can be observed in quarterly inflows over the year for personal contributions, which have been at elevated levels compared to previous years," says APRA.

Overall, contribution flows during 2021 netted $58.5 billion, reflecting a large increase that factors in the completion of the early release of super scheme withdrawals as well as growth in total contributions.

Most APRA-regulated assets comprised MySuper products ($950 billion), which recorded the highest year-on-year growth rate of 18%. Self-managed super funds (SMSFs) hit $876.7 billion, experiencing the next biggest growth of 13% over the year.

Within the sectors, industry funds inched closer to the $1 trillion mark at $969.2 billion, growing 19% year-on-year, while retail funds climbed 12% to $709.1 billion.

Public sector assets grew 15% to $633.5 billion, while corporate funds added just $3 billion to sit at $61.1 billion at the end of 2021.

In the SMSF sector, the tax office's December 2021 quarterly figures reveal that 6788 funds were set up and only 163 shut down, leaving a net total of 601,906 active SMSFs at the end of the year.

Cryptocurrency is graining prominence among SMSFs, as some $227 million is allocated to this asset class, rising steadily from $194 million in June 2019, when members first began investing in digital assets.

Overseas managed investments and residential property assets worth $1.9 billion and $472 million respectively comprised the majority of the SMSF asset pool.

Large amounts are also invested in listed shares ($241m), overseas non-residential property ($184m), unlisted trusts ($115m) and cash and term despots ($148m).

Aussies want to be responsible

Four in five Australians expect their money in banks, superannuation and other funds to be invested responsibly, with 17% already holding ethical and responsible products, according to the Responsible Investment Association Australasia (RIAA).

In *From Values to Riches 2022: Charting Consumer Demand for Responsible Investing in Australia*, the RIAA reports that 72% are concerned with "greenwashing" and 74% would consider moving to another provider if they found out their current fund was investing in companies engaged in activities inconsistent with their values.

"There is a more discerning consumer out there today," says RIAA chief executive Simon O'Connor. "One, we're seeing more of them are already investing responsibly and ethically – there's an increase of 28% from 2020 – and two, more are understanding that there are credible claims and less credible claims with super funds and banks, and they are getting smart at running the ruler over those claims."

According to the RIAA, 84% of respondents believe it is important their super fund or bank commits to reducing greenhouse emissions, 83% want targets for emissions reductions and 81% want to see them pledge to achieve net zero by 2050.

Social issues are also rising up the agenda – 74% of Australians say social issues are important when they think about investing their money, up from 64% in 2020.

The RIAA also found a mismatch with the social and environmental issues between what consumers are concerned about and what products offer – 67% want to avoid animal cruelty, testing and animal products while only 32% of investment providers offer such products.

Nearly two-thirds of Australians also want to avoid investments that violate human rights, while only 39% of responsible investment providers deliver products that meet this criterion.

KARREN VERGARA & RACHEL ALEMBAKIS

SHARES

▶MORE SHARES STORIES ON P78-89

TOP PERFORMERS

'Unloved' markets shine

New investment opportunities are springing up from the most unlikely places as markets respond to the geopolitical crisis in Europe.

"We had a cautious outlook on Latin American economies coming into this year. However, higher commodity and energy prices typically lead to growth in this region," says Jacob Manoukian, the US head of investment strategy for JP Morgan.

Since the start of the year, the three top-performing countries in the MSCI index universe are Peru, Brazil and Colombia.

Similarly, Middle Eastern markets such as Qatar, the United Arab Emirates and Saudi Arabia are posting double-digit growth.

"The invasion of Ukraine has also placed a renewed emphasis on traditional defence. For example, Germany has announced new spending worth 2% of GDP this year. Unsurprisingly, defence companies are up 10% in the past week."

As European countries move away from their dependence on other countries, including Russia, for their energy supplies, clean energy companies have rallied by around 15%.

Cybersecurity companies are also enjoying support from traders as more businesses and government policymakers turn their attention to beefing up their resilience in the face of relentless attacks.

BUY Westfarmers (WES)

The Intelligent Investor James Carlisle

RECOMMENDATION

BUY	HOLD	SELL
below $45.00	up to $70.00	above $70.00

HOLD at $48.64

Source: Intelligent Investor; price as at March 4, 2022, close of business

There was a lot of red ink in Wesfarmers' half-yearly result, but that's what a retailer gets when 20% of its trading days were lost in the period. Operating profit fell 12% in the half, to $1.9bn, on revenue that was flat at $17.8bn. With higher freight costs and a relatively high fixed cost base, the operating margin slumped from 9.0% to 3.6% and profits fell by 63%. It is no surprise to say it but these results are evidence of it – retailers were heavily disrupted by lockdowns.

The prospects for the second half don't look great. Inventory levels are elevated – initially by choice to maintain the offering in the face of supply disruptions, but exacerbated by store closures and staff absences in distribution centres and along the supply chain.

The bigger question concerns Kmart and Target and whether they have a business model to compete effectively against more specialised retailers. Despite the unusual period, the omens look worse than they did six months ago.

But Bunnings is firing, despite losing trading days, profits in the Chemicals, Energy & Fertilisers (CEF) business jumped 36%, largely due to higher commodity prices, and Kmart and Target only contribute 10% of profit. And this figure will get further diluted by a new Health division if the proposed acquisition of API gets up.

With about two-thirds of group profit from Bunnings, one of Australia's best businesses, and the stock on a forward price-earnings ratio of 25, value is starting to appear. We'd like to see it fall a little further before upgrading but it remains a comfortable **HOLD**.

COMPILED BY MICHELLE BALTAZAR

STORY ALAN DEANS

Journey into a greener world

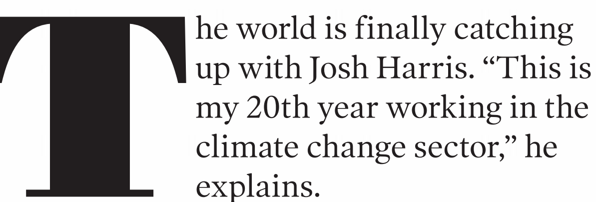
MICHELE MOSSOP

Fact file

Josh Harris

co-CEO of carbon farming business Climate Friendly; aged 42; lives in Bulli, coastal NSW.

First job was cutting firewood in a small timber mill; played amateur Aussie Rules, and now uses spare time to surf and to run; enjoys creative writing, which "really gets me into the right headspace"; likes to read books by Herman Hesse, Gabriel Garcia Marquez and Tim Winton. Taking a year off work in 2009 reinforced his passion to protect natural ecosystems. Best advice about money came from his uncle, an accountant: "Just spend it." He prefers impact investing funds.



The world is finally catching up with Josh Harris. "This is my 20th year working in the climate change sector," he explains.

"I started as a graduate in Canberra in 2002, and this has been the first year when climate change is actually a mainstream topic. It's no longer a debate about where we are going. It's actually now about how we're going to get there."

While the outcome of last year's Glasgow summit disappointed many, Harris sees it differently. "There are a large number of countries now with net zero targets, including Australia, and that in itself was a success. The conference accelerated interest from individuals and businesses. Now there are many buyers of carbon credits – from corporates with carbon neutral businesses to those with large emissions. They need to manage that risk and compliance."

Harris is a carbon farming pioneer. He graduated with a thesis on climate change economics and snagged his first job in the Australian Greenhouse Office, which led all federal government work on climate change and was the world's first government agency dedicated to cutting greenhouse gas emissions. Later, he worked in London and Beijing for the Climate Group, which pursues green issues globally. There he campaigned with former UK Prime Minister Tony Blair on a program called Breaking the Climate Deadlock, which outlined for world leaders how to change entrenched climate attitudes.

"It is a personal journey," he explains. "It's the most important issue facing the

globe, and has been for a long time. It's also the most fascinating."

He thinks of carbon farming as being a means to sustainably supply the food needed for the world. "The end goal from that is to reduce greenhouse gas emissions while delivering the world-class green agricultural commodities we have in Australia," he says. "To be more specific, it's pulling carbon out of the atmosphere and storing it in trees and in soil and also, in the top end of Australia, doing strategic cool burns in savannah to prevent large bush fires. By adopting these practices, land managers receive carbon credits for their activities."

Harris is Climate Friendly's co-CEO, working there since 2013. He oversees operations and carbon credit trading and has direct responsibility for carbon farming projects on 130 properties covering 10 million hectares around Australia. The group has an ambitious target of pulling 100 million tonnes of carbon emissions from the atmosphere by 2025, having met its initial goal of 20 million tonnes by 2020. It clearly still has a lot to achieve in a short time,

"It's the most important issue facing the globe, and has been for a long time. It's also the most fascinating."

Each carbon credit the business generates represents one tonne of carbon dioxide sequestered into a tree or the soil

but is driven in part by the revenue share it gets from carbon credit sales. Another incentive is its development of new carbon methods. The current strategy is to re-invest its returns into new properties and projects, something it is supported in achieving, thanks to equity support from private investors.

"That is about innovating the way we can develop carbon farming projects on one property," he says. "At the moment, only one carbon method is allowed. The work that we have been leading for a number of years is to stack a whole bunch of different carbon methods together on one property. Think of it as being a holistic carbon farming method with active land management across whole farms. We call it active landscape management."

As an example, a farmer in western Queensland could apply rotational grazing in one area, and also plant trees along the river banks. A carbon sequestration program could be adopted across the property, too, and fire management techniques employed to practise savannah burning. There are ways also to cut emissions from cattle.

"We package that into one carbon method. That opens whole other, large areas of Australia that have been left out of carbon farming. Until now, it has taken place mostly in the range lands, 10 hours west of Sydney and Brisbane and six hours east of Perth. But if we stack different methods into one property, then it allows smaller farms a lot closer to the coast to take part."

Climate Friendly's business model is to partner with land managers for 25 years. It's a long-term arrangement because it takes time to make the necessary changes and reap the rewards. Harris's team initially calculates the carbon potential of a property, including satellite imagery and measuring existing tree coverage. "We do the carbon accounting, all the way through to the creation of the carbon credits. It takes about 12 different specialists in our business to run a project, including the on-ground technology, legalities, marketing and sales."

MICHELE MOSSOP

Grand vision ... Harris wants to reduce greenhouse gas emissions and sustainably feed the world.

Each carbon credit they generate represents one tonne of carbon dioxide sequestered into a tree or the soil. Credits are a financial instrument under the *Corporations Act*, and Climate Friendly holds a licence so it can sell them for the landholder. It is paid by taking a revenue share from the sale, incentivising them both to maximise returns.

Harris has a team of 55 and there are plans this year to recruit 10 to 15 more staff to handle the growth. "We measure our purpose in impact," says Harris. "Profitability for us is just another metric that helps us to deliver our impact. The more returns that we get, the more properties and projects we can invest in. And we are a very high-growth-focused business."

The key to Climate Friendly's success is to take what it does now, practising only one carbon sequestration method on a property, to using a range of different methods together and boosting the impact. This could be a game-changer, because it opens the opportunity for smaller properties closer to urban centres to also become carbon farmers by using a variety of initiatives.

"We have been working for a number of years on how to stack different carbon methods together," says Harris. "We could sequester billions of tonnes of carbon using this method and do it closer to the coast. This has been a focus of both sides of government over the past decade or so, and it would give us global credibility. It's something we can take and apply in other parts of the world." It's a big vision, but Harris has the backing of private equity firm Adamantem, Aware Super and the Clean Energy Finance Corp.

He is also putting his own money directly into carbon projects elsewhere, bankrolling his own carbon farming venture in the north of Colombia in South America. "I've set up Foundation Magnolia, which is a not-for-profit carbon farming project. We have taken what we have done here, and we've demonstrated it in a few projects there involving close to 100 landholders in the northern tip of the Andes. I just love it. It's having a real impact. ***M***

18+

WHAT IS AVAXHOME?

AVAXHOME-

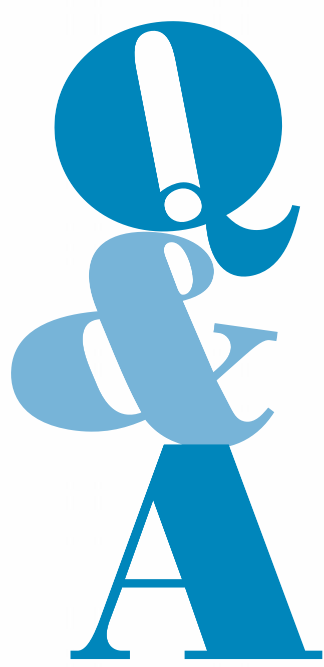
the biggest Internet portal, providing you various content: brand new books, trending movies, fresh magazines, hot games, recent software, latest music releases.

Unlimited satisfaction one low price
Cheap constant access to piping hot media
Protect your downloadings from Big brother
Safer, than torrent-trackers

18 years of seamless operation and our users' satisfaction

All languages
Brand new content
One site

We have everything for all of your needs. Just open https://avxlive.icu



Craig wants to share his assets with his two children while he's alive

But my son squandered most of his $150k in just a month

Q I am 69 and about 15 months ago I sold $300,000 of shares and gave $150,000 each to my daughter and son, who are in their mid-30s. I am in good health and comfortably well off. My daughter used her share to purchase a new home and my son decided that he wanted to sponsor race car drivers and gave most of it away within a month. My son is single and lives on his own in a rented unit and I encouraged him to invest a small amount of it in shares and put the rest towards a deposit on a small home or unit but, sadly, he didn't.

The idea of giving them each a reasonable amount of cash while I am still alive was to see them enjoy it and set themselves up somewhat.

Unfortunately, my son now lives from week to week and constantly asks me and my daughter for money to get by. He earns a meagre salary of around $55,000 a year and has always been a bad money manager.

Is there a way to drip-feed my son's share of his inheritance when I die so that it may last him for many years? I don't want to cause ill feelings between my kids if one gets a lump sum and the other is spoon-fed! Of course, I will be discussing this issue with my solicitor, but I would also be interested in getting some advice from you.

Children! I often wonder what it is that causes kids from the same family to have such different levels of financial literacy. Exactly what your son was thinking when he sponsored race car drivers is quite beyond me and I am sure you as well, Craig.

I agree completely about chatting with your solicitor, but I am happy to add a few ideas. Unfortunately, changing people's money behaviour is not easy. But the evidence here is that your son will not handle an inheritance well.

I agree with the wisdom in treating kids equally, but your son has failed the commonsense test. One option would be to direct your estate to two testamentary trusts that allow access, as an example, in three tranches five years apart. If he loses the first, the hope is he does not lose the second and then the third!

This, of course, depends on your asset base, but it may be possible to buy an investment property to which your son gets lifetime occupancy or it reverts to him at a certain age.

Equality is a great thing, but my concern is if your son loses all of his inheritance he will lean on his sister forever. Unless he proves his ability to handle money, it seems to me you need to protect both your children. If this involves an equal split, but different access, so be it.

NEED PAUL'S HELP?

Send your questions to:
Ask Paul, *Money* magazine, Level 7, 55 Clarence Street, Sydney NSW 2000 or money@moneymag.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*.

Sharlene wonders if she should sell her rental place

Property versus super: compare the returns

Q I'll be 55 in November. I have been separated and due to that and an inheritance I own my own home worth around $425,000. I have $290,000 in super, a rental property worth around $290,000 and $109,000 in the bank. I work casually, living off my rental income of $150 (net) a week, around $300 in wages per week while subsidising it with my bank balance.

I have owned my rental since November 2021 but have since realised that perhaps I should have put that money into super and utilised Centrelink benefits.

Apparently when I'm 55 (as long as I have under $280,000 in assets) I can work 30 hours a fortnight and supplement my income with Centrelink.

Will I be penalised by Centrelink for selling my rental and putting it into super (I realise there will be a small CGT) and not qualify for Centrelink benefits?

Also, as I am casual I don't get 30 hours guaranteed per fortnight – sometimes 60 hours or seven hours or none. Would that matter?

Centrelink benefits are an area where angels fear to tread, Sharlene. You have given me a lot of detail, but I can only give you general information. It is essential you check your entitlements with Centrelink.

There is a lot of complexity and detail in our system. But the ability to put money into super is really your decision. Where there are "deprivation" rules is in our aged pension system. This is fair enough: the deprivation rules stop us giving away our money, to the kids, for example, then getting or increasing our aged pension. But at age 55 you could certainly make a decision about how you invest your own funds.

You are right about CGT, but there are also other factors, such as has the rental property been a good investment and is it likely to keep on doing well?

My advice is to always manage your money as well as you can while taking tax and benefits into account, but as a secondary factor. So, I'd be assessing your investment property against super. A good, low-cost super fund would have delivered about 9% a year for many decades. How has your property done? If you find that a good super fund would be of greater benefit to you and, of course, need much lower management, then I'd trot along to Centrelink and find out if and how this improves your eligibility.

Jared is trying to save a deposit for a property

Little benefit for low income earners in FHSS

Q I am looking to purchase my first home in the next few years. I'm trying to save up for a deposit and came across the First Home Super Saver (FHSS) scheme. However, I need little bit of help understanding its benefits.

I am a low income earner (under $40,000 a year), so I'll pay 15% tax on my voluntary contributions, compared to 19% income tax, if I let the money go into my savings account.

But when I request the FHSS amount I will get taxed at 30% below my marginal tax rate. So, does that mean I wouldn't have my FHSS amount taxed?

I need some help understanding this.

Jared, I am not in the least surprised that you need some clarification in view of the amount of detail in the FHSS scheme. For income earners in higher tax brackets, the benefits are strong. But for those in the lower bracket – $18,201 to $45000 at a tax rate of 19% plus Medicare levy – the benefits are not great.

I'd need your exact taxable income to get this right, so what I suggest you do is go to one of the FHSS scheme calculators and put in your income. My suspicion is that the benefit will not be great. But there is one important point. If your super fund earns, say, 7% during your investment period, this would be a lot higher than a savings account. Equally, if the fund fell in value during the period you were saving, that would give you a poor result.

Super is a great wealth-creation vehicle, and all eligible Australians benefit from employer contribution. But those on higher incomes get the greatest tax breaks.

Q&A

Dew is unhappy in his job and wants to quit soon

You need to be realistic about starting your own business

Q I am married with three children (in years 4, 11 and 12 at school). My wife and I are 47. I plan to quit my full-time job (paying $90,000) in two years and venture into a new business, meaning I would expect no or very little income.

We have no mortgage or debt. Our investment property is at an interest rate of 2.85% and the repayment is $777 per week. The gross rental is $780 per week. My super is $197,000 and my wife has $212,000.

In two years, we will have one child at a private school costing $10,000 a year.

My wife earns about $80,000 and is worried that, with a single income, we cannot maintain our current lifestyle of private school fees and holidays. But I am not happy with my current job. Please advise if I can quit my job with peace of mind.

Yow! You are putting pressure on me here, Dew. The honest truth is that I have no idea what to recommend. So, I'll tell you a little story.

Vicki and I married 39 years ago, back in 1983. In 1986, we had no kids at that stage and a pretty big mortgage, but I had a chance to invest $20,000 and start a business with some very smart and ethical guys. We agreed to take no pay for three years and lived off Vicki's salary as a teacher.

We wanted kids, so we agreed a deal between ourselves. If, after three years, the business could not pay me a salary, I would quit and get a salaried job. As it turned out, the business, ipac, was a great success to the point where Vicki could quit her job and look after the three kids, we were lucky enough to have.

My problem, Dew, is I have no idea what your business idea is, or whether your own skill set gives you every chance of success. You and your wife will need to work that out. But maybe my story is a good one for you. If you both believe your business will succeed, maybe you could give it a shot for an agreed period of time.

If it works, great. If not, a salaried job may be needed.

Owning a successful business is terrific, but I would encourage you to do your research and have realistic expectations about the skills and effort needed. We used to laugh about our "40-hour week": 40 hours Monday to Wednesday, then another 40 hours Thursday to Saturday.

Barb and her husband have $57k to reinvest

Consider whether you will need the money, as well as risk

Q My husband and I are both retired. He is 74 and on an aged pension, and I'm 62 on a disability pension. We have just had a managed fund close and return our funds to us, but we don't know what to do with them. We have $57,000 – where should we reinvest it?

It all depends on the amount of risk you are happy with, the access you need to your money, and if a bit of income would help you.

As you had it in a managed fund, that is a vehicle you are used to, so I would be inclined to go the same way. You could go with a very low-cost indexed-type fund run by Vanguard or BlackRock, or one of our big listed investment companies such as Argo and Australian Foundation.

If you want to take less risk, a more diversified income fund could do the job for you. With your husband aged 74 and you 62, the money could be invested for a long period of time. The only people who really understand your need for the money and the level of risk you are happy with is you and your husband. But I don't see how leaving the money in a savings account will be a great idea over the long term.

Anna is worried she may not have enough money in retirement

Owning your own home will ease the stress

Q I am in my early 50s and a single mother of two adult children in their early 20s, one of whom has disabilities. I am working in the public service and have just about $120,000 in superannuation. I have around $50,000 in savings. I don't have other assets or investments. I am still renting but have been pre-approved for a $650,000 mortgage. I am worried about the financial stress that I could face during my retirement. Do you think owning a property that has potential to appreciate in value would be a good decision? I have been considering investing in shares, hoping to have access to some extra money in 15 or 20 years. But I am not sure how much I will have to invest and if I have enough money now in order to see a meaningful outcome in 20 years.

Good question, Anna. After some thought, I am taking a deep breath and going to encourage you to buy a home with that pre-approved loan.

In the public service you will have pretty good job security and you have quite a number of years of work in front of you.

You super is a great way to build your wealth while you work, and topping that up with extra contributions should be an effective strategy for you. In a decade or so, you could use that super to help clear your mortgage and as an income stream. Unlike shares, a home is not counted in the assets test for an aged pension.

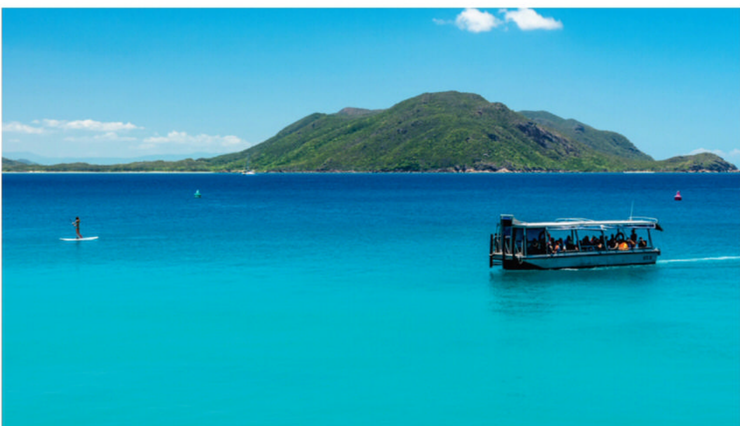
I reckon home ownership is the best plan for less financial stress in retirement. I'd make an effort to buy your own home, build your super, and have an aged pension to top things up.

SMART SPENDING

Destination Cairns

It's a great time to visit tropical north Queensland. First stop, Cairns.

A city with a view ... (clockwise, from above) reef view from a helicopter tour; a glass-bottom boat cruise; Boland's is an iconic landmark in the centre of Cairns; escargots at C'est Bon restaurant.



Five things to do

1. The Great Barrier Reef: Going to Cairns without a day out on the reef would be like going to Giza without seeing the pyramids. While there are plenty of cruises offering a day of snorkelling or scuba diving, you can opt to stay dry and observe stretches of coral reef from the comfort of a glass-bottom boat. Perfect for bigger groups or families with young kids or grandparents. If you have a bigger budget than $200 a day, you can also enjoy the reef from the sky. Helicopter cruises are available two or three times a week. There are plenty of cruises to choose from, but book early as they fill up fast. Check Google reviews, as some operators are better than others at offering refunds or rescheduling cruises due to bad weather.

2. Fitzroy Island: Home to a protected national park, Fitzroy is a perfect weekend getaway for locals and interstate travellers. There are plenty of activities to choose from, including rainforest walking tracks to snorkelling right off the beach. It's only a 45-minute high-speed ferry ride from Cairns reef terminal so you can wake up to a beach sunrise but have lunch in the city. At the time of writing in March, there were limited to no rooms available for the Easter break, so you need to book early. Set aside at least $1400 for a week's stay in one of its double rooms.

3. Stay in the 'burbs: Hotels like the Shangri-La and the Pullman are great places to stay at if you want to be at the centre of the action, but you can also Airbnb it and stay in the beautiful suburb of Mooroobool, with amazing views of the town centre. Wake up early to watch the sunrise from the deck.

4. Dine at C'est Bon: For something fancy, you can't go past an intimate dinner at this French restaurant in the city. The escargot for entree and the crème brûlée for dessert have received rave reviews on Google. Spoil yourself.

5. Enjoy the city on foot: Cairns offers plenty of Instagrammable locations within a short distance of each other. Orient yourself by going to the Esplanade. Depending on the day, you can check out the night markets and enjoy a quick snack in the middle of it all. MICHELLE BALTAZAR

DRIVING PASSION

EVs have a solid-state future

Electric cars provide a number of solutions for a cleaner, greener driving future, but there are issues with restricted driving range, extended recharging times and limited charging stations. But a host of car makers are developing a solution to ensure the next generation of electric cars is more powerful, drives further and is significantly quicker to recharge.

The next phase in EV technology is replacing lithium-ion battery packs with a solid-state battery. Lithium-ion battery packs require a liquid electrolyte between the anode and cathode in each battery cell in order to store and discharge electricity. This means they're large and heavy, and the electrolytes are both toxic and volatile when exposed to the outside air, which can cause a chain reaction and set the battery alight in an accident.

Solid-state batteries effectively utilise the same lithium-ion chemical reaction but replace the electrolytic solvents with a wafer-thin electrolyte. They're lighter and more compact, which increases driving range.

They also have a much higher energy density rating, meaning that more electricity can be stored within each battery cell. Plus they're highly resistant to fire and explosion. The biggest problem with solid-state batteries is long-term reliability and poor performance in cold weather.

The micro-thin electrolytes need to be manufactured so that the surface interacts with the anode and cathode evenly, otherwise any warping has a significant impact on the efficiency of the cell. This is difficult in a moving vehicle, which is subjected to driving conditions that could crack the electrolytes.

When will they arrive?

Toyota has been leading the charge in solid-state battery development for almost a decade through its partnership with Panasonic, with plans to produce up to 70 electrified models by 2030. The first application of its solid-state battery is likely to feature in hybrid vehicles by 2025, with a solid-state battery EV expected by 2030.

Nissan has confirmed plans to invest a similar amount in EVs over the next five years, with the promise of a solid-state battery vehicle by 2028.

Daimler, the parent company of Mercedes-Benz, Stellantis, and the Hyundai Motor Group have invested in US-based Factorial Energy, a leader in the development of solid-state battery technology for EVs. Daimler and Stellantis plan to have vehicles by 2026.

Ford and BMW have purchased stakes in US-based Solid Power and plan to introduce solid-state battery EVs by end of the decade, while General Motors plans to develop a $10 billion supply chain. The Volkswagen Group could beat them all to the punch with plans to introduce a solid-state EV by 2024.

Tesla's alternative

Surprisingly, Tesla is doubling-down on lithium-ion technology. Its prototype 4680 battery cell promises to have five times greater energy density, offering six times more power and a 16% improvement in driving range. Battery cells require tabs that allow energy to flow to an external source. The 4680 reduces the distance the electron has to travel, so the cell has fewer thermal issues and a greater power to weight ratio. Production timeline to be advised. CARSALES.COM.AU

EXTRAVAGANCE

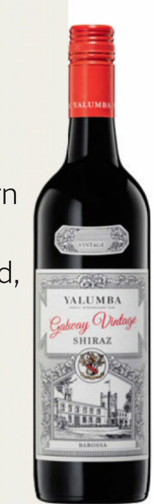
Game changer

Anyone who takes online gaming seriously will know how important it is to have a comfortable chair. These SecretLab chairs are the business.

How much: Starts at $764
Where from?
secretlabchairs.com.au

WINE SPOTLIGHT

2019 Galway Vintage Shiraz $18



This is a quaffing red with a history dating back to 1943 from the excellently modern Yalumba. It's a terrific, well-priced, easy-drinking red: blackberry, brambles, dark plum flavours, supple and fleshy, even juicy, with a gentle tannin grip.

SPLURGE

2019 Yarra Yering No.1 $120

The quality of the wines in the Yarra Yering portfolio is a testament to Sarah Crowe's guardianship of the label, which saw her become *Gourmet Traveller Wine's* 2021 Winemaker of the Year. Varietals such as pinot noir and viognier are arguably among the country's finest while the winery's long-time flagship, Yarra Yering No.1, is revitalised. Predominantly cabernet sauvignon with merlot, malbec and a touch of petit verdot, it is fine yet intense with underlying power and wonderful depth of redcurrant, raspberry and bramble flavours that linger.

PETER FORRESTAL

SMART SPENDING

SMART TECH

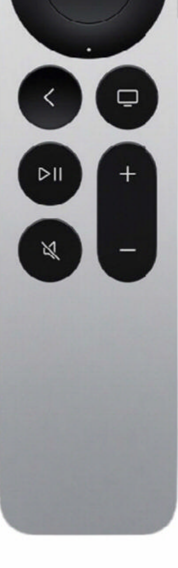
Our world shrinks into the living room

It's hard to quantify just how much technology in the living room has changed in the past decade or so.

A host of factors, including the uptake of higher-speed broadband internet at home, the revolution in streaming services and the decline of physical media, have coincided to transform the way we inform and entertain ourselves.

Once upon a time, TV consisted of just a few broadcast channels to choose between, and pay TV services charged an arm and a leg for a firehose of low-quality filler programming to pad out the good stuff. Admittedly, not everything on Netflix, Stan, YouTube (and so on) is always A-grade content, but at least you've got full control over what you want to watch and when you want to watch it – not to mention how competitively priced these services are.

There are plenty of smart TVs on the market these days that give you built-in access to all these platforms, but their default apps aren't always the most flexible, so you might be better off with a dedicated TV box or stick on the side. PETER DOCKRILL



What is it? Amazon Fire TV Stick 4K Max
How much? $99
Pros: Offering a simple way to bring smart TV features to any TV, the Fire TV Stick plugs into your HDMI port, letting you stream TV, movies and music over wi-fi from all the major subscription services, plus free TV-on-demand apps.
Cons: If you don't need or want 4K, the Fire TV Stick Lite is just $59. Even cheaper Android TV boxes start at around $20-$30 on eBay (but your mileage may vary).
amazon.com.au

What is it? Apple TV 4K
How much? From $249
Pros: If you're an Apple fan accustomed to the slick interfaces of iPhones and iPads, the Apple TV will make you feel right at home, providing a familiar user interface stretched out to the size of your TV. All sorts of streaming and entertainment apps are available on the App Store, including games (BYO controller for best results), and it now comes a nicely revamped Siri remote.
Cons: None, provided you're happy to live inside Apple's curated garden of apps and services.
apple.com/au

What is it? NVIDIA Shield TV Pro 4K
How much? $349
Pros: If, on the other hand, you're more of an Android user, or you want a bit more configurability over how and what your TV box runs, the Shield TV Pro is worth considering. It's powerful enough to handle pretty much whatever you throw at it, and functions as a great game-playing device to boot.
Cons: Not as immediately intuitive as Apple TV, but spend a bit of time with it and you'll unlock all sorts of fun possibilities.
nvidia.com

GIVE IT UP

Doctors Without Borders Australia – Ukraine Emergency Appeal

What is it? Russia's invasion of Ukraine in February and the ongoing war has triggered a widespread humanitarian crisis that could result in up to seven million refugees, according to the UNHCR. More than two million Ukrainians have fled to other countries since February 24, while more than 160,000 people have been displaced internally. Hundreds of thousands of civilians remaining in Ukraine are without water, electricity and essential supplies.
Where your money goes: "Ukrainian people need maximum support to overcome this crisis," Doctors Without Borders Australia reports. "The healthcare system in Ukraine has already been disrupted by war, and the impact is already being felt in supply chains. Some medicines are starting to run short... the impact for patients suffering from chronic diseases – cancer or diabetes, for example – is likely to be disastrous." Doctors Without Borders (MSF) is providing telemedicine training in trauma care for 30 Ukrainian surgeons, distributing war-wounded kits in Mariupol, and has deployed teams to support refugees.
How to donate: Visit msf.org.au to make a one-off or monthly donation via credit card or Paypal. To donate via mail, write to MSF at PO Box 847, Broadway, NSW 2007. To make a phone donation, call 1300 13 60 61. Donations to Médecins Sans Frontières Australia over $2 are tax deductible. SHARYN McCOWEN

WEBFIND

PETROLSPY.COM.AU

Russia's invasion of Ukraine will likely push petrol prices sky high. With that in mind, we could all do with a helping hand. PetrolSpy Australia can help you keep an eye on prices. Enter your postcode on the website or free app to find the cheapest fuel near you. You'll find information covering Sydney, Melbourne, Brisbane, Perth, Adelaide, Hobart, Darwin and Canberra.

SHARYN McCOWEN

What should I do with $30k in savings?

I'm a 53-year-old single childless woman with a small positively geared property in Sydney worth about $750,000 that is currently rented out at $565 a week (I recently paid it off during lockdown). I now work part time earning $81,000 (from my job and a side business) and I rent in Melbourne for $380 a week.

I am reluctant to sell my Sydney unit as Sydney is my childhood home. But I am now paying tax on it so it costs me more to rent in Melbourne than to live in my Sydney unit.

I have saved $30,000 (again, thanks to the Melbourne lockdown) and don't know what to do with it.

Should I buy an investment property in Melbourne or stash it away in superannuation (I have $400,000 in super)?

I considered buying a property to live in, but can't face the prospect of living in a tiny one-bed unit with no balcony in the price range I may be able to afford.

I've always had to look after myself financially, as a single woman, and I'm lucky to have property paid off at this age where many other middle-aged women are struggling. I am still, conscious of preparing for my old age. I'd like to leave some money to my nieces and nephews, but want to just have enough to live on till the end. I've also considered a reverse mortgage when I'm much older.

I hope you can help. I've tried to call a couple of financial advisers but can't seem to find anyone who will do a one-off consult. ***Nerida***

CASE STUDY

Nerida and her nieces

You have done a good job with your wealth creation, Nerida. With a paid-off property valued at $750,000, $400,000 in super and your savings habit seeing you build up another $30,000, you are in really good financial shape at age 53.

You also have a good level of income from your work and a side business. Good on you. Renting is quite okay as long as you continue to build assets. With a nice balance between property and super, I am not overly concerned about which way you go. Making extra super payments via salary sacrifice is a very simple and powerful strategy. But as you continue to save, I suspect you are already doing that. Your super will give you exposure to a broad set of assets both here and overseas. Please check you are in a low-cost, solidly performing fund and that any insurance in the fund is appropriate for you.

Now we move to a very common question. With your savings and surplus income, do you buy a property or max out your super contributions and then start to build a share portfolio, probably using a low-cost indexed fund or an exchange traded fund. The share option is delightfully simple. You choose a good fund, organise monthly direct debit contributions and away you go. Based on the very long history of markets, this should see returns of over 7% in the longer term.

Sure, you could also borrow to build a share portfolio, but it seems to me that most people, and certainly our banks, find property a more comfortable asset to gear. Despite many people with very strong opinions about "buy shares" or "buy property", the reality is the strongest yelling comes from those with the greatest bias, that is, sellers of property promote property, sellers of shares promote shares.

Sure, if we choose Australia's best-performing property areas, property looks better. Choose our best-performing shares and shares look better. I think a more rational look at the facts is that a well-located property in a growth part of Australia, near public transport, entertainment, schools, work, hospitals and a decent cup of coffee has done well. So has a good portfolio of shares. Frankly, I don't see much difference in long-term performance. I own investment property and will keep it, but I don't like the labour-intensive nature of property, with stuff breaking and so on. I do love the "no care" aspect of owning a decent share portfolio.

Paul's verdict: Build a share portfolio or buy a property

Salary sacrificing into super is a powerful strategy

This is up to you. The obvious difference is gearing. If you put down, say a 10% deposit on a $300,000 apartment in Melbourne, you have $30,000 of your money in the property. If it increases at 7% a year, then you are making (ignoring rent, which will be needed to fund your mortgage interest) about $21,000 a year. On the $30,000 you have tied up in the property, that is about 70%pa.

Yes, this all turns to custard if property values fall. A drop of just 10%, on paper, wipes out your $30,000. I say "on paper" because the whole idea of property is to hold it for the long term and ride the bumps in the market. Critically, you don't want to ever be forced to sell, so make sure you allow for rising interest rates and the loss of a tenant. Always good to have a "worst-scenario" plan!

My role is to lay out the facts and let you make the best decision for you. I am really comfortable with you building a share portfolio, or if it suits your skill set and interests better, go and find a well-located property. Gearing brings more risk, but you are experienced with money and investment property. The population of Melbourne is predicted to be more than 8 million in about 30 years. This is where property is a nice, simple "supply and demand" asset. Where it goes badly wrong is if the population falls. In the case of Melbourne that looks highly unlikely.

Ask your question

If you have a question, email money@moneymag.com.au or write to Level 7, 55 Clarence Street, Sydney NSW 2000. Questions need to be 150 words or less and you must be willing to be photographed. Readers who appear on this page will receive a six-month subscription.

The financial independence movement is inspiring new followers – as young as 28 – who want to quit their day job and do their own thing

BREAK FREE

SUSAN HELY REPORTS

THE PANDEMIC HAS prompted people like 30-year-old Michelle Ives to realise how fragile her financial security is.

"Anything can happen that has the potential to shake the normalcy of our lives. It has reminded me of what matters – it's not sitting at a desk for eight hours a day," says Michelle.

She is drastically overhauling her family's finances, so they have more control over their lives. She wants to have the freedom to make choices about her life and work.

Michelle was already plugged into the growing personal finance movement that offers an abundance of information about saving and investing online. It is FIRE, an acronym for financial independence, retire early. As well, there is a more laid-back version, FI, or financial independence.

"If anything, the pandemic has just encouraged us to reach our goal more aggressively," says Michelle.

Michelle and her husband are saving 70% of their income and hope to retire in a few years. They have been FIRE followers for seven years. While she loves running her own copywriting business, she wants to take back her life while she is in her 30s and healthy, and to get out and enjoy it.

"In some ways, Covid-19 has actually galvanised the importance of FIRE for many because we've now had a glimpse of what a better work-life balance feels like."

Unhappy in their job

People have increasingly realised that they don't want to be stuck in a soul-crushing job, with long commutes, well into their 60s. They didn't want the anxiety that comes with working flat out, explains Serina Bird, who was connected to a work chat group and emails with alerts pinging from early morning until late at night.

So much so that two in five Australian workers (43%) are unhappy with their work and are planning to actively search for a new job in 2022, according to a survey by Elmo Software. Workers are prioritising more flexibility, working remotely more often, access to extra annual leave as well as increased wages and promotion.

A third of workers say they plan to quit their current job as soon as they secure a new role, with 19% intending to quit before lining up another job. "The 'great resignation' is a thing and most employers don't get it," says Serina, who retired at 47 from a desirable public sector position.

There are newcomers switching onto the FIRE and FI philosophies to get rid of debt, rigorously save, invest sensibly and enjoy a modest, agreeable life. Those people on the FIRE journey retire in their prime. "The pandemic has reinforced for many the value of the basic building blocks of FIRE, such as having a cash cushion in uncertain times," says Jason, who has accumulated $2.7 million and will retire early next year.

Follow the formula

FIRE is based on the philosophy of Peter Adeney, aka Mr Money Mustache, who kicked off the movement in 2011 (see mrmoneymustache.com).

It is about building up enough investments so you can live off the returns for the rest of your life. Once you hit the point where the income exceeds your living expenses, you no longer need to work because you are financially independent.

Adeney came up with what he calls a "shockingly simple" formula. You take your annual expenditure and multiply it by 25. This calculation is based on "the 4% rule", where retirees withdraw no more than 4% of their total savings each year.

He says if you can save 50% of your take-home pay from the age of 20, you can retire at 37. If you can save 75%, you can retire in seven years. Adeney's "mustachionism" lifestyle is about 50% cheaper than that of most of his peers and the surplus is invested in simple exchange traded funds and a rental house or two. He has inspired not only our six case studies but has resonated with millions of followers.

The philosophy of FIREs isn't about getting rich quick, but about taking a slow path. Forget about market timing – trying to find the best time to get in and out of the market – because, as Adeney says, it generally sucks.

The FIRE movement is evolving in a time of interesting financial changes. While the focus is still on saving and taking frugal steps, it is also about the choices that open up as you edge towards financial independence.

You can fire up any part of your life with a FI strategy. It can mean you live overseas and travel 52 weeks a year. You can volunteer to help others. Or, in Tasha's case, you can have a baby on your own.

You can connect with all sorts of FIRE communities for support and feedback from real people.

Flexibility is foremost

Financial independence increasingly is for people who don't want to retire young or sacrifice too many of life's indulgences, but want flexibility in their lives.

"Early retirement conjures up hazy images of long golf games and pastel leisurewear," says Jason. "For seekers of early retirement, this vision doesn't connect with them very often – they are usually highly motivated and goal-oriented people with no desire to sit around on the couch for 30 to 50 years following early retirement."

"Many actively seek alternative passion projects, or to simply approach work from a strong negotiating position. This has led many to observe – myself included – that it's the financial independence we seek first and foremost, with the retire early part being optional or even irrelevant."

Dave Gow, who retired at 28, says: "You can choose your own adventure. It's not a one-size recipe for early retirement." Some FIREs, like Matt, who runs the Aussie Firebug podcast, wants to "start a small business, spend time with my family and not have to commute to work".

Matt says he has always wanted to be able to scale back his work from five to three days a week when kids came along. "Also, the free time to keep fit is a priority for me. I understand that when kids come on the scene things change and most people give up some of their 'me' time. I don't want to sacrifice my health and still want to be able to do all things I do now," he told the blogger Adventures with Poopsie.

Some people may not believe that retiring early in their 20s, 30s or 40s is really an option, but our case studies show that you don't need a windfall or a high-paying job or a lucrative tech start-up to retire early.

Serina, Leo, Michelle all show it is possible to save and retire early with a young family despite plenty of people telling them that financial independence wouldn't happen if you had kids and all the financial responsibilities that came with them.

Where to connect

Of our six case studies, Dave, Serina, Michelle, Jason and Tasha run blogs.

• Dave Gow has strongmoneyaustralia.com and, with Pat Seyrak from lifelongshuffle.com, hosts fortnightly podcasts, FIRE & Chill.
• Serina Bird: joyfulfrugalista.com.
• Michelle Ives: thatgirlonfire.com
• Jason runsthefiexplorer.com and doesn't give his real name as he is apprehensive about talking to his work colleagues about his plans to retire early.
• Nataasha Torzsa: tashagetsfrugal.com

Pandemic and war disrupt plans

The pandemic, and now the Russia-Ukraine war, have challenged short-term plans for some FIREs, especially those who enjoy travelling.

Jason, for example, says his plans to travel around Australia and overseas are now "up in the air". But it's also an opportunity to "keep my head down investing, until the outlook becomes a little clearer".

The economic fallout from the war may also hit saving and investing targets in the short term, but it's the long term that counts.

"The war in Ukraine is many things – most obviously an urgent and tragic humanitarian event as well as an opportunity for giving – but it is not a reason to change overall investment direction for someone seeking financial independence through a well-diversified portfolio," says Jason.

Markets, especially sharemarkets, tend to climb a wall of worry and expand even across periods that are objectively challenging.

"There are always sensible-sounding reasons to hold off investing, and await more certainty, but inaction just delays the powerful force of compounding returns getting underway over time. Putting in place simple automatic systems can help avoid the temptation to just wait and see that can end up costing investors dearly as markets recover and grow."

Jason says most major events reflected in newspaper headlines today will have little impact on returns over long-time investment frames of 10, 20, and 50 years.

Dave

RETIRED: At 28
INCOME NEEDED: $45,000 a year for Dave and Alison
INVESTMENT STRATEGY: Selling down investment properties and buying more index funds and REITs.

When you ask people about their saving and investing, often they will tell you that they don't earn enough to do either.

Dave Gow turns that excuse on its head. Dave and his partner Alison both earned around $75,000pa on average. Remarkably, Dave retired early at the age of only 28.

It took him 10 years to save enough and invest to generate an income to do the simple things in life that he loves. He never spends the capital, living on the income. "We just buy what we need and whatever we feel is worthwhile," he says.

How did Dave retire at 28?

After starting work at 18 and saving 20% of his salary, he quickly became disillusioned with his job and saw his fellow workers were unhappy and unsatisfied, living pay day to pay day. He realised he didn't want to be "a cog in the machine for the next 40 years".

At 19, Dave, working as a forklift driver, upped his saving rate to 35%. By 20, he raised it to 50% and started to learn about investing, particularly buying property. At 21, he met Alison, who loved the idea of financial independence, too.

By 22, Dave, bought an investment property and they lifted their savings rate to 60%. When Dave was 23 he bought another investment property and Alison bought one, too. Dave worked overtime to rev up his savings rate to 65%.

At 24, Dave and Alison officially joined their finances and bought an investment property together. Their savings went up to 70%. At 25, they bought two more properties and rented out a room in their house. Their savings reached 75%.

When he was 26, after buying one more property, he started to learn about investing in shares and the stream of income that dividends generate. "Also we realised that we didn't need as much as we thought to retire," says Dave. They sold their first property to start investing in shares.

At 28, they reached financial independence, left their full-time jobs and, as Dave says, "got our lives back". They continued building their share portfolio, using dividends and cash from property sales to live on. They earn some income from part-time work they really enjoy.

Not surprisingly, people want to know how Dave managed to retire at 28, so he started a blog, Strong Money Australia, to explain his mindset and strategies that helped him reach financial independence. He found he really enjoys writing and answering readers' questions. Two years ago, Dave teamed with Pat Seyrak, known in the FIRE community for his lifelong shuffle.com blog. Pat is 60% on the way to reaching his goal of $1.2 million. Their FIRE/Chill fortnightly podcasts about money and investing topics range from "Is insurance worth it?" and "Are young people screwed?" to "Buying property" and "50 low-cost enjoyable things to do".

Dave experience with investment properties compared with index funds is illuminating. He reviewed a recent management statement for one of his investment properties and the $5000 he earned, after costs, gave him $500 – not taking into account the mortgage. In comparison, a dividend payment of $4000 from his exchange traded funds and shares carried no bills and even some tax credits. All of it was income.

Both Dave and Pat have surprised the FIRE movement by buying a house to live in. They were renters for years. After living in a small apartment, Pat says he is looking forward to having extra space and a garden, and being able to make adjustments to the house. The property is outside the city, close to bike tracks and the beach. He has gone with Tic:Toc, an online bank with low rates, for his mortgage.

Dave has bought in the same street, on the same side, where he has rented for four and a half years. Long-necked turtles lay their eggs near his property. Every year he helps the baby turtles into the nearby lake.

Dave and Alison moved to the area, with a regional park and lake on their doorstep, when they no longer had to be close to work when they retired. They love the area, riding their bikes and walking Boss, their dog, and had always said they would buy a house if one ever came on the market.

They are selling an investment property to help fund the house, which is rundown. Dave says they will stretch out their homeworks budget and aren't in a hurry to fix it up all at once. "People get obsessed with how they want their home. It never ends."

Dave's next book, *Strong Money Australia*, comes out later this year. It aims to teach people to think about financial independence so they can adapt his philosophies and do it themselves.

DAVE'S HOUSEHOLD SPENDING

CATEGORY	2021	2020
RENT	$21,059	$20,800
FOOD & DINING	$6371	$6125
Groceries (incl. alcohol)	$4972	$4701
Cafe/restaurants	$1399	$1424
CAR/TRANSPORT	$2983	$2474
Public transport/Uber	$583	$750
Petrol	$865	$520
Rego, repairs, insurance	$1535	$1204
UTILITIES	$1271	$1454
Electricity/gas	$888	$1121
Water	$383	$333
TRAVEL	$2430	$2821
Country trips	$1204	$1750
Interstate family visits	$1226	$1071
MEDICAL/HEALTH	$1479	$1138
Doctor, dental, physio, etc	$1169	$679
Pharmacy/prescriptions	$310	$459
MISCELLANEOUS	$9263	$7154
Pet (vet bills, food, etc)	$4361	$233
Gifts	$840	$1500
Phone & internet	$758	$884
Garden	$660	$908
Other	$1726	$2202
Charity	$604	$527
Personal/beauty products	(now groceries)	$595
Clothes & accessories	$314	$305
TOTAL	$44,856	$41,966

FRANCES ANDRIJICH

CASE STUDY

Taking it easy ... Dave and Alison discovered they didn't need as much money as they had thought.

TIP

Dave uses Pearler, a low-cost brokerage platform for long-term investors. "People like us in the FIRE community weren't being served well before, since brokers just want people to trade, trade, trade."

He says the features of traditional online brokers are typically a distraction and a hindrance to long-term investors.

Pearler's "auto invest" feature allows investors to set up a direct debit each week, month or whenever it suits to automatically buy shares, such as exchange traded funds and listed investment companies. Over time, the compounding effect builds a portfolio that can lead to financial independence, a home deposit or other financial goal.

The three most popular investments made by Pearler's 29,000 investors are three Vanguard ETFs: Vanguard Australian Shares Index (ASX: VAS), Vanguard Diversified High Growth Index (VDHG) and Vanguard MSCI Index International Shares (VGS).

Pearler charges $9.50 for a trade on the ASX. It has done a deal with some ETFs so that they are brokerage free if you hold them for a year.

Pearler has impressed Dave so much he has invested in the group.

Jason*, 49

AIM: Retire in less than a year
INCOME NEEDED: $91,600
INVESTMENT STRATEGY: Vanguard diversified funds and ETFs, 50% weighted to Australian shares and dividends. Also, some direct shares and alternative assets such as gold, Bitcoin, peer-to-peer lending.

After saving hard and investing for 20 years, Jason has reached his target of $2.7 million, which delivered him an income of $121,451 in 2021. This is almost $30,000 more than his passive income goal of $91,600pa in retirement.

"This is the highest total for calendar year distributions on my journey so far, and over 35% higher than the previous high last year," explains Jason on his detailed FI Explorer blog, which he has been updating every month since 2016 (62 times).

He likens the income from his investment portfolio to a full-time worker's wage, earning money each day on his behalf.

"That notional worker was earning $29.31 per standard working hour in 2019. By contrast, over the past 12 months, they have earned $61.46 per hour," says Jason. "This tireless portfolio worker has effectively received the equivalent of a 37% pay rise over their 2020 salary."

Another way to consider it, says Jason, is that for every single hour of every single day and night last year, the investment portfolio has relentlessly worked away to earn the equivalent of around $13.86 an hour.

His passive income has only taken off in the past few years as his portfolio's value has compounded. With it flowing in nicely, Jason can start thinking about what life will look like next year when he retires.

His portfolio is made up of exchange traded funds, gold, shares and some exotica or experimental investments that his curiosity couldn't resist, such as Bitcoin and peer-to- peer lending. The value can dip and rise like a rollercoaster.

In the early part of the pandemic, his FI savings dived $306,000 or 6% over two months. He wasn't fazed. Six months later it was back to where it had been and was growing again. "Since then the growth has continued and the FI portfolio is now about 50% larger than the pre-pandemic high – around $2.7 million in early February," says Jason.

He is skewing his asset allocation to 80% in international and Australian shares. Since 2018 Jason has been investing in three ETFs: BetaShares Australia 200 (ASX: A200), Vanguard Australian Shares (VAS) and Vanguard International Shares (VGS).

JASON'S PORTFOLIO SUMMARY – JANUARY 2022

Vanguard Lifestrategy High Growth Fund	$790,086
Vanguard Lifestrategy Growth Fund	$42,487
Vanguard Lifestrategy Balanced Fund	$76,957
Vanguard Diversified Bonds Fund	$97,297
Vanguard Australian Shares ETF (VAS)	$367,311
Vanguard International Shares ETF (VGS)	$288,466
Betashares Australia 200 ETF (A200)	$274,868
Telstra shares (TLS)	$2089
Insurance Australia Group shares (IAG)	$5372
NIB Holdings shares (NHF)	$7476
Gold ETF (GOLD.ASX)	$115,439
Secured physical gold	$18,425
Plenti (P2P lending)	$56
Bitcoin	$586,560
Raiz app (agresssive portfolio)	$20,463
Spaceship Voyager app (Index portfolio)	$3459
BrickX (P2P rental real estate)	$4997
TOTAL PORTFOLIO VALUE	**$2,701,808**
	(-$246,827)

The overall portfolio distribution rate for the 2021 calendar year is 4.5%. Jason's basing his income from his portfolio on a more conservative, reliable and safe withdrawal rate of 3.5% and recommends the website earlyretirementnow.com, which unpacks withdrawal rates. Of the distributions, Jason puts aside $5000 to meet future portfolio-related tax liabilities.

He keeps an emergency fund that is equivalent to around a year's expenses of $91,600 to cover any unexpected periods without employment income or to help meet any major unanticipated costs.

TIP

"Starting is the most important step. Don't wait for the perfect time, or perfect knowledge – you will have the chance to adjust through time," advises Jason."

For reading, he recommends, Morgan Housel's *The Psychology of Money: Timeless Lessons on Wealth, Greed, and Happiness.*

Not many FIREs had adopted cryptocurrencies in 2015, when Jason bought Bitcoin. He is curious about new investments and bought $4400 worth of Bitcoin. It was worth $586,560 at the end of January and accounts for 25% of his portfolio, solely through its price increase.

But now, says Jason, small crypto holdings are increasingly common in FI portfolios. "Many more traditional FIRE adherents are still quite dismissive of this, but the change is noticeable, nonetheless. Particularly FIRE seekers in their 20s or 30s are far more likely to have exposure to or have had experiences in Bitcoin or other cryptocurrencies. This is really reflective of a broader demographic change happening out there in the community – that I think in part reflects frustration with the inaccessibility of the Australian property market for many."

The other big change has simply been the strong recovery of equities – particularly global equities since March 2020 – although there have been some falls along the way.

He says the pandemic has thrown his retirement plans – travelling easily around Australia and overseas – up in the air. He has pages of information on countries he wants to visit.

"So, it's probably been an opportunity to just keep my head down investing, until the outlook becomes a little clearer – it's never certain, but that phase may be closing. I'll be spending time this year thinking through what reaching FI in this new environment looks like and means in terms of my desired lifestyle."

Jason says he has been more interested in the financial independence aspect of FIRE and values the slowly increasing power over his circumstances. "Progress in the journey exerts a subtle force across daily life barely noticeable at first, but it gradually transforms your perspective," explains Jason who saves around 60% of his salary.

Looking back on his years of spending before he started his FI journey, Jason says he thinks about the stress and lack of flexibility that are the invisible cords that a high-consumption lifestyle represents.

The big question: rent or buy?

Buying a home to live in can delay early retirement plans, although there are certain advantages

Renting, rather than buying, a home has been a popular strategy of Australian FIREs. They don't get caught up in the property hype. Instead, they analyse whether it is a worthwhile asset compared with holding index funds.

Renting, argue plenty of FIREs, is cheaper than buying. There's no stamp duty or rates to pay. Some landlords pick up a few of the utility bills, too.

A number of FIREs have invested in property but continued to rent their home.

"Many FIRE seekers commonly start off in the property market as investors, seeking to build a portfolio of investment properties. But many then recognise that there are downsides to this path compared to more truly passive approaches using equity exchange traded funds, for example, and gradually shift across. It's a lively ongoing debate," explains Jason, known as FI Explorer.

But the lure of the property has become too strong for three of *Money*'s FIRE case studies, Pat, Dave and Leo. Over the past two years, while property prices have soared, they have taken the plunge into the market. But they all agree that owning a property to live in isn't a decision based on the finances, because of the high costs. Instead, it is a lifestyle choice.

End of the uncertainty ... blogger Pat Seyrak has "locked in" his housing costs

In Leo's case, his wife Alisha pointed out that now their son has started school, they needed to settle and be part of a community. She didn't want to rent and be moved on by landlords for whatever reason.

"In my case, I couldn't find a rental place I liked," says Serina, who sold her large home in the suburbs when her first marriage ended. When she couldn't find a place to rent in the area where she wanted to live, she bought an apartment in the inner suburbs, within walking distance of shops, schools and the city.

One of the reasons why home ownership is shunned is that it involves taking a chunk of money for the deposit out of income-producing savings, delaying early retirement

Also, Australian rents weren't going up sharply a few years ago. It made sense to rent, save and invest the money. But rents have increased by 9% over the year to the end of January, according to CoreLogic. In capital cities they have jumped by more than 10%, with Brisbane recording a 13% increase.

But the deciding factor for early retirees is that a bank is never going to lend money to people once they have retired. It means they have to buy while they still have an impressive pay packet. "People are trying all different approaches – some try to push over the mortgage on a house as soon as possible and get back to investing. Others seek to accelerate their journey to ownership by 'rentvesting' or using equity from their house," says Jason.

Pat Seyrak, who blogs at lifelongshuffle.com and podcasts with Dave Gow at strongmoneyaustralia.com every fortnight, says he is relieved to have bought a home, as housing was always an uncertain element in his FIRE plan. Pat and his partner Steph have bought a house and they have more certainty about how much property will cost as well as knowing where they will live.

"I didn't want to be looking in two or three years' time and find I couldn't afford it. I am locking in my housing costs now," Pat told Dave in their FIRE & Chill podcasts.

Pat admits that buying a home will delay their retirement date and they may work part-time. But they still plan to retire early.

All three case studies applied some of the FIRE investment philosophies to buying a home. They thought carefully about where to live and what they wanted. They avoided anything too flashy that would stretch their finances, instead buying affordable old homes that need a fair bit of work that can be undertaken at their own pace.

Leo has bought a duplex so that half the house can be rented out to help pay off the mortgage.

The FIREs will budget for home improvements, putting money aside, rather than renovating quickly.

They did their sums about how much debt to take on, investigated fees and the most appropriate lender. Pat has gone with Tic:Toc, an online bank with low rates, for his mortgage.

Most FIREs have never been in debt before. A mortgage means they have a debt and one question is how much to keep in the offset account against the mortgage.

In the case of Leo and Alisha, they are using an offset account and their mortgage is 20% of the value of their home. Pat will keep cash in an offset account, equivalent to one year's expenses.

Pat Seyrak bought a house an hour out of Sydney in an old beach suburb. He isn't going to miss renting or being in the city and, after living in a small apartment, is looking forward to having extra space and a garden and making adjustments to the house. But he won't move in for a few years until he partly retires.

Leo, Alisha, Dom,4, and toddler Ellie*

AIM: Explore and enjoy early retirement
INCOME NEEDED: $80,000 a year
INVESTMENT STRATEGY: Regular contributions to managed funds that align with their principles; maximum concessional contributions to superannuation

Leo, 35, Alisha, 32, with their two kids, Dom and toddler Ellie*, are on day five of early retirement. After working flat-out for 13 years, Leo sighs and says: "I have just finished my last work engagement."

They have accumulated $2.9 million by leading a nomadic, minimalist life, working around Australia and overseas in the resources industry with four suitcases, a backpack and a super-pram.

They are entering a new phase, spending more time together as a family and enjoying the simple things in life like cooking meals from scratch, playing in the park, gardening and propagating plants as well as going for family walks.

The family travelled together, living in over 10 different cities and towns in four countries, instead of Leo flying in and out. This strategy made Leo valuable because companies had full access to his time, resulting in higher pay and the company paying costs such as accommodation and relocation. "Our running costs were low, around $30,000 per year," says Leo.

Not only was nomadic life a huge boost to their savings, but it also enabled Alisha to be a full-time mother, which she treasured. But now that Dom has reached school age, they have decided to put down roots so they could build a life and make connections in a community.

Whether to keep renting for the rest of their lives or buy a home was a big decision for them. "I believed I would rent forever," says Leo. "I had always been debt free."

Flexibility is critical on the FIRE journey and theirs has evolved with the family's changing needs. Their retirement date, for example, has shifted around a lot as they better understood their young family's living costs.

The decision to buy a home and stop renting was based on wanting to settle in their local community. Moving to a new house is not only costly but disruptive when the family has to be in the area to go to the local school.

"It is not necessarily the best financial decision, with costs such as stamp duty, but buying a home is a lifestyle decision," says Leo. "It is definitely more expensive than renting," says Leo. "There are rates, maintenance and utilities bills."

The clincher to buy a home was realising it would be hard to borrow money once Leo retired. Who would lend to early retirees aged 35 and 32? So, they bought an old duplex a few years ago while Leo had an impressive salary. They rent out half to help pay off the mortgage and it provides room to grow when the kids are older and get tired of sharing a bunk bed.

While they could pay off the mortgage with their savings, they decided to keep it open and offset most of the loan balance. "We want personal comfort and have a big buffer," says Leo. The well-funded offset account helps them to minimise what Leo calls the sequence of returns risk in the early years of retirement. If the sharemarket crashes, they would use the offset account to temporarily cover their living expenses to avoid having to sell shares at rock-bottom prices.

Without travel allowances from Leo's job, life is more expensive, and they are budgeting for annual living costs to double to around $60,000 this year, then up to $80,000 as the kids get older.

Leo is looking forward to a life without the stress of full-time work where there were constant problems to solve. "There was always a low-level baseline of anxiety about what I needed to do with work. It was there all the time. When I woke up it stayed with me all day,"

He says his job was infinite and could always involve more. In the first few years he was always working, but as he established a reputation he knew when to pull back to ensure it was sustainable. Leo estimates that being able to walk that fine line enabled them to save an extra $500,000 by extending his high-paying career and not burning out within two to three years like many people do.

As their savings grew, Leo says the effect of knowing he didn't have to work as his saving grew was imperceptible at first, but then it allowed him to be bolder with his employer about what he wanted. He asked to work from home two days a week and bought extra annual leave to help him recharge. "There was a lot of leaving the laptop in the office, too."

It is too early to speak about what is going to happen in retirement. Leo says he will miss the camaraderie and friendships with his work colleagues and will need to become involved in the community.

CASE STUDY

Stock image

There is plenty of work in fixing up their old house over the next few months, sticking to a tight budget. They allocate $12,000 a year to a sinking fund for maintenance, furniture and appliances. This covers everything from repairing a fridge to replacing the roof.

Leo says they could spend a spectacular amount of money on home improvements, but a budget of $500 a month will limit the impulse to do it all at once. "It will force us to be mindful about our spending: will it be a roller-door on the carport or a picket fence or a water tank? We could easily plonk down $200,000 on the house. There's no limit on what you could do if money is no object."

Leo enjoys problem solving and analysis. He is interested in a financial counselling course and helping people who genuinely want to turn their finances around. He wants to work or volunteer one day a week, as does Alisha. "We want to keep our minds active outside the kids," he explains.

Alisha has many interests, from designing kitchens to creating green "living" roofs. Leo's employer is offering him an occasional contract, so he can always go back to some work if he misses the action.

The FIRE community was important for Leo and Alisha in the early years as they were learning how to save and invest. But as their savings grew in the "boring middle period", as Leo calls it, they managed their own investments. "We do tune in occasionally," says Leo. They were thrilled to see there was a local FIRE Facebook group, which they recently met up with.

LEO'S HOUSEHOLD SPENDING

CATEGORY	Nomadic family/pa	Retired family/pa
Primary residence – rent	$6000	-
Primary residence – repayments	-	$10,200
Primary residence – maintenance	-	$7000
Primary residence – furnishings	-	$5000
Primary residence – rates	-	$3200
Primary residence – utilities	-	$2600
Primary residence – insurance	-	$1200
Groceries	$3000	$12000
Clothing & personal care	$4800	$4800
Health & medical (sinking fund)	$3600	$4800
Health Insurance	$2400	-
Eating out, coffee, drinks	$4500	$4200
Phones, laptops, devices	$1000	$800
Toys, craft, sports equipment	$600	$500
Sports fees & tickets	$600	$3800
Holidays	$2400	$7000
Telephone, internet, streaming	$400	$1500
Car – insurance, rego, fuel, repairs	-	$3600
Car – replacement (sinking fund)	-	$1500
Public transport, taxis	$600	$600
School – levies, uniforms, excursions	-	$2400
Gifts, donations	$1200	$1800
TOTAL	$31,100	$78,500

TIP

Automate your savings, perhaps by asking your employer to send a portion of your pay directly to an online savings account or using the pay-splitting feature in the Up bank app to automatically fund all your savings buckets. Also, focus on getting the big things right.

Leo recommends finding an attractive career path and a modest house in a walkable area. "Don't sweat the rest. Keeping minimalism and environmental impacts at the forefront of my mind helps."

This helps reduce kid clutter. "I feel proud that I can take my kids down the toy aisle, they can happily browse, but our four-year-old will say, 'That's nice, but it's made of plastic and I don't think I would play with it enough.'

"We don't do fad toys and the four-year-old is already great at spotting ads on TV and the internet and saying, 'They're trying to make us buy stuff.' We encourage family to gift experiences, consumables or clothes, rather than toys, at birthdays and Christmas."

TIP

Keep on the FIRE journey when you have children. When Michelle was expecting her son, people liked to tell her that financial independence wasn't possible when budgeting for a baby.

"Are kids so expensive that our only destiny is to forever bounce from one pay cheque to another, always sacrificing in order to make ends meet?"

Michelle and her husband lived on one income early on, saving the rest in a separate baby fund that was dedicated to buying baby things they needed as well as a buffer if she decided to take more time off work.

They saved $15,000 for big-ticket items such as a car seat, modern cloth nappies and a doula.

Rather than buying marketed baby products, she saved thousands by getting things free or second-hand on Facebook Marketplace and pay-it-forward groups.

"I cannot stress this enough – people are so generous once they know you're expecting. I'd go and pick something up and I would be presented with an array of other things offered up as well," says Michelle.

She estimates she saved as much as 90% on the retail price by buying second-hand.

Michelle

AIM: Retire in a few years by having saved 80% of earnings for the past seven years.
INCOME NEEDED: $80,000-$100,000 a year in passive income.
INVESTMENT STRATEGY: An investment property and super plus a share portfolio of ETFs and LICs that holds 40% in global (ex-Australia), 20% ethical, 20% US, 10% Australian and 10% emerging markets.

What prompted Michelle Ives to take the journey to financial independence is clear to her: "It was the notion of sitting at a desk five days a week, being barked at by a boss until I am in my 70s.

"I saw an opportunity to buy back my life, and I'm taking it," says Michelle, who started the *That Girl on Fire* blog three years ago. On it she writes about her family's journey of saving, minimalism, money management, investing in property and superannuation.

Michelle, with her husband, whom she affectionately calls Captain Babestick, have been on the FIRE journey for seven years. They typically save and invest 80% of what they earn. A couple of years ago they had a son and Michelle is determined that financial independence can still happen with a child.

But their life changed when the pandemic began two years ago. Their small inner-city home didn't fit with working from home and a colicky baby. They bought a bigger house out of the city when the real estate market was weak and experts predicted home prices would fall. Since then, their bigger home has more than doubled in value.

Michelle runs her own business. But even loving her own business and the flexibility that gives her, she still wants to be financially independent. "I still feel this way, even as a fully self-employed person of five years who loves what they do and how they work," she says. "It's a very, very powerful feeling to have financial control over your life.

"Stress and anxiety around money affects self-worth and has a knock-on to almost every core relationship, so particularly as a woman, it's important for me to create and have financial independence."

Michelle loves the term "FU money".

She says: "Without sounding crass, it's a very important thing as a woman in this world to have the power to leave a job, a place or a bad situation without needing help or depending on someone.

"Money doesn't define me, but it certainly makes me feel more secure in the world and in myself."

It is worth all the scrimping and saving, she says. How did they do it?

"We're big proponents of printing out and analysing your spending with a fine-tooth comb," says Michelle. "Take a bank statement from any given month and highlight every purchase that you either don't remember making, don't know what is, or can see did not bring you sustained happiness beyond the initial dopamine hit."

They pared back their spending and made a habit to spend mindfully. They found that they had larger amounts to work with.

"The next step was automating how we saved. So, as soon as a wage or invoice was paid, it was spit-balled into different accounts straightaway: 25% to mortgages, 10% to emergency fund, 30% to share trading account, 5% to pet fund, 5% to the bills account, where the debits were set up.

"As a self-employed person, I also keep some aside for tax and pay a lump sum into my superannuation fund. Any left over is for fun and frivolity." This takes away the mental load and gives them a clear amount to play with. Some people find it helpful to have this in a separate play account or withdraw it as cash. When the cash is gone, it's gone.

"This engagement with money has led to me learning about all sorts of different structures of wealth – like trusts and tax, for example," says Michelle. "I was able to jump headfirst into starting my own business because I wasn't afraid of any of the unknowns of setting it up and running it."

CASE STUDY

Relaxed ... Michelle says having some money makes her feel more secure.

ROB SHAW

For retirees who can't give up creature comforts

When Leif, a 43-year-old doctor in the US, retired from medicine, he started a new version of FIRE called fatFIRE, which has a Facebook group and website called physicianonfire.com. Instead of living off the average budget, he wants an income of $100,000 a year. One of the reasons, he explains, is the rising cost of health-care in the US for early retirees. "The ability to spend $100,000 a year based on the 4% rule requires retirement savings of $2.5 million or passive income streams that add up to an equivalent budget. $100,000 a year isn't a steady diet of caviar and champagne, but with a paid-off mortgage and no work-related expenses, $100k can go a long way."

He says fatFIRE is early retirement for entrepreneurs and high-income professionals who choose not to fully embrace frugality or give up certain creature comforts that have become customary. "It's financial independence for the well-heeled," he says.

Having a bigger income allows people to be more generous and travel more. More money means more choices, explains one fatFIRE follower. Another says he feels more bulletproof against any blows to a FIRE plan.

But to get to fatFIRE, you probably need to have a highly paid job with a six-figure salary to save up $2.5 million.

Serina Bird, 49

RETIRED at 47 and went back to work two years later (briefly)
INCOME NEEDED: $60,000 to $70,000 a year for a family of four
INVESTMENT STRATEGY: Three investment properties, shares and exchange traded funds. Selling an investment property and buying ETFs.

When you are financially independent, you have plenty of choices. So when Serina was asked if she wanted to return to her old job for a short-term contract that was full-time in the office, she said yes. “I wasn’t back in a permanent capacity,” she says. “It was great to reconnect with old friends.”

The money came in handy for unexpected expenses such as her husband’s root canal work and a son’s expensive, extensive orthodontic work.

When her contract was over, she was offered ongoing employment. She says that even though she had retired early, she loved the intellectual rigour of the work. She discovered that the back door to a much-sought-after job wasn’t shut forever.

But in the lockdown, it was hard to juggle work with her two primary school aged sons home from school. Her husband, Neil, was away. “In the end I decided the call of my business start-ups was too strong,” says Serina, who launched two online businesses, The Joyful Business Club, to help businesses led by women, and the Joyful Fashionista, a platform that allows people to buy and sell second-hand clothes – as Serina describes it, “a giant op shop online”.

“I love it. I really love being able to take my crazy ideas, run with them and see how far I can go. Being able to live aligned with values on my terms is fabulous.”

Early retirement, no mortgage or other debt, a modest lifestyle and an income from investments has given Serina flexibility so she can schedule her online businesses around taking her boys to sport and other commitments with no guilt.

“I don’t think FIRE is just marginal anymore. People want more out of life. I think we had been sold a dream of how work equals purpose, but now many people are questioning whether their work aligns with their values,” says Serina.

“Are they actually contributing to making the world a better place? Or does their boss just want to make lot of money out of them? The ‘great resignation’ is a thing, and most employers don’t get it.”

In the midst of the pandemic, Serina also wrote a second book, following *The Joyful Frugalista*, about her money secrets to help women save and live their dreams. *The Joyful Startup Guide* comes out this month and is published by The Kind Press. It is full of advice on setting up a business and moving through all the stages and obstacles to get it up and running. “The book is a guide for women, encouraging them to follow their entrepreneurial dreams,” says Serina.

Her enthusiasm for supporting people on their financial journeys includes coaching and podcasting. She is also the ACT ambassador for Women’s Entrepreneurship Day in November. Her podcast series, joyfulfrugalista.com/podcast has recorded 73 interviews so far. She has started a new networking group with a friend from the Canberra Innovation Network as well as being involved in her local Zonta club, a women’s rights groups.

Serina and Neil have been keen property investors, but in December they decided to sell a property that needed significant renovations. “We probably sold a bit too early. We didn’t make a huge profit, but we haven’t lost money on it,” she says.

They will invest the money in exchange traded funds and eventually sell their other investment properties. Employer superannuation plays an important role in both Neil and Serina’s retirement plans. Both will receive defined benefit pensions when they reach retirement age.

With the property market booming, particularly for houses, Serina is not so sure she will be buying a house, a plan that has been in the back of her mind. She sold her family home after her first marriage, swapping it for an apartment close to the city so she can walk to most places such as the shops, meetings and the boys’ schools. It is perfect for their lives, but she says she had thought that one day they would move into a house. “Now I’m not sure that is possible.”

While lots of FIREs don’t like the word frugal to describe their lives, Serina loves it and sees it as liberating and fun, not deprivation. She has posted plenty of challenges about not spending or buying new things. Feeling more financially comfortable, Serina says they have become more relaxed with what they spend.

She used to spend $120 a week on groceries but now she spends $150. Her monthly spending is between $3000 and $4000. She is booking some holidays for the family this year.

Serina is a keen follower of the evolving strategies of the FIRE movement. In the past few years she has booked into FinCon, an annual conference in the US for FIREs, but the pandemic stopped her going. The conference catchphrase is “Money Nerds Unite”. With the pandemic causing so much upheaval, she is looking forward to hearing the speakers’ perspective this year (Orlando, September 7-10).

TIP

Be flexible on the FIRE journey.
Serina is an expert in pivoting when the unexpected comes along, such as her husband Neil’s heart attack.

MARTIN OLLMAN

CASE STUDY

Getting more out of life ... Serina has launched two online businesses.

Seven great ideas for saving

What are some of the key FIRE savings strategies?

- Get out of debt.
Make paying down any credit card debt a top priority.
- Live close to where you work.
Walk, cycle or take public transport. For example, if you live a long way from your work, the costs can really add up if you drive a car. If you are going 20 kilometres, you could easily spend $120,000 over a decade and if you drive a family sedan it could be $150,000.
- Become a great cook.
A $100-a- week restaurant habit is $52,000 every 10 years. A $12 lunch twice a week adds up to $12,480.
- Stop buying stuff.
Don't spend your weekend browsing the shops or looking online.
- Make extra payments if you have a mortgage.
- Cut your grocery spending.
Buy whole ingredients instead of packaged meals. Stock up at the cheaper supermarkets.
- Don't spoil your kids.
Do they really need the best of everything? More important than expensive holidays and clothes is spending time with them. Take up free, healthy activities such as bike riding or going on nature walks and talk to your kids about the wonders of the world. Lure them away from the screen and read them a book.

CASE STUDY

Tasha

AIM: Financial Independence. To buy a tiny house and a block of land.
INCOME NEEDED: $55,000 a year.
INVESTMENT STRATEGY: Save. Keep an emergency fund and buy Vanguard funds with savings.

Doing it her way ... Tasha, with her son Ryan, is saving to buy a tiny house.

When Nataasha Torzsa, known as Tasha, came across the concept of financial independence on Instagram, her spending was out of control. She was $11,500 in debt, which she shuffled around on credit cards. She had no savings or emergency fund.

Tasha, who was single, really wanted a baby. But financially it wasn't an option, unless she signed on for the FI journey. To hold herself accountable and stay on track, she started an Instagram blog called *tashagetsfrugal* in 2017.

"Having a supportive community can be the difference between success or giving up," says Tasha about how they celebrated her wins and encouraged her at every step.

Tasha learnt a great deal from her followers, particularly about cooking. "Cooking is something I don't really like doing and spending money on food is my biggest weakness," she admits. "Learning ways that I can cut back on the cost of food and create recipes that are still yummy is very helpful."

Tasha also learnt about side hustles to boost her savings, such as having a business, house sitting, pet sitting, dog walking, and doing surveys and market research.

Within 18 months, she was debt free, helped by cutting back on expenses such as personal training and gym membership, plus taking a second job on the weekends on top of her full-time work. She spoke to her real estate agent and extended her lease, scoring a $50 a week rent reduction.

Her savings got a kick along when she was made redundant, helping her plans to have a baby.

"There is no way I would have had a baby in my previous situation. One of the reasons I started on a debt-free journey was so that I could have a baby on my own and be financially stable enough to raise my child and not be stressed about money," says Tasha.

In December 2019, she fell pregnant. "Once you've got some savings behind you, it makes you feel more in control, less worried," she says.

She shared a house to keep her rent and utility bills low. She funded her year of maternity leave from two and a half weeks annual leave, 14 weeks of paid employer maternity leave plus 18 weeks paid government leave at the minimum wage.

Her son Ryan was born at the end of August 2020. Thanks to her frugal living, she bought everything that he needed, apart from his car seat, from Facebook Marketplace.

"That's everything from the cot to his pram to clothing. I saved hundreds, maybe thousands, of dollars buying second-hand. His cot was half the price of brand new. The pram was about $500 off the price of a new one," says Tasha.

She points out that babies don't need brand-new items. "They don't care if

RICHARD WBHITFIELD

TASHA'S JANUARY SPENDING

CATEGORY	%	$	notes
Savings	22%	$1389	Bond refund went back into savings
TOTAL		$1389	
Food	22%	$1394	Just ... don't even ask me ... ha ha
Housing	23%	$1420	
Auto & transport	4%	$260.09	
Utilities	7%	$409.03	Had to pay the final electricity bill for the old house.
Shopping & entertainment	11%	$662.98	Bought some new nappies and planner stuff among other things
Gifts & donations	1%	$40	
Health & medical	2%	$149.74	
Home insurance	0%	$26.32	
Kids activities	1%	$85.58	
Daycare fees	6%	$360.15	Daycare is slightly higher as there are 5 weeks instead of 4 in this month's payments
TOTAL	$	$4807.89	

TIP

Take the FI journey slowly. Don't dive in too far initially. "For example, cutting absolutely everything from your budget doesn't help as people then feel far too deprived and can sometimes crack and give up," says Tasha.

Cut things out in stages and give yourself a small amount of money to spend freely so that you don't feel so restricted.

"Also having that support behind you helps in those moments when you feel like you can't do it. You need someone on your team."

Life's one long holiday

Some of the most inspiring and compelling FIREs are the ones who are using their income to travel full time. There are plenty of countries that are more affordable to live in than Australia.

Take Go Curry Cracker!, a website by Jeremy Jacobson and Winnie Tseng, who say:

"By living in a small apartment in an old building, walking and biking instead of owning a car, and preparing most of our meals in our own kitchen, we were able to save a large percentage of our income."

Instead of buying products and services, they learned new skills that reduced their expenses even further. "By learning to invest, we turned those savings into a respectable income stream. Now still in our 30s, instead of two weeks of vacation a year, we have 52."

Some FIRES are attracted to the freedom to travel that an independent income gives them. But Covid has put a stop to travelling as freely in the past few years.

something is second-hand. They also outgrow clothing really fast, so buying brand-new doesn't seem worth it when they wear something for only three months. Anytime I am looking for something for Ryan, I first check Marketplace."

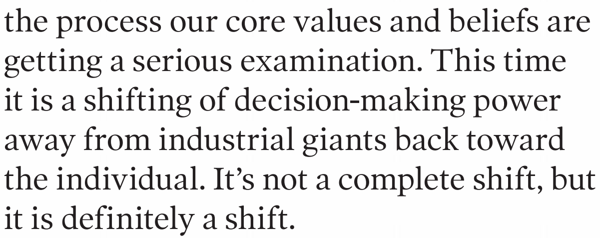
As a single mother, her focus is on Ryan and enjoying her life with him. She works three days a week in a job she loves and remarkably saved almost $10,000, or 22% of her earnings, last year, blogging about her spending and saving on Instagram.

"Once you've got enough savings behind you, you do learn that it's possible and if you have a period of time where you don't save anything you know that you can still do it and you'll be able to get back to it," says Tasha. She lives on her own with Ryan, so her costs are higher. "I don't have any sort of loan or credit card. I don't owe any money aside from my HECS."

Tasha's dream is to buy a tiny home and a block of land. "I'm still only about 45% to my goal to be able to build a tiny home. The savings goal is about $100,000. Once I've got that, then I can look at getting a home built and finding land. I'm also hoping that the local laws change in that time and living in a home on wheels for extended periods of time becomes legal. Currently it's not actually legal to live in a tiny home as they're classed as caravans."

Tasha likes the idea of defying the norm, doing what we want and having more freedom in our lives.

"Why should we spend our lives in the typical 9-5, get married, have kids, buy a house with an expensive mortgage, be in debt. It's not the only way to live. *M*



Ease the work-life conflict

The pandemic has supercharged the digital revolution, forcing us to reconsider what is important to us

One of the most enlightening consequences for many during the pandemic has been the realisation that trading off family time in the pursuit of a few extra dollars just doesn't seem to be worth it. This has been discussed quite a bit in the media at a surface level, but it's much more interesting when you dig a little deeper. This is not just about leaving time-hungry careers for simpler, more family-inclusive jobs; this is a fundamental realignment and re-examination of our core values and dealing with what psychologists call cognitive dissonance.

Cognitive dissonance is fascinating. Basically, it explains the painful feeling you get when what you do doesn't line up with what you believe. When your actions and behaviours diverge you get a mental (cognitive) headache (dissonance), a pain that you instinctively seek to resolve as quickly as possible. This is done by either changing your behaviour to match your attitudes or, much more likely, changing your attitudes to match your behaviour. We like to think our attitudes direct our behaviour, but it's much easier to change attitudes than behaviour and our brain loves finding the easiest pathway to resolve pain. It's why organisational culture is so important.

Commonsense says that personal values drive attitudes which drive behaviour, but it's more often our behaviour that shapes our attitudes, so we feel okay about what we are doing, which then shapes our values. So, is it such a surprise that a dramatic shift in daily routines over a long period has resulted in cognitive dissonance for many as we consider return-to-work options? Over the past two years, the pandemic has supercharged the digital revolution and forced us to examine what is important to us.

Since we emerged out of the agricultural age into the industrial age, we were required to physically turn up to workplaces to attract the needed resources to live, sacrificing many of the family and social values that we as tribal humans held dear. But that was alright, because we changed our attitudes to match our behaviour. Working with your hands became less popular and a new white-collar class emerged. The new way of working fundamentally shifted our core values to help resolve the pain of cognitive dissonance.

Hundreds of years later, we once again find ourselves at one of those incredible times in history when a technological revolution fundamentally changes the way we live – this time transitioning us from the industrial age to the digital age, and in the process our core values and beliefs are getting a serious examination. This time it is a shifting of decision-making power away from industrial giants back toward the individual. It's not a complete shift, but it is definitely a shift.

However, it's not a given that your behaviours always direct your attitudes and values; it's just that it's easier. Chaos and disruption of routine feel uncomfortable and annoying because it forces us to think. We can use our values to drive our decision making and design our world. Some good examples of this are when someone has a deep religious experience that causes them to change their job, or someone realises they're in an abusive relationship and musters the courage to change their circumstance. If we define what is important to us, we can change our lives and reduce the cognitive dissonance we feel by adjusting our behaviour to align with what is important to us.

So how do we do this in reality? How do we take advantage of the chaos and change to consciously and systematically re-evaluate our core values to make tomorrow better than it was yesterday?

To address both questions, I encourage people to look at the three big areas of their lives that encapsulate every decision we make. These are your health (physical, mental and spiritual), your wealth (and the way you attract resources to live) and your social connections (your family, friends and community).

No other decision falls out of any of these areas, so if we can articulate with clarity our values in each of them, we can give ourselves the best chance of our values guiding our behaviour – and not the other way around. (See Keep digging to strike gold.)

Phil Slade is a behavioural economist, psychologist, and co-founder of decision architecture firm Decida.

Keep digging to strike gold

Carve out some time to focus on big areas of your life. A good place to start is health. Write down what you would like to achieve then complete the statement: "This is important to me because ... " Try to get to the crux of your response. For instance, if losing weight is your goal, it might be to live a long and healthy life, but that is important because you want to model resilient behaviours to your children. Living a long, healthy life is not your value; leaving a legacy is. Keep asking the "why" question until you land on this insight. You will know it when you find it.

Repeat the above process for your wealth (how you earn money, invest and spend resources) and your social connectedness (family, friends and community).

You should start to see a pattern emerging where many goals seem to stem from the same core drivers – your values. Write a list of values and make the behavioural changes accordingly. Understanding which area is more important than the other, while also making sure that one of the other areas isn't completely neglected, is crucial in making daily trade-off decisions.

Boost for small businesses

There's a banking loan that helps small businesses get back on their feet but it's only available for a limited time

Small business owners have until June this year to take advantage of a special loan designed for those affected by the pandemic and last year's floods. Under the federal government's SME Recovery Loan scheme, participating banks and financial institutions offer business loans with zero-to-low interest rates and with more flexible repayment terms.

The name of the product varies between lenders – and not everyone offers it – but if you're a small business owner who can demonstrate the impact of Covid or the floods on your business in 2021, you can simply contact your bank and find out the loan that falls under this scheme instead of a conventional business loan or extending your current loan.

Backed by a 50% government guarantee

Part of the reason the loans have a different set of terms is that the government guarantees 50% of the loan. This contrasts with an earlier version in 2020, which had a 80% guarantee. It's best to check with your bank or lender about how your loan would be structured if you've already applied for a similar product but under the earlier scheme with the higher 80% guarantee.

The original scheme stopped taking applications at the end of December, but it was extended until June albeit with the lower guarantee.

Capped at 7.5%pa interest rate

The government has also secured small business owners the pre-condition that no bank can offer more than 7.5%pa interest rate under this scheme. This means that loan applicants can get a better deal than comparable personal loans or commercial loans in the market.

A scan of the major banks – ANZ, Commonwealth Bank, NAB and Westpac – shows that interest rates offered are often less than half this capped rate. For example, NAB offers a 2.8%pa variable rate for secured loans depending on eligibility and 3.95%pa for unsecured loan up to $250,000.

Commonwealth Bank is worth including in your shortlist with its zero per cent interest offer on its Business Boost loan, but check all the fees and penalties that come with the contract. It is also only available until June.

Secured versus unsecured

The rates vary depending on the amount you are looking to borrow and what security you can use against the loan. It's best to check with your lender, but in general the percentage difference can be as much as 1% or more depending on the asset.

Suncorp Bank, for example, offers a low 2.39%pa variable rate for secured loans, rising to 4.69%pa if unsecured. For unsecured loans, the maximum amount most lenders would approve is $250,000.

Repayment holidays

One of the biggest drawcards of this loan is the option to take a repayment holiday. Some banks offer six months while others can offer up to a year or two, depending on individual circumstances.

Under the government mandate, two years is the maximum period allowed to defer repayments. As all loans under this scheme are for a loan period of up to 10 years only, deferring payments for a couple of years means you will have eight years to pay the full amount (the loan, under its more favourable lower interest rate, cannot be extended beyond this amount).

The consequence of temporarily stopping your repayments include additional interest on top of your pre-negotiated interest. (For example, it could be a 0.3% additional interest if you ask for a repayment holiday).

Fees and waivers

Another reason small business owners should look into this loan before the June deadline is the lower servicing costs. You still have to cover any government-related fees or valuation fees if the loan is secured against commercial property, but there are generally no upfront or ongoing fees.

Some lenders do charge establishment fees while others, if you want a redraw facility, charge a fixed amount (usually a few hundred dollars) every $5000 increment that you draw down from the loan.

Grant Cairns, executive general manager in business lending for Commonwealth Bank, says it offers financial assistance, on a case-by-case basis, for flood-affected businesses. This includes loan restructuring and merchant fee waivers.

"We understand each business is facing different challenges and opportunities at this time and encourage our customers to speak to us about how we can help meet their business needs," he said.

For eligibility rules and a list of participating lenders, go to treasury.gov.au/coronavirus/sme-recovery-loan-scheme.

Michelle Baltazar is editor-in-chief of Money. *She has worked on various finance titles including* BRW *(now closed) in Australia and* Shares *magazine in London.*

Diary of a super fund in a crisis

STORY
IAN PATRICK

Australia's second-biggest super fund, the newly formed Australian Retirement Trust, was quick to react to the Russia-Ukraine conflict

This situation could not have been more unique: the significant escalation of the Russia-Ukraine tensions coinciding with our merger to bring together two of the largest funds in the country, QSuper and Sunsuper, to form Australian Retirement Trust, and severe flooding in Brisbane, where most of the fund's 2500 employees are based.

While both investment teams were working together to deliver the merger successfully, they were still managing independent portfolios in the face of the crisis. Given the competition protocols that exist in a merger of this nature, both teams were working independently with daily meetings to discuss the evolving conflict.

Monday, February 28: Making the decision

When the teams came together for the first joint discussions, one thing became apparent. While both teams were having similar macro and geopolitical risk conversations, there was one obvious difference. The Sunsuper team had been spending a part of each daily meeting examining Russian exposures and considering the strategy for managing them, but the QSuper team had excluded investment in Russia within their portfolio due to the sanctions that had been in place since 2014.

This difference was a catalyst for me to initiate an immediate review. The behavioural question you should always ask yourself as an investor was ringing in my ears when observing that differentiated position, "If you wouldn't buy it today, why aren't you selling it?" Taking a step back, we asked ourselves that exact question. Forget about how much the value of our Russian investments has fallen, would you buy them today?

So first and foremost the decision to divest was an investment-led one. On review, we felt that there was substantial further downside risk. People often say, "don't fight the Fed". It goes without saying, "don't fight the Fed and every other central bank and every government and regulator around the world at the same time!" We identified two likely catalysts for further downside: the first was a removal of Russia from the major equity indices; the second was more pressure from governments on institutional investors to divest. With both these events being potential risks in the near term, we felt that speed was of the essence.

We also examined the divestment from a responsible investment perspective and felt it was the right thing to do. Our actions were aligned with a global push to enforce sanctions on Russia as a result of its invasion of Ukraine. It was clear that from a social and a governance perspective that divestment was the right decision.

Tuesday, March 1: Instructing the managers

With that clear alignment between members' best financial interests and doing the right thing, this was perhaps one of the easiest investment decisions I have been asked to

DAVID MATTHEWS

approve. By Tuesday we had issued instructions to all our managers to divest. By Thursday morning, almost everything that could be divested had been.

Thursday, March 3: Telling members what happened

Maintaining our focus on members' best financial interests, we felt it prudent to keep our actions confidential until they had been executed to the best of our ability. On Thursday we were confident that we could make a public statement on our website to let our members know the actions that we had taken.

Alignment is a key focus throughout our investment process. Firstly, we seek to select external partners who are aligned with us. Pleasingly, all our managers responded quickly and efficiently to implement the instructions. More importantly, it has been clear throughout that we have been fully aligned with our members in making this decision. Their feedback has been strong and unanimous in support of our actions.

It is a testament to the team that on their very first day as a single unit, with both Brisbane offices closed due to flooding and with many team members personally impacted, they could come together so quickly to meet this challenge.

> It has been clear we have been fully aligned with our members in making this decision

What changed in a week

The fund's exposures were very limited even before the crisis. For example, Russian shares accounted for less than 0.2% of the Australian Retirement Trust Super Savings account assets. Its debt exposure was even smaller, at less than 0.1%. Its Ukrainian exposure was a very small debt exposure of about $6 million, which was less than 0.1% of total assets.

Meanwhile, in Australian Retirement Trust's QSuper account assets, there was no exposure to shares or bonds in either Russia or Ukraine and very limited exposure to the surrounding region. ***M***

Ian Patrick, CFA, is the chief investment officer of Australian Retirement Trust, the country's second biggest super fund with more than two million members and more than $230 billion in funds under management.

Economic sanctions

The Australian government has taken a range of economic measures against Russia in response to its invasion of Ukraine.

As at March 1, it had sanctioned more than 350 Russian individuals, including oligarchs, members of Russian parliament and military commanders.

In a joint statement, Prime Minister Scott Morrison, Minister for Foreign Affairs Marise Payne and Defence Minister Peter Dutton confirmed Australia has also sanctioned 13 Belarusian individuals and entities, including the Minister of Defence, Viktor Khrenin, whom the government considers as aiding and abetting Russian President Vladimir Putin's aggression by allowing Russia to launch attacks from Belarus.

The Australian government supports economic restrictions on Russia put in place by the European Commission, France, Germany, Italy, the UK, Canada, and the US.

These measures include the removal of selected Russian banks from the SWIFT global payments messaging system. They also include measures to prevent the Russian central bank from using its international reserves in a way that undermines sanctions.

Further, so-called "golden passports" for wealthy Russians connected to the Russian government will be limited and a trans-Atlantic task force has been established to identify and freeze the assets of sanctioned individuals and companies.

"Together, these measures will impose severe costs on the Russian economy by disconnecting its key banks from the international financial system and disrupting Russian trade and investment flows. They will also paralyse Russia's foreign reserves and prevent Russian officials and elites from accessing key financial systems," the ministers said. ELIZABETH McARTHUR

Tap into the power of the brain

Whether you want to amass wealth or lose weight, if you set small goals you can achieve big things

It is relatively safe to assume that throughout human history, most people who achieved anything of significance only did so after setting a goal. I want to climb that mountain, win that competition, achieve that status, conquer that country, be that person. Even people who were incredibly fortunate to find themselves in positions of power due to chance or birth right never did anything of significance in those roles until they had a goal they wanted to achieve. Why is this so? Why is goal setting so crucial to performance?

Essentially, our brains are hardwired to love to win, but without something worth winning we find ourselves lacking the motivation to set out to achieve something. As soon as we have a psychological marker that articulates what winning means, our body releases chemicals in our brain that help us overcome the pain of effort and, better still, reward even the thought of winning.

Goal setting defines to our brain what a win is, activating our automatic emotion centre (the amygdala) to pump energy into both our conscious brain (to concentrate and work harder to solve problems) and our physical body (to overcome obstacles and push through pain). This is why setting health goals, financial goals, relationship goals and mental health goals is so important. Without goals, we simply have no energy to achieve bigger things. Goal setting is therefore the ultimate brain hack.

What is interesting is that we often don't set goals for our overall wealth like we do for large expenses like holidays, homes or luxury purchases. We don't often say, "I want my wealth portfolio to be worth $5 million in 10 years." Imagine yourself setting this goal and how that would change your decisions or behaviours. Does it scare you? Could it be achieved?

If the answer is yes to both of these, then it's probably not a bad goal. But this feels much harder than simply saving for a holiday. One reason is that we can't "purchase" our future wealth like we can a car or a unit, which makes it harder to define the "win". However, imagine if you considered the $5 million a loan that you had to pay back your future self. It feels more definable as a goal, more like a concrete finishing line, more motivating.

It is worth noting that even with the activation and motivation that comes with setting goals, attaining them can still be really, really hard. It takes focus, dedication, commitment, delaying gratification and denying ourselves other pleasures. There is no gain without some pain. But, the joy and satisfaction of achieving, of winning, is well worth the sacrifice.

Another great brain hack to help stay the course is to set multiple small goals that keep your reward system active on the way toward achieving your ultimate aim. If we want to lose 10 kilograms, we're best to set a goal of losing 500g every week for 20 weeks, or 250g every week for 40 weeks. Likewise, setting weekly spending or earning goals and getting small hits of reward along the way is much more effective than simply focusing on the end goal, where you're likely to run out of motivation after a short time.

Use goal setting to your advantage. It's your inbuilt motivation machine that is purpose built for your success.

Phil Slade is a behavioural economist, psychologist, and co-founder of decision architecture firm Decida.

5 small keys to unlock your motivation machine

1. Set goals that are achievable, but also a little bit scary. Push yourself beyond your expectations and don't let your self-limiting beliefs trick you into small-mindedness. Better to aim high and miss than aim low and hit.

2. Break down big goals into small chunks. This will help keep you on track and hack your brain's reward system to keep you going when things get tough.

3. Control frustration. We all know that feeling of being "in the zone" as we sharpen our focus and efforts to achieve a goal, and how frustrated we can get when someone or something tries to stop us achieving our target. Frustration can be an energy vampire that robs us of perspective and our ability to rationally solve the problem.

4. Reframe fear as excitement. Nervousness and anticipation look remarkably similar in the brain. Fear leads to reactive, limiting decisions, but excitement embraces opportunity and keeps you in control.

5. Create simple rules. Try not to complicate things. Set up simple routines, clear spending rules, and simple investment rules. This helps conserve brain energy to focus on the things that matter, and how to better achieve your goal.

When it's time to quit

While most owners soldier on, sometimes there's no alternative to shutting shop

Many businesses experience peaks and troughs, and according to the Small Business Association of Australia, 20%-40% of companies across most industries are in trouble because of 24 months of upheavals spawned by Covid-19. When times are tough, how can you tell whether you're going through a cyclical trough or a terminal decline?

Anne Nalder, founder and CEO of the Small Business Association, says recognising a terminal decline varies depending on the business. "Like in life, business goes up and down. Yet one of the biggest mistakes is being too urgent to close a small business rather than looking to see if it can be restructured. After all, a big business won't shut down just because it hits a speed bump."

Cash flow and profits

All small business owners aim to have decent cash flow and make a profit, so it might be time to pull up stumps if neither is happening. "If there is insufficient cash flow to meet the demands of the daily running of the business, or you can't pay your creditors even if they agree to payment terms and the market has dried up, it might be time to call it quits," says Nalder.

According to Credit Watch, the number of court actions against businesses "looks to be emerging from its slumber". Compared with the three months to January 2021, the number of court cases is up 58%.

Despite these statistics, Nalder says it is difficult to tell if more small businesses are in trouble as most owners try to keep the doors open. "Generally, small business owners don't close shop if the going gets tough, but rather try to work through the downturn. However, if the business has too much debt that can't be repaid even with a loan injection, it might be time to close."

Even big global brands such as Kodak, Blockbuster and Nokia suffered when demand dried up. That said, after two years of Covid tribulations, it appears that some Australian SMEs are closing their doors not because the market for their products and services is down. Rather, there aren't enough staff to go around, while supply chain issues are also cruelling operations. Even successful businesses are reducing their hours due to staff and stock shortages.

According to the Australian Bureau of Statistics, nearly a quarter (22%) of employing companies have employees currently unavailable due to factors related to Covid-19, and almost half (47%) of all businesses are experiencing supply chain disruptions. Moreover, small businesses were more likely to be significantly impacted by supply chain disruptions (36%).

"It is complicated to gauge what is taking place now," says Nalder. "It's a mixed bag. There is much inconsistency with mandates that include close contact tracing. Loans are difficult to get due to messy balance sheets, and there are still plenty of staff working from home."

Unlike offloading an investment property to free up debt or improve a personal financial position, selling a small business unless it is unique or has prospects or a healthy balance sheet is challenging.

"Selling a business depends on its location, the type of business it is and if it has potential. That said, it is not a healthy selling market in many parts of Australia right now for business owners," says Nalder.

Craig Lowth, a licensed business broker from Wilsons in Newcastle, says that an owner must seek advice before attempting to sell a struggling business. "Before selling, you need to get expert advice as quickly as you possibly can and identify the cause of the issue, whether it's the margins, faltering demand or whatever. It might be that the business is not viable, and you must stop it as quickly as possible to stop the bleed.

"As soon as you can, get some tough advice, whether it's from an independent accountant, business adviser or an insolvency expert. It might cost you $300 for a meeting, but you'll get frank advice. You don't want someone who will sugar-coat the truth. A one-off meeting with an external consultant can be far better than a familiar face looking at the same information with the same rose-coloured glasses."

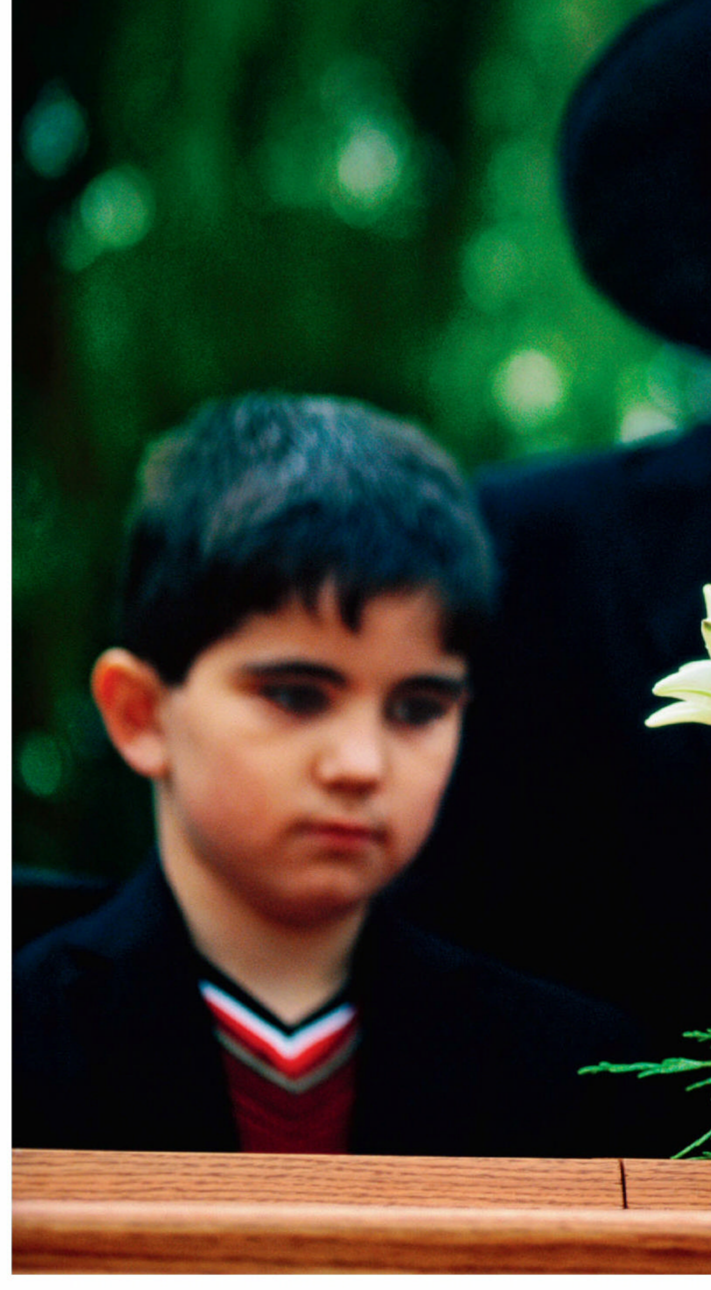
Nalder recommends that owners considering closure evaluate the business and why they wish to quit. "If shutting down is the logical course of action, be sure to seek professional legal advice. If it is not closed correctly, the business owner is still legally liable. Also, failure to obtain the right advice can result in the loss of the family home if there is a secured mortgage tied to the business."

Finally, Nalder urges business owners to consider bankruptcy as the absolute last resort. "There are better ways with less pain to get out of a business."

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

How to avoid the ultimate rip-off

When a loved one dies, there are many financial and emotional challenges for the next of kin to face



Losing a loved one is hard enough, particularly during a pandemic, but what comes next can sometimes be complex and costly. There is organising the funeral, tracking down a will and winding up the estate. You have to tie up loose ends such as bank accounts, superannuation, health insurance, social media accounts, donations to charities, credit cards, car registration, the electoral roll and Services Australia, if there were any government benefits.

It can be overwhelming and often people are in the midst of an emotional storm and dealing with family tensions. If you have never done it before, you are vulnerable to being ripped off and paying too much as well as making decisions that you may regret later.

What steps do you take – and how much do you pay – when a loved one dies?

Work out what you can do yourself and when you need to engage experts. The tasks may be shared among willing family members if they get on and are agreeable about dividing up the estate. This can keep the fees down.

But if some family members insist on lawyers, trust companies, valuers and accountants, be aware of the fees they charge. The Law Society of NSW recommends shopping around for a solicitor, but warns that the cheapest may not be the best. It suggests checking the solicitor's experience in estate work.

The first place to find out what you need to do can be found in the helpful information from government and professional groups. This will help guide you through the labyrinth.

When my mother died, moneysmart.gov.au, as well as state government and court websites, helped me navigate through a funeral and winding up the estate. My mother's assets were straightforward: a nursing home bond, a couple of bank accounts and some shares as well as some personal belongings.

But the costs still added up. The funeral home charged $6900, and there were cemetery costs of around $8000. Then there were some costs involved with getting the estate sorted. The lawyer cost $9272 and the accountant $1250, valuing assets cost around $500 and then probate was $1946.

Here are the steps you need to take:

1 Find the will. One in two Australians dies without a valid will. If you don't have one, the assets are distributed according to a formula set out in a statutory order known as the intestacy rules. Each state and territory has a different way of deciding who is next of kin and what proportion of the estate they will inherit.

2 Identify the executors named in the will. Often they are relatives, but sometimes they are friends or people outside the family. Executors manage the estate and must act impartially in the best interests of all beneficiaries. They don't have to be experts because often they work with lawyers. It is more important for them to be fair-minded and responsible.

If there is an outside executor or a trustee company, be aware of the cost. Sometimes it is an hourly rate, or a fixed fee based on a percentage of the assets of the estate that goes to probate. An outside executor is generally entitled to claim all costs and expenses incurred in administering the estate, and if the estate is complex and time-consuming they can apply to the Supreme Court for an executor's commission, which is a percentage of the value of the estate and all income received by the estate.

3 Advertise to let people know that the estate is being settled. This notice is to give anyone who knows of another will, creditors or others with an interest in the estate an opportunity to put in a claim. The notice must be placed for a set period before applying for probate.

4 Obtain a death certificate. The funeral home usually fills out the forms, registers the death and provides the death certificate. Make many copies of the original, then have them certified by a justice of the peace or lawyer, as you need to produce a copy for claiming life insurance and other drawdowns.

5 Work out the assets and any debts. Assets include money, houses, land, cars, shares, clothes, jewellery and any other goods. They do not include super.

One area that people often aren't clear about is jointly owned assets. These

automatically go to the surviving joint owner, regardless of what a will says. This includes jointly owned property and joint bank accounts.

If there is a family home, the estate could be valuable, given the high price of real estate. Often personal effects, particularly furniture, aren't very valuable. You can send photos to auction houses or drop off jewellery and antiques to valuers.

Get together assets such as bank accounts, shares, property, jewellery, art, cars, nursing home bond. Superannuation and assets held in trust are dealt with separately from the person's estate. The super fund could make a decision about who is entitled to receive the benefits if there isn't a binding death nomination.

6 Apply for probate. Family members must first agree on the value of the assets. This can be trickier than it sounds. Often death can be a catalyst for exposing unresolved family conflicts. Disputed wills are common. If there are any favoured children who received more from their parents, either as a gift or loan, can be a cause for litigation.

Probate can only be granted if there is a will. There is a registry of probates in different states. It grants probate, confirming a will is valid. Probate is essential for collecting the assets for the beneficiaries from groups such as banks and nursing homes. Probate will be held up if anyone challenges the validity of the will.

Once the family members have agreed, they must sign the application for probate. There is a filing fee that is based on the value of the assets in the estate. How long the probate takes to come through can vary.

7 Sell or keep the assets? If there are any shares, decide if you want to sell them or divide them among the family members. There are capital gains tax implications if you keep them.

One of the most onerous tasks I found was completing my mother's tax. After a person dies, their estate is treated separately from their usual tax return for tax purposes. This means there are two tax forms to fill out: one for the time up until she died, and then you must apply for an estate tax file number from the tax office.

Because my mother had owned some shares, capital gains tax was applied to the sale. But don't hang onto shares because you have to pay CGT. Often holding a half dozen shares isn't the best investing strategy as the companies can fall in value. It can be better to sell them and reinvest the proceeds in a diversified exchange traded fund that offers exposure to a broad-based index.

Susan Hely has been a senior investment writer at The Sydney Morning Herald. *She wrote the best-selling* Women & Money.

Don't forget online accounts

With digital assets becoming part of the estate, it is important to let the family, or the executor of the estate, know how to access each account.

Online accounts, mobile apps and any social media must be closed. They could include:

- financial institutions if they're not on the will or estate
- email accounts
- cloud storage accounts
- social media accounts like Facebook, Instagram and Twitter
- online payment processing accounts like PayPal
- myGov, Medicare or a Services Australia online account.

Each social media platform has its own process for what happens when a person dies. With some you can opt to keep the dead person's account online as a memorial legacy profile. Or you can close it. You need to be the authorised person to act on behalf of the deceased person and provide a copy of the death certificate and other ID.

Reality behind the dream

Buying a getaway may seem like a great idea after enjoying an idyllic vacation, but does it stack up financially?

STORY NICOLA FIELD

Owning a holiday home is a goal for many people. However, in the past it was a luxury limited to the lucky few. Back in 2014, 560,000 Australians owned a holiday home, and Melbournians were the biggest enthusiasts, with one in 20 owning a getaway.

That was before interest rates hit rock-bottom and online platforms like Airbnb and Stayz made it easy to rent out holiday homes, potentially turning them into money spinners.

While Covid-19 lockdowns put a temporary dent in the short-term rental market, vacation home owners in popular tourist destinations have been compensated by exceptional price growth.

CoreLogic's quarterly regional market update shows that in the 12 months to January 2022, house values in Kiama, a popular tourist destination on the NSW south coast, have soared 43.9%. It's taken the median value to $1,633,086. To put this in perspective, in the 1990s it was possible to buy a home in the Kiama area for less than $140,000.

Other favourite vacation destinations that have performed well over the past year include Byron Bay, where house values are up 30.2%, the Gold Coast (up 36.3%) and the Sunshine Coast (35.4%).

These skyrocketing values haven't just been driven by demand from holidaymakers. Data from the Commonwealth Bank reveals quarterly migration from capital cities to regional areas over the past two years is averaging 15% higher than in the two years before Covid.

It raises the question, is a holiday home still a good investment? And if you own a vacation place, is now the time to cash in?

Rentals look healthy

While last year's lockdowns in NSW and Victoria dealt a heavy blow to short-term holiday rentals, the pandemic overall has delivered gains to vacation home owners.

When Australia closed its borders to overseas tourists in March 2020, Aussies were left with little choice but to holiday domestically.

Demand for vacation bolt holes flourished.

Analytics firm AirDNA reviewed 76 Australian cities, towns and destination markets in 2021, noting that each saw rental and revenue growth year on year. It notes, too, that short-term rentals can earn up to three times more than traditional long-term rentals. As Australia reopens its international borders, demand for short-term rentals is likely to climb. What's less certain is the pace of future capital gains.

While net migration to the regions remains strong, CommBank figures show the number of people relocating to the regions in the December 2021 quarter was down 10% compared with the previous quarter.

"Despite the recent exuberance, I would expect price growth rates in regional Australia to start slowing early this year," says CoreLogic's head of research, Eliza Owen.

However, Angus Raine, chairman of the Raine & Horne property group, says there is no shortage of buyers lining up for holiday properties. "Demand for holiday homes is off the Richter scale because of Covid," says Raine. "State and international border closures have meant people are being forced to holiday at home. Low interest rates are also helping."

He says areas that are especially popular include the NSW south coast, Margaret River in Western Australia and many parts of Queensland.

In the far north Queensland tourist town of Port Douglas, holiday home purchases represent about 50% of local Raine & Horne sales over the past year, up from a historical average of 40%. Meanwhile, on the NSW south coast about 30% of homes sold in the past 12 months are being used as holiday homes.

What to look for

According to Raine, it makes sense to buy holiday homes within a three-hour drive of a capital city. And improved infrastructure is making this easier. Completion of the NorthConnex tunnel and upgrades to the Pacific Motorway in NSW, for example, have trimmed the drive-time from Sydney to north coast locations like Seal Rocks down to just over three hours – a trip that once took the better part of a day.

Along with an appealing and accessible location, certain features are worth looking for if you plan to let a property to holidaymakers. "The property needs to be as easy to maintain as possible," notes Raine. "Hard floors are much easier to maintain than carpet, for instance. It would also be useful if the property provided opportunities for dual income. You can stay there and still earn an income."

Stayz data from last year confirm that paying customers expect more than a few well-loved bunk beds from short-term rentals. Among the essential inclusions, Stayz respondents nominated barbecues, air-conditioning, a pool and even a home gym as desirable features – inclusions that can significantly bump up the outlay for a rent-worthy property.

If you need finance for a holiday home, don't expect to pay standard home loan rates. Jack Talbot, principal of broking firm Leverage Capital, says that when a property is not your permanent place of residence, as is the case with a holiday home, lenders will treat the mortgage as an investment loan.

"Interest rates on investment loans are generally 0.3% higher than for owner-occupied loans provided your repayments are set to principal and interest," he says.

While you may be able to use home equity in lieu of a cash deposit, borrowers may still need sufficient personal income to get the green light from lenders.

"A lender will take Airbnb income into account provided it is existing income and the property has been listed on Airbnb for more than 12 months, and the rental income can be verified with accountant-prepared financials," says Talbot. "For a property not yet purchased, the lender will only accept projected income that would be generated by the property if it was in a traditional long-term lease agreement."

Rules get tougher

The popularity of short-term rentals across Australia hasn't pleased everyone. Unruly parties, late-night disturbances and a squeeze for on-street parking have been ongoing headaches for permanent residents living alongside some short-term rentals.

Several councils have taken matters into their own hands. In Victoria's Mornington Peninsula – the third highest short-stay rental destination in Australia – the local council introduced laws to regulate the sector as far back as 2018. Property owners there are now responsible for the behaviour of occupants. Time limits are in place for the use of pools or spas, and off-street parking must be provided for all holidaymakers' cars.

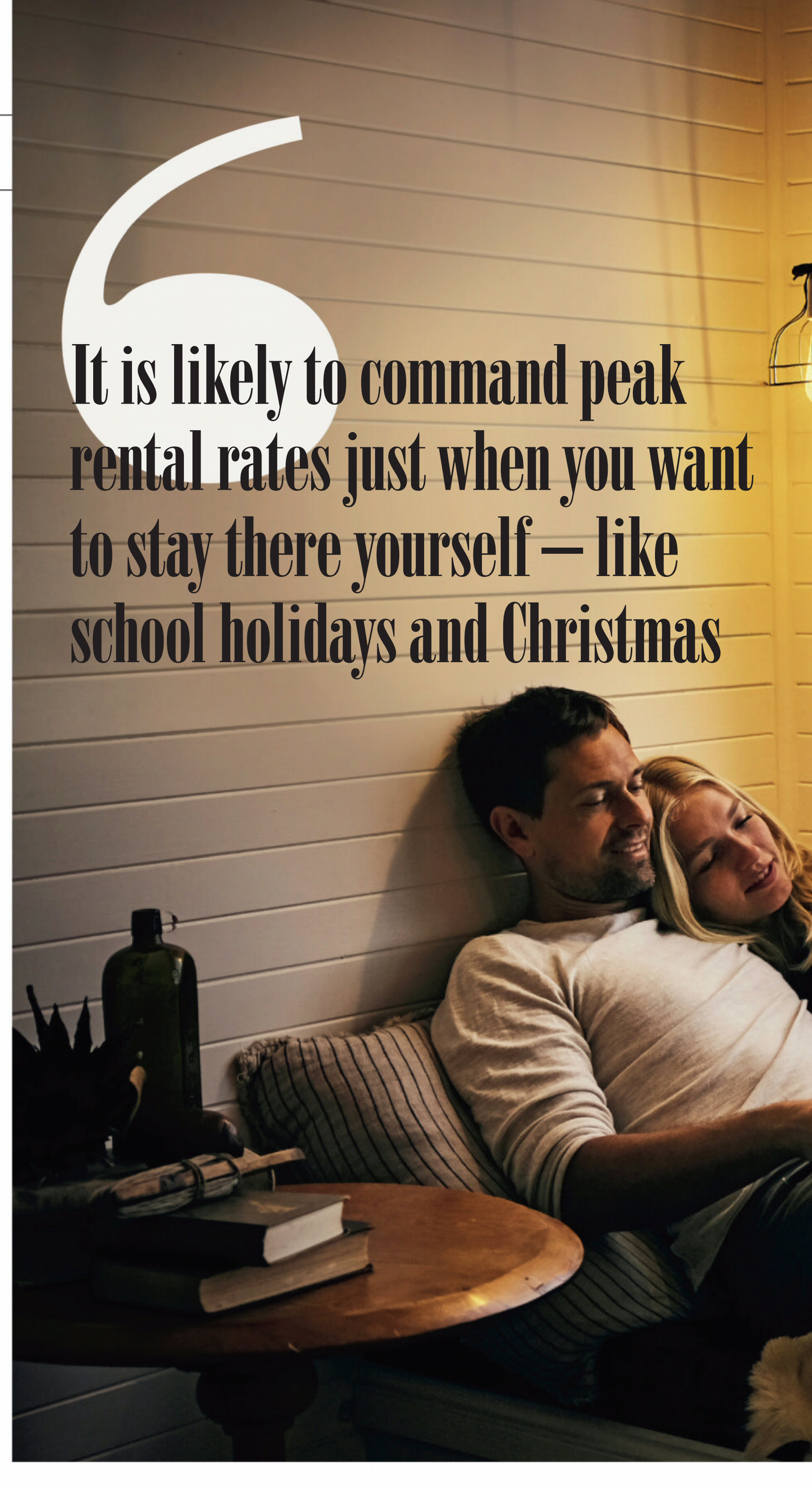
In NSW, where short-term rentals are a $30 billion a year industry, strict new laws kicked in from December 2020. A mandatory code of conduct sets clear guidelines for minimum standards of guest behaviour, and property owners must be contactable by concerned neighbours between 8am and 5pm each day.

Further rules were added in NSW from November 2021 that limit the number of days a short-term rental can be let where the host is not present. The cap is 180 days annually across Greater Sydney as well as a number of regional areas, including Ballina, Bega Valley, Dubbo and Newcastle.

The Hotels Association of Australia has voiced its concerns about the short-term rental industry. In Western Australia, the state government is investigating the possibility of stricter regulations, including a possible 60-day annual limit for holiday homes that aren't formally registered with local authorities.

Along with meeting new regulations, holiday home owners need to consider the impact of tax.

The Tax Office makes it clear that owners can only claim deductions for the costs of a vacation home when it is rented out or genuinely available for rent. Setting unreasonable conditions on prospective renters, asking rent above market rates or failing to widely advertise a holiday home are all red flags that may suggest owners aren't serious about renting out a place.



> It is likely to command peak rental rates just when you want to stay there yourself – like school holidays and Christmas

Where a property is rented or genuinely available for short-term rent, expenses like loan interest, maintenance, insurance and repairs may be claimed on tax. But you can't claim these costs if you stay there yourself. Expenses need to be apportioned between your time on holiday versus when the place is earning its keep with paying tourists.

If a holiday place is rented out to family or friends at mate's rates, you can only claim deductions for expenses up to the amount of income received.

Even if you never rent out a holiday home, chances are you'll pay capital gains tax on any profit on sale. In this sense, the term holiday "home" can be misleading. As the Tax Office sees it, we can only have one tax-free "principal place of residence" at a time. So, a vacation property doesn't enjoy the same tax-free status as your regular home.

That said, the Tax Office says that if you make a profit on sale, property expenses (such as insurance, loan interest, repair and maintenance costs, and

council rates) are taken into account in working out the taxable gain. This makes it important to hold onto any receipts relating to a holiday property and consult a registered tax agent to determine how much tax you could be up for if you sell.

Weighing it all up

Buying a holiday home should never be a spur-of-the-moment decision based on a few magic days on vacation. Yes, short-term lettings can earn much higher rents than a long-term tenancy. The catch is that this income is not year round while ongoing expenses are.

In addition, the short-term rental market is highly competitive. A recent industry report entitled *Growing up Fast* found there could be as many as 436,000 properties available for short-term rent Australia-wide. Homes typically need to have an appealing location and be furnished and maintained to a high standard to attract paying holidaymakers.

The final aspect to consider is the trade-off between making a buck on a holiday home and enjoying it yourself. It is likely to command peak rental rates during those periods just when you probably want to stay there yourself – like school holidays, Christmas and the January summer break.

Anne Graham, senior financial planner and CEO of Story Wealth Management, sums up her views on holiday homes: "They are great for bringing families together and making memories. As far as investment options go, though, they can be a minefield."

Graham notes a location may be brilliant for peace and quiet and family fun, but not necessarily for capital growth over time – "unless of course you bought on the east coast 10 years ago!"

As for rental income, Graham cautions that it might not be enough to cover the holding costs, especially if debt is involved and you're only renting out the property a few times a year.

"Before buying that little shack on the coast or in the bush, it's important to be realistic about the likely rental income, the ongoing cost of maintenance and potential repairs and renovations.

"Another issue that frequently isn't seriously considered is how often you'll use your holiday home. Will you be able to escape to it on a regular basis? Or will the excitement pale as other commitments encroach on your time and it becomes too hard to get away?"

The upshot, according to Graham, is to take off the rose-coloured glasses and think practically about what you're getting yourself into. If you aren't going to use a holiday home as often as you think, or if you're unsure, consider putting aside funds to rent a place for six to 12 months and try before you buy. **M**

This functional and rather neglected room deserves a bit of love and attention to make it complement the rest of the house

STORY TRACIE ELLIS

Plan a laundry that works

It certainly is no secret that kitchens and bathrooms are significant "value add" areas when considering renovating your home. But what about your poor old laundry? This is one of the hardest-working spaces in your home, providing vital functionality. A well-thought-out and practically designed laundry can make a real impact on your everyday life, and can also leave a significant impression on potential buyers if you are renovating to sell.

A quality laundry renovation is more than the purchase of top-of-the-line appliances. They're important, but there are many other factors to consider.

First, the layout needs consideration. Look at your current layout and ask yourself, "Does this work for me?" or "What really annoys me about the space in its current form?" Do you find yourself often silently saying, "I wish I had ... in here." How can you change your layout to ensure the laundry functions like a well-oiled machine and becomes a space you can be proud of?

Budget

The cost will vary considerably depending on the size, your selections and whether you are replacing

your appliances. As a rough guide you can expect to spend $1300 for small modifications such as paint and fixtures; it could be $15,000 or more where you are reconfiguring layout and plumbing, and making significant changes to the space.

Accessibility

Where possible, make your laundry accessible to the outdoors. Often this space becomes a storage area for the entire house with all sorts of odds and ends. If you don't have a shed or outdoor storage area, the laundry generally is the place where you will keep your "stuff". So, it makes perfect sense to have the flexibility to have access to your outdoor area directly from the laundry without having to walk through another room.

Functionality

Designing your laundry around the "working machines" also makes sense. Whether you have a front-loading washing machine or a top-loader can make a big difference. You might not have the new washing machine or dryer yet as you plan this renovation, so keep in mind that there are different kinds of machines that open in different ways. You need to allow plenty of space to the front and sides of your front-loader if you want it to be easy to work with.

You will also need to allow plenty of space for whatever additional appliances you have in mind. This is why selection of appliances (if you are replacing any) is essential at the outset. Also keep in mind that over time these items may need to be replaced, so don't make that joinery too tight a fit.

Appliances

Which ones are you replacing? There are no right or wrong choices, only what works for you and the run of your house. Determine your budget, read reviews, select the style, colour and finish that complements the design of your laundry. Be sure to make selections that are easily cleaned. Carefully consider the features and whether they will be of use. Check the energy ratings and shop around. Packaging up all your appliances with one provider could qualify you for a significant discount. If a discount is not offered automatically, be sure to ask.

Storage

This is absolutely essential in a fully functioning laundry. Where space permits, base cabinets and overhead cupboards are a very convenient addition to any renovation. They will provide much needed storage for unsightly cleaning agents and detergents and will help keep hazardous substances away from children. They will also add value to your overall design.

When planning a laundry layout with cabinets, it also pays to include a broom closet in the design. The simple inclusion of such a cupboard will provide storage for brooms, mops and vacuum cleaners. Think of all the essentials you do not want your guests to see. They need a home, and no better place than in the laundry (behind closed doors).

Consider all the small items that belong in this room. You will obviously think about where your washer and dryer will go, but what about dirty clothes. Will you have an ironing board and other essentials that can be found in most laundry rooms? Will you have a laundry chute? If your laundry room doubles as a mud room, then you will want to make space for storing shoes and coats. What else does this hard-working room need to cater for? Does it include the children returning from school with their bags? Perhaps hooks and racks are necessary? Shelves for each of your children for their school shoes, etc? Do you need to accommodate pet supplies in this room? What works for your family? Personalise this space so it works for you. Minimise the debris that gets tracked through the house, especially if you have children.

You will never regret planning just a bit of extra

storage space when it comes to laundry renovations. It gives you more options, and it can always be removed later if you find it isn't necessary. Have you ever heard anyone say, "We just have too much storage"? Ask your cabinet maker for advice. They have seen it all and can provide you with different alternatives.

Ventilation

This hard-working room requires plenty of ventilation. If it has outside access, then you can install windows to ensure it is sufficiently ventilated. If not, you will need to seriously consider the requirement for ventilation. When using a dryer, you need to be able to vent the heat outside. You will also need to air out the room for wet, unpleasant-smelling clothes.

Tapware, tiles & benchtops

Aiming for a sophisticated space? You will need statement tapware that is in keeping with your splashback. With so many luxurious options available, there are no excuses here.

Tiles are by far the most favoured choice for flooring, walls and feature splashbacks for their waterproof properties. Selections here will have a significant impact on the overall design, either defining the style or becoming the accompanying subtlety that allows your cabinetry to shine. Benchtop selections will vary and will generally depend on your budget. Where a stone benchtop was selected in the kitchen, this may be repeated in the laundry for continuity.

Project ready

Once your planning is complete, the fun starts! Before embarking on your demolition, remember that you will need the expertise of your local electrician and plumber to disconnect plumbing and hot water. Safety is paramount here – there are no shortcuts!

Demolition is done in the reverse order of installation. Commence with removing all fixtures, such as sinks, tapware, cabinets, etc.

The key to any renovation is planning and excellent time management, especially if you are project- managing yourself. Savings on margin when coordinating your renovation comes with the risk of error sitting with you, and mistakes are always costly. Engaging a specialist for your entire renovation project removes this risk.

If you are gutting the room, you will need a plumber, electrician, plasterer, tiler, waterproofer and cabinet maker, as a minimum. Investing in quality trades gives you a quality renovation. Expertise and experience should never be underestimated.

Remember to maximise your layout and explore where improvements to space and functionality can be made. Select quality products that are in keeping with your space and work with your budget. Demolish your old laundry after your planning is complete and organise tradespeople in the correct sequence to avoid any issues.

Once all your preparations are complete, it is a relatively straightforward project, providing you make sensible decisions and engage the necessary experts. At the outset this renovation may seem like a bore; however, once you get moving with the project you will find yourself surprisingly pleased. The transformation of your sad old laundry to a sophisticated and fully functioning room will provide you with a great sense of satisfaction and pride. **M**

Tracie Ellis is the CEO of Renovators Directory, the platform that brings together business owners in the renovation sector and consumers requiring their services. There are more than 100,000 businesses listed on the site, which has amassed more than 12 million views since its launch in 2020. See renovatorsdirectory.com.au

They're in it for the long haul

Investors who prefer to set and forget can enjoy regular returns from defence housing

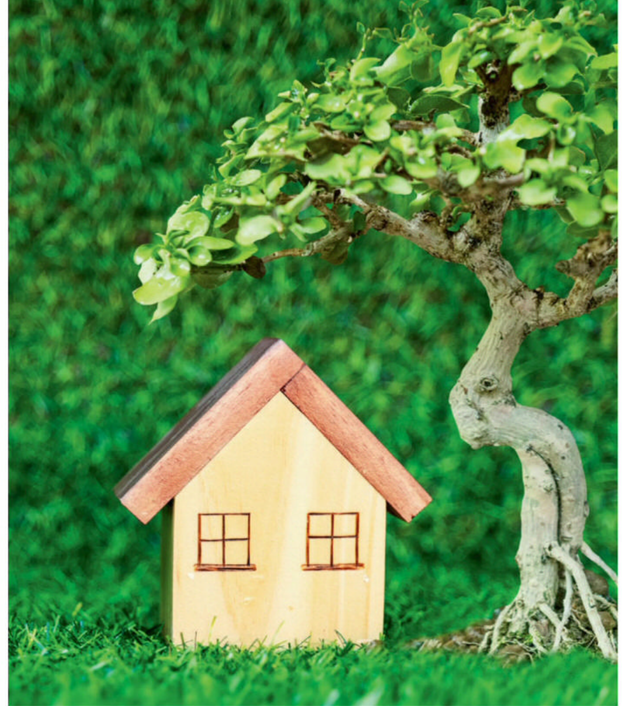
Long leases, rental income even if your property is vacant and most repairs taken care of automatically ... at first glance, investing in a Defence Housing Australia (DHA) property seems like a no-brainer. And for some investors, especially those who just want a set-and-forget asset with little risk involved, it can be a good option. But there are some drawbacks, especially for hands-on investors, as these investments do lack flexibility.

DHA provides housing for members of the Australian Defence Force (ADF) and their families. It has 17,500 properties under management with a total value of $10.95 billion covering all capital cities, major regional centres and remote locations where the ADF has a presence.

There are several ways individuals or self-managed super funds (SMSFs) can invest in defence housing. Most of the portfolio (over 70%) comes from investors (or SMSFs) leasing their property to DHA, usually for three to six years. To do this you'll have to register with DHA and provide details of your property such as size, location and features.

You can also buy a DHA-owned property and lease it back to them (for six, nine or 12 years). Again, before buying you must register with DHA and supply evidence of a loan pre-approval or provide evidence that you have enough money to buy the property. Many DHA properties are sold by a ballot, and you will be notified if this is the case. You can also buy, from another investor, a property that is already leased to DHA, picking up the lease that's already in place.

The advantages of investing with DHA include long-term leases (up to 12 years), reliable rental income even if the property is not occupied, and refurbishment of the property when the lease runs out. DHA also offers a rental floor, meaning the rent will never fall below the starting rent but can go up if market valuation increases. Property management is taken care of by DHA, meaning you never have to find new



tenants or carry out property inspections. DHA will attend to most non-structural repairs and maintain your garden if the property is not occupied.

Of course, nothing is free and the cost of DHA's care service is a whopping 16.5% (13% if a body corporate is involved), which is deducted from the rent. This is about twice the normal property management fee and impinges on the actual rental return you receive for your property. A two-bedroom apartment in Fremantle (available at the time of writing) provides an example of this. The sale price is $577,000 and the weekly rental is $545, providing a gross yield of 4.91%. Once the 16.5% fee is deducted, the yield shrinks to 4.1%.

And you will be responsible for outgoing costs such as council and water rates, strata rates, land tax, insurance, termite inspections and some repairs and maintenance, which will further erode your real return. If a more usual property management fee of 8% was applied, the yield after management costs would be 4.5%.

Another criticism of DHA investing is that the prices it is prepared to pay are prevailing market prices and set in stone, leaving no room for negotiation. This means if you sell mid-lease, you may not get maximum value. On top of this, demand for your property is limited because it can only be bought by investors, not owner-occupiers.

Veteran property expert Michael Yardney, director of Metropole Property Strategists, is critical of some aspects of investing in a DHA property, pointing out that no matter how your circumstances change, your hands are tied because you are locked into an agreement for up to 12 years. Another drawback of some DHA properties is location. Yardney says DHA doesn't consider the property from a purely investment perspective, such as "capital growth drivers, economic conditions and population growth prospects, instead favouring proximity to its facilities as its primary criterion". Countering this, the latest DHA report into its housing stock does show that many of its properties are in capital cities – for example, in NSW it manages 4490 properties, mostly in Sydney.

Yardney also takes issue with some of the properties as investments. "As many DHA properties are generally constructed in the one area, the homes tend to be similar and modest. There is little 'unique factor', which can be compounded by the fact that you cannot make improvements, renovations or additions to a DHA property during the lease period."

Despite some professionals criticising the DHA model, the properties are popular, especially with set-and-forget investors, with virtually none being available for sale at the time of writing. The DHA website also hosts many testimonials from content investors who are happy to sit back and receive regular income, in many instances enjoying a real return of more than 4% at a time when they struggle to get 1% from a term deposit.

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.*

All will be revealed - finally

Funds will have to tell members exactly where their retirement savings are invested

After a decade of repeated delays, the superannuation portfolio holdings disclosure regulation has been introduced. It will give members greater transparency and force greater accountability on funds.

Australia's $3.4 trillion superannuation system is often touted as one of the best in the world. While our funds have been transparent on fees and asset allocation, they have been less transparent when it comes to investments.

Morningstar's 2020 Global Study of Fund Disclosures singled out Australia for having the "weakest disclosure regime" among the 26 markets it reports on. "As an otherwise sophisticated market, Australia remains the only market where portfolio holdings disclosure is not required."

Treasury announced the reforms in November, saying: "Reviews of the super system have found that current disclosure is unduly opaque, does not meet global best practice and that requiring the disclosure of portfolio holdings would provide greater transparency and allow members to understand where their superannuation is invested.

"Under the requirements, superannuation funds must disclose information about the identity, value and weightings of their investments. Members will be able to clearly see how much of their retirement savings are being invested by superannuation funds across a range of asset classes and derivatives."

Given super has now become an important part of the financial system, Treasury says "it is timely to ensure policymakers and regulators have a sound understanding of the extent and nature of the use of derivatives, and any implications for the operation of our financial system that could arise from these exposures".

New culture of transparency

The industry has resisted calls for portfolio holdings disclosure, arguing it is too difficult, too costly and of little interest to the consumer.

But without transparency, how can you check your investment option is true to label? During the GFC, members discovered their "cash" option had exposure to high-risk derivatives and copped unexpected losses. And people with investments outside super may find it hard to build an appropriately diversified portfolio without that key information.

"We're used to saying Australia's system is the best on the planet. Actually, it's not," says Alex Dunnin, executive director of research at Rainmaker Group. "We're great at disclosing fees and asset allocations, but in terms of how our super funds are run as an entity, we're pretty bad at it.

"This is a profound reform which is going to have a massive impact on the investment sector in Australia," he says. "In Europe and in the US in particular, fund managers will religiously tell you what they are investing in. It's going to create a culture of transparency."

Funds will have to disclose all their holdings on their websites by the end of March with respect to what their investments were in December, he says. They will update it twice a year during December and June and publish that information within three months. "Some funds have been moving towards this kind of disclosure for a while. But it forces the issue. They're going to have to do it across everything they invest in," says Dunnin.

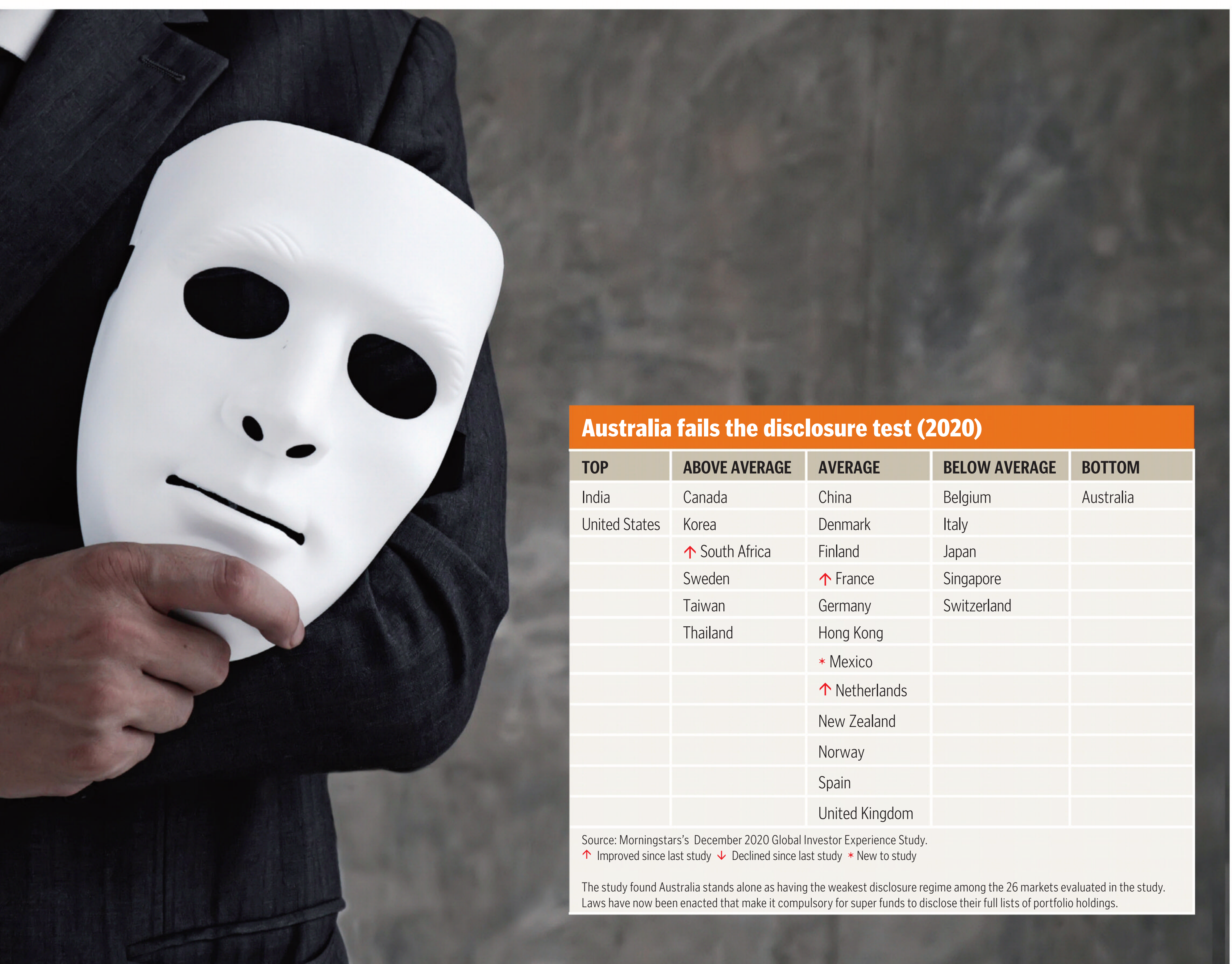
Concerns are "overblown"

But not everyone in the industry has been enthusiastic about it.

"Funds have been wary of telling the market where they are investing because they believe it's their intellectual property. If they tell everybody what their investments are, they're effectively giving away their trade secrets and investors will be able to replicate it without investing in their fund," says Dunnin. However, overseas experience suggests this concern is overblown.

Dunnin says the new law will force greater accountability. "If a fund talks a big game about ESG investments, it's going to have to prove it. It's going to make some things uncomfortable. A fund might be investing in a company that turns out to be sourcing products from factories in Xinjiang that uses forced labour.

"If the fund is going to do ESG, if nothing else, it should be into transparency. If it's not telling people what they're investing in,



Australia fails the disclosure test (2020)

TOP	ABOVE AVERAGE	AVERAGE	BELOW AVERAGE	BOTTOM
India	Canada	China	Belgium	Australia
United States	Korea	Denmark	Italy	
	↑ South Africa	Finland	Japan	
	Sweden	↑ France	Singapore	
	Taiwan	Germany	Switzerland	
	Thailand	Hong Kong		
		* Mexico		
		↑ Netherlands		
		New Zealand		
		Norway		
		Spain		
		United Kingdom		

Source: Morningstars's December 2020 Global Investor Experience Study.
↑ Improved since last study ↓ Declined since last study * New to study

The study found Australia stands alone as having the weakest disclosure regime among the 26 markets evaluated in the study. Laws have now been enacted that make it compulsory for super funds to disclose their full lists of portfolio holdings.

they're talking the talk, they're not walking the walk. It's going to make for some difficult questions."

It might also cast light on concentrated portfolios and inefficiencies. "You might realise your fund has different Australian equity managers working for you and most of your shares are in the big banks and the big mining companies and you seem to be investing in the index. You might then ask why doesn't your fund just index the whole thing, slash your fees in half and get on with it. There are going to be things like that going on."

Dunnin says portfolio holdings disclosure is going to help everybody – consumers, researchers and financial advisers. "This is one of the most profound reforms, but implementation is probably going to be a shock to some funds. Others already provide a lot of this information. For them it will be no big deal at all."

Better idea of risks

Super Consumers Australia says the change is well overdue. It welcomes the requirements for funds to disclose the value of each unlisted asset and any derivative instrument investments. "Super belongs to consumers and they should have transparency about how funds invest their money," says Xavier O'Halloran, director at Super Consumers Australia. "It will also be important in helping consumers and experts get a better read on the level of risk of their investments."

He says the new regime means consumers can look "under the bonnet" and see if their fund is investing in line with its product labelling. "We've come across examples of funds advertising their ethical credentials and then being light on detail about where they are actually invested."

Equally, it will be important in revealing the level of investment risk. "It will greatly improve systemic transparency and help academics, analysts and researchers get a better understanding of how each fund is investing. In the long term, this will help grow the understanding of best practice and ultimately benefit people's retirement incomes," says O'Halloran.

Vita Palestrant was editor of the Money section of The Sydney Morning Herald *and* The Age. *She has worked on major newspapers overseas.*

STORY MARTIN MARAIS

Living longer with oil

Even as governments and companies are under huge pressure to reduce carbon emissions, demand for fossil fuels is expected to be strong for years to come

The conflict in Ukraine has triggered a rapid rise in oil and gas prices. However, this upwards trend was already well under way as a result of demand recovering in the wake of Covid lockdowns, as well as the recent interruption in supply due to underinvestment in new discoveries and the deferral of maintenance work on oil fields.

While there is still the possibility that prices will moderate in the short-term if the war is resolved quickly, there remain a number of fundamental issues with supply and demand that are likely to keep prices higher for longer. For Australian investors, it is worth considering companies that could benefit from this trend.

Supply dynamics

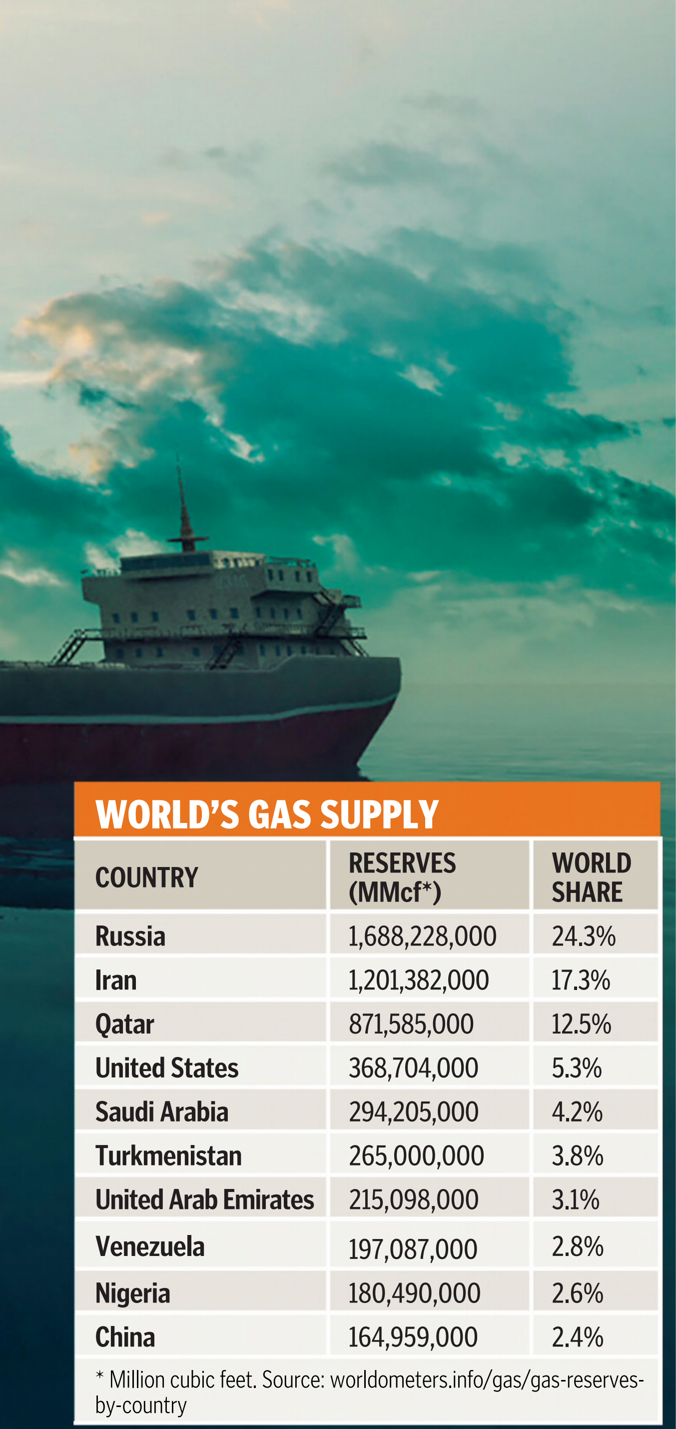
In addition to the extreme environmental pressures from governments and activists to stop new projects, new oil fields are getting harder to find and are of a poorer quality than in the past.

The risk for oil producers has become higher and the approval process more stringent, so the number of new projects is more limited than ever. In fact, investment in new oil and gas projects is at its lowest level since 2007, while new oil and gas discoveries are at their lowest point in 75 years. The rig count has still not recovered to anywhere near pre-Covid levels.

Then there's US shale. In 2014, with prices above $US100 ($137) a barrel, shale exploration and production became profitable, turning the US into the largest oil producer. The increase in production turned the US into a net exporter of oil after importing for many years, creating an oversupply in the market. The oil price crashed as result.

With the current oil price, it raises the question of whether there could be a replay of the past? So far it seems not. The 2020 oil price crash due to Covid has seemingly brought a much higher level of discipline to the industry.

OPEC countries are also reluctant to flood the market with supply as they need around $US70 a barrel just to break even and government balance sheets need repairing after the huge Covid expenditures.



WORLD'S GAS SUPPLY

COUNTRY	RESERVES (MMcf*)	WORLD SHARE
Russia	1,688,228,000	24.3%
Iran	1,201,382,000	17.3%
Qatar	871,585,000	12.5%
United States	368,704,000	5.3%
Saudi Arabia	294,205,000	4.2%
Turkmenistan	265,000,000	3.8%
United Arab Emirates	215,098,000	3.1%
Venezuela	197,087,000	2.8%
Nigeria	180,490,000	2.6%
China	164,959,000	2.4%

* Million cubic feet. Source: worldometers.info/gas/gas-reserves-by-country

Demand dynamics

While we are confident that supply will be challenged over the next decade, it is worth digging deeper into the demand dynamics, as this is getting a lot of attention from companies and consumers looking to reduce their carbon footprint. We have modelled what we think oil demand will look like under what we believe to be very bullish assumptions for electric vehicles and other technologies that will decrease the global dependency on oil and gas.

Consensus is for demand for oil to be around 105-107 million barrels a day (mb/d) in 2030 compared with our estimate of 103mb/d. By 2040 our estimate for oil demand is about 100mb/d while OPEC's estimate is 108mb/d. Clearly, our assumptions are quite conservative.

Electric cars

While the electric vehicle market is growing rapidly, it is still only a small proportion of the over 1.4 billion vehicles in the world. Our modelling looks at the total oil demand if EV sales grow exponentially while existing petrol cars become more efficient and are recycled at an accelerated rate.

For now, we are ignoring the many teething issues that the EV industry is likely to go through, the most important being the supply of lithium for batteries. While it does not take that long to build new factories to produce batteries, to commission and build a lithium mine can take many years, especially in today's climate. With skyrocketing demand for batteries comes increased demand for lithium and it appears the market cannot keep up. In the past 12 months alone, the price of lithium has already gone up more than 700%. In our forecasts, just to be conservative, we are assuming that the EV industry can overcome all growth challenges.

Aviation and shipping

Even the most bullish advocates for cutting use of oil acknowledge that replacements in aviation are decades away.

In shipping there may be some alternatives, with a lot of research going into using ammonia as a source of green fuel.

In our modelling we assume 1%pa growth in demand from ships and planes to 2035 followed by a decline from 2040 onwards as ships running on green ammonia may become viable as technology improves.

Buildings and industry

Two other sectors that account for a significant percentage of oil demand are buildings and industry.

It is used for heating and cooking as well as in vehicle construction and industrial processes. Demand in this segment has grown by 1.6%pa over recent decades. For both segments we assume 0.5%pa growth to 2030, followed by a flatlining of demand for five years and then a 0.5%pa decrease in demand to 2050.

Power generation

Lastly, we assume that demand in power generation will decrease by 1%pa to 2050. Actual demand has flatlined over the past couple of years, but we feel that a lot of oil power will be replaced by gas in time.

By modelling these assumptions, which we think are conservative, we find that oil demand peaks in 2030 followed by a long but very slow decline. Our numbers suggest that demand will not drop below today's level until 2038.

Gas prices to stay high

With the war in Ukraine, the gas price is expected to stay elevated for a while longer as Russia supplies most of the Europe's gas and holds almost a quarter of the world's gas reserves. Looking at countries with the largest gas reserves, it is obvious there are many potential geopolitical issues that could cause further price spikes.

Where to from here?

Over the longer term to 2030 and even 2040, we believe that the supply/demand dynamics support an oil price at over $US80 a barrel with the gas price being significantly higher (this is assuming that Russian supply is eventually let back into the market with no restrictions).

The Ukraine situation is fluid and needs to be monitored carefully. The following scenarios may challenge our long oil and gas thesis:

Should oil and gas prices remain high for an extended period, or even increase from current levels, it will invariably have an impact on consumer demand, possibly a catalyst for an economic recession. Collapsing consumer demand for oil and gas due to an economic recession is arguably the biggest risk to our theses over the short to medium term.

Under the scenario of a resolution, we would still expect oil prices to remain at $US70 to $US80 a barrel over the medium term due to the likelihood of a persistent global demand/supply mismatch over this period.

An unforeseen technological step-change or an about-turn in government policy toward the use of nuclear power as a source of energy will have an impact on our oil and gas thesis. However, it would take several years for this to be implemented as it takes time to build new facilities at scale. ***M***

Martin Marais is investment manager at Wentworth Williamson. He joined in 2016 as an equity analyst after working in Switzerland and London at Stonehage Fleming, an independent family office.

3 STOCKS TO CONSIDER

Woodside Petroleum (ASX: WPL): Out of the major oil and gas producers in Australia, Woodside is benefitting the most from booming gas prices, as up to a quarter of its production will be sold on the spot market.

MMA Offshore (MRM): We believe the stock offers significant upside as the price still trades at a large discount to net tangible assets.

Fleetwood Ltd (FWD): Fleetwood owns an accommodation village in Karratha, which provides rooms to fly-in-fly-out workers. During the last commodities boom of 2012, its profit on this accommodation village was four times higher than it is now.

Labor wins the next election and delivers its promises

WHAT WE KNOW SO FAR

Unlike former Labor leader Bill Shorten, Anthony Albanese is largely running a small-target strategy with no big controversial tax reforms. Instead, he is emphasising Labor's traditional edge in areas like health and education.

Labor formally dumped Shorten's controversial tax reforms, such as planned cuts to negative gearing and the capital gains tax discount, and the abolition of refundable franking credits, last July. It also committed to the government's planned third round of tax cuts in 2024, which will largely benefit higher income earners.

While more policy detail will inevitably come out as the attention draws closer, Labor has started to articulate what it will do in key areas.

In his January speech to the National Press Club, Albanese outlined six key lessons from the pandemic that Labor would build on if elected:

- A strong, properly funded public health system, with Medicare as its backbone, is vital to every aspect of our lives.
- The rise of insecure work has undermined too many families' confidence in their future.
- Stripping funding from TAFE and the training sector has led to skills gaps and worker shortages.
- We need to be more self-reliant and manufacture more things in Australia to avoid falling hostage to global supply chains.
- A high-quality NBN is fundamental to working from home, building small businesses, educating children and providing vital medical consultations
- Affordable childcare is essential to family and working life.

Expect to hear much more on these themes as the election campaign progresses.

Labor has also indicated what it will be seeking to achieve in some key policy areas.

THE ECONOMY

Both Labor and the Coalition want us to believe that they have the answers to rebuilding the economy. As part of its election pitch, Labor has promised to set up a $15 billion National Reconstruction Fund to support projects that create secure, well-paid jobs, drive regional development and invest in our national sovereign capability. It wants to target full employment and revive Australia's manufacturing industry, as well as building new industries in areas like renewable energy.

TAX

Labor has flagged tougher rules for multinationals but has indicated it does not want to increase taxes for individuals. Albanese has said he wants to lift the burden on households and there are no planned changes for superannuation, apart from ensuring the staged 12% compulsory payment (due by 2025) is protected. While changes to the tax on family trusts have been rumoured, at the time *Money* was going to press, Albanese had said they were not being considered.

HOUSING

Labor has announced a major investment in social housing. Its proposed Housing Australia Future Fund would build 30,000 new social and affordable housing properties within five years. It also proposes building homes for frontline workers and women fleeing domestic violence.

However, so far it has not announced any policies to address the broader problem of housing affordability.

Pete Wargent, co-founder of Australia's first national marketplace for buyers agents, BuyersBuyers, says Labor has previously recommended measures such as introducing a tax on vacant properties and the creation of an affordable land register, but he says the real issue is the

high demand for properties in cities such as Sydney and Melbourne.

CLIMATE CHANGE

Labor has committed to reducing emissions by 43% by 2030 and to net zero by 2050. The Coalition also plans to get to net zero by 2050.

Labor's plan relies heavily on building renewable power industries to create new jobs, along with initiatives such as discounts on electric cars and community batteries and upgrading the energy grid to deliver cheaper renewable energy.

BUSINESS

"Buy local" is a key theme in Labor's pre-election rhetoric, with policies to give local businesses a greater share of government procurement. It says it will work with small business, regional businesses and First Nations businesses to help them get a greater share of government spending.

It also has policies to address job insecurity, making it a part of the Fair Work Act and extending the Fair Work Commission's powers to cover the gig economy.

EDUCATION

Labor has announced funding for school activities that will get students back on track and increased funding for free TAFE and training places in areas of skills shortages.

It has also said it will abolish the $10,560 cap on the childcare rebate, lift the maximum childcare subsidy rate to 90% and increase subsidy rates for every family earning less than $530,000.

HEALTH

At the time *Money* was going to press, Labor had not announced much in the way of specific health policies, but is relying heavily on its commitment to protect Medicare. It has also made a broad commitment to protecting hospitals and fixing the aged care system.

DID YOU KNOW?

Since Federation in 1901, we have had 46 federal elections. Labor has won 14 of them. We have had only nine changes of government since 1930, though more recently we've seen a much higher turnover of prime ministers.

BEST-CASE SCENARIO

The key challenge for the next government will be rebuilding our economy and national balance sheet after the pandemic. While policies may differ, both parties will be heavily dependent on the pandemic coming under control and the world economy picking up to achieve this.

WORST-CASE SCENARIO

Any setback, such as further waves in the pandemic or a weak international economy, will make it tough for the next government to restore the budget bottom line without increased taxes. Geopolitical ructions further add to the risk of the recovery going off the rails.

THE WILD CARD

This election will be contested by a number of well-resourced independents in key seats as well as minor parties. If the election result is close, any successful candidates could have a powerful role in the next government.

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.*

Keep it in the family

Pooling funds can open financial doors … or ruin relationships. Consider the pros and cons before making such an important commitment

STORY
HELEN BAKER

Investing with family is not a new concept. Indeed, huge numbers of Australians have some form of investment jointly owned with relatives.

The benefits of investing jointly with relatives include:

- Capitalising on economies of scale to purchase bigger assets for bigger returns;
- Giving singles, young people and lower income-earners a foot in the door;
- Drawing on collective wisdom to make decisions;
- Tax benefits, provided your set-up is right; and
- Building a legacy and keeping assets in the family.

As with everything in life, though, there are drawbacks, too.

Investing with family can:

- Impact relationships if there are financial or strategy disagreements;
- Reduce the family support available to fall back on should investments go sour;
- Become overly complex having multiple households involved;
- Allow emotions to override rational decision-making; and
- Cause financial discussions to take over what should be quality family time.

Furthermore, the pros and cons of investing with family differ depending on the type of assets you invest in and the structure you use to manage those investments. So, it's worth looking at the merits of each individually before making any decision to pool your funds.

1 Property

Australians love property, with billion of dollars lent to investors each year. There are numerous ways families do this together, some with financial drivers and others borne out of necessity. Many parents, for example, contribute funds to help their children onto the property ladder, either as a loan or with the aim of splitting profits once the property is sold in future.

Pooling funds to invest, meanwhile, allows families to buy bigger assets that boost their returns. For example, I know a family who recently purchased a suburban shopping centre by pooling their funds. They receive roughly the same in rent from each of their retail tenants as they would have from a single residential property.

But before you rush to buy something together, consider the various ways to invest in property and the pros and cons of each:

- **Rental property:** Perhaps the "traditional" investment property, that is, becoming landlords. Incoming rent can be used to pay off any mortgage, supplement your respective incomes or be reinvested.
- **Renovating for profit:** Commonly known as "flipping". A particularly attractive option if at least one of you is a qualified tradie and/or you can get discounted materials. The downside is that you're in for a lot of hard physical labour! Also, this approach may be considered a business activity if you flip multiple properties or don't live in them while renovating, demanding you navigate business registration, GST reporting and other business administration.
- **Holiday let:** A great option for a holiday home that the extended family can enjoy, and you can offset the costs by renting as a short-term let when it is

not in use. But you can't claim tax deductions for any time you spend in the property.

- **Family home:** This could be buying one large house for the extended family to live in, purchasing or building a duplex as separate but adjoining family homes or adding a granny flat for elderly parents/in-laws to downsize into. More money means more options and potentially more space. But one or more of you may be forced to sell or buy out another share should someone want or need to leave.

Regardless of your approach, remember this basic fundamental: property ties up a huge chunk of funds. Unless you own it outright and can derive ongoing income from rent, the only way to access profits is by selling. And you can't just sell a bedroom. Plus, selling property takes time, especially in a soft market.

There are also complexities about borrowing for a property that is jointly owned, including where each of your contributions to the deposit comes from (savings or equity) and your joint ability to meet repayments.

And you are jointly liable for the associated costs of buying, selling, maintenance, council rates and capital gains tax (CGT).

2 SMSFs

Self-managed superannuation funds (SMSFs) have exploded in popularity in recent years, partly because they can invest super in a broader range of assets – including property – than retail and industry funds. And partly because they allow people to combine their super and create a bigger pool of funds.

The major benefits of super are that it is taxed at a lower rate than other investments and it enjoys tax offsets not open to other assets. However, there are various restrictions on super and SMSFs, regardless of whether it is combined with relatives or solely your own.

That includes eligibility restrictions on accessing funds (being retired or over 65, becoming disabled/incapacitated, or dying), specific tax laws and a ban

on personally benefiting from super-owned assets (such as occupying a property it owns). There are also strict rules around contributions as well as both concessional and non-concessional caps.

In terms of SMSFs, which relative you invest with matters, too. For couples or siblings close in age, you will likely retire and be eligible to start drawing down funds around the same time.

For multi-generational SMSFs, however, things get particularly tricky. Are the super contributions of the still-working younger generation effectively going straight to the retired older generation, limiting future growth? Is the older generation sacrificing earnings from their own super to retain funds for the younger generation? How are debt liabilities of the SMSF split fairly between you?

It's worth getting tailored advice not just about the general set-up and running of an SMSF, but also about the intricacies associated with the particular relative(s) you intend to be trustees with. For instance:

- **Couples:** Spousal contributions are still possible in an SMSF, growing your super faster and saving up to $540 in tax for the partner earning the highest income. But dividing the assets and closing an SMSF can be complex should your relationship break down in future.
- **Parents and adult children:** Have a clear exit strategy once it comes time for the parents to retire and begin drawing funds. How much income do they need to live comfortably? How much needs to be retained so the SMSF continues to grow and leaves enough for the children's retirement?
- **Siblings:** Look beyond your current lifestyle to what the future will likely bring. Are one or all of you partnered? Will current and future partners be included in the SMSF? Who are the beneficiaries for each of you and does that change if you have kids? What is the difference in your incomes now and how will that likely change over time?
- **Extended family:** More trustees equals more money in the pot. But it also means higher compliance costs, greater difficulty in reaching consensus on investment decisions and more room for error.

3 Business

An estimated 70% of the more than 2.4 million businesses in Australia are family owned. Many others are funded in some way through investments made by relatives. One of the key factors to analyse when considering investing in a business with family is the degree to which each of you want to participate in its everyday operations. Another is your exit strategy, as any transferral of ownership can affect ongoing operations and the business's value.

- **Operating together:** Family-operated businesses can be spouses/partners working together or multi-generational businesses. Doing so requires not just capital but an investment of time and skills, too. Also, determine whether you plan to continue trading under family ownership (like many high-profile Aussie brands including real estate networks Ray White and Raine & Horne, electronics retailer Bing Lee and vehicle/equipment supplier Kennards Hire). The alternative is to build a business for future sale/public listing. Both can be highly lucrative, but also involve considerable unpaid hours and missed social or family engagements as the business takes precedent.
- **Financial backer:** Some people launch a business or finance its expansion using one or more relatives as silent investors or equity stakeholders. This can be a win-win for everyone: the operator gets the funding they need; investors make financial returns as well as the satisfaction of helping a loved one. There are major risks, however. Relations could sour if the business performs poorly, and the operator could be left in the lurch should the investor need their money back quickly.
- **Joint investors:** The least hands-on approach is to combine funds and invest in one or more businesses together. It can be a great way to cash in on fast-growth start-ups, for example. You can act as a business lender to businesses and charge a higher interest rate based on business risk or buy equity in the company. The downside is that your money is tied to a business over which you don't have managerial control. And small businesses are a much riskier investment than shares in larger ones listed on the stock exchange.

4 Shares

These are a popular investment option: they are easily accessible, can be quickly offloaded and have a relatively low cost to buy (some shares can be merely a couple of cents each). So much so that you don't need to invest with family members. Sometimes it actually makes more financial sense not to!

Either way, look at your costs carefully: there is CGT on earnings as well as the trading costs on every transaction you make. These costs can quickly eat away any profits, especially on short-term trades.

Consider your focus, too: do you want shares that will increase in value to sell for a profit, or shares that reliably generate dividends to supplement your income or to reinvest?

5 Cash

With interest rates currently at record lows, there isn't much to be gained "investing" your money in savings accounts or term deposits, unless you are saving for a particular reason. That might be a family holiday, first home deposit or a fund to gift to children once they reach adulthood. Or you may be waiting to make your next investment.

While an interest rate of, say, 1.3% delivers the same return whether you have one lump sum of $1000 or two sums of $500, by combining your money you can save on bank fees and more easily monitor your savings' growth.

Be sure to have joint access to any account to maintain fairness and transparency.

6 Family trusts

Family trusts are similar to SMSFs: both offer flexibility and the benefits of economies of scale. But trusts are free of the access restrictions of superannuation. They can be used to provide for children under 18, as giving investments in their own name before this age can be problematic.

Trusts also allow you to distribute funds on a needs basis from year to year: perhaps Jim needs more this year because he was made redundant, while the following year Jane needs to make home renovations in preparation for a new baby.

The downside? Trust don't enjoy the same 15% tax rate that superannuation does. And as their own legal entity, they need to lodge tax returns, have their own will and be structured properly.

7 Collectables

A range of physical goods can have considerable value as a collection. This includes art, fine wine, high-end jewellery, gold and precious metals, antiques, rare stamps or manuscripts, even classic cars. Their primary benefit is diversification – the more types of investments you have, the less exposed you are to downturns in the value of a particular asset.

Collectables have a major downside, though: high overheads. They need to be kept in mint condition to retain and grow their value. And unlike intangible items like shares, collectables require physical storage space (another expense or use of space in your home) as well as protection against theft and damage.

5 tips before you start

- Timing: Different people, and especially different generations, will want to access returns at different times – for retirement, birth of a child, redundancy, etc. Plan your exit strategies accordingly.
- Family dynamics: Do you get all along? Can you collectively agree on where the money is invested? What are your contingencies should relationships break down, couples separate or someone dies unexpectedly? Don't leave everything to chance.
- Ratios: Are you all going in as equals and contributing the same amounts? In the case of superannuation, how will you split differing income contributions? How will you diversify your assets and what is your exposure to each? Determine from the start who gets what and the proportion of funds allocated to different assets.
- Costs: Don't overlook the costs of compliance and tax. This can grow exponentially the more stakeholders there are.
- Think, don't feel: Run investment vehicles like a business. Make decisions based on their financial merits, not emotions.

Invest wisely

When it comes to investing with family, keep your eyes wide open and scrutinise your options as you would with any other financial decision.

It is easy to let emotions take over when family and finances combine, so try to separate them as much as possible. That means keeping written records of all decisions and transactions. Even schedule structured meetings to separate financial discussions from general family life.

Analyse not just current and projected earnings, but also your investment costs – purchase expenses, ongoing maintenance, tax compliance and any debt repayments. And be sure to invest in some good advice – both for your investment family collectively and yourself individually. The aim is to protect against future disputes that could cost you not just money but good relations with your family, too! ***M***

Helen Baker is a licensed Australian financial adviser and author. She is among the 1% of financial planners who hold a master's degree in the field. Proceeds from book sales are donated to charities supporting disadvantaged women and children. See onyourowntwofeet.com.au.

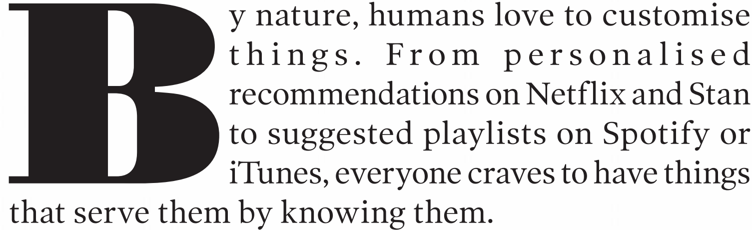
Win a copy of the book

This is an edited extract from *On Your Own Two Feet: The Essential Guide to Financial Independence for All Women* (Ventura Press, $32.99) by Helen Baker. To win one of five copies, tell us in 25 words or less about your best joint investment with family members. Enter online at moneymag.com.au/win or send your entry to Money magazine, Level 7, 55 Clarence Street, Sydney, NSW, 2000. Entries open on March 28, 2022 and close on April 27, 2022.

Take personal control

STORY CHLOE WALKER

Just as it's possible to create your own music playlist, you can create a personalised share index that aligns with your aims and values



By nature, humans love to customise things. From personalised recommendations on Netflix and Stan to suggested playlists on Spotify or iTunes, everyone craves to have things that serve them by knowing them.

An interaction with a device, person or thing that is personal and customised leaves us feeling as if our needs and interests are being considered, as if we have a little more control.

However, in the world of financial services, investors don't often receive that same bespoke treatment. Until now, that is. Enter direct indexing.

In its simplest form, direct indexing involves directly investing in the actual securities that make up an index.

This approach is dissimilar from investing in exchange traded funds (ETFs) that track an index or mutual funds that follow a benchmark index.

Direct indexing allows investors to own the securities that make up an index and hold them in a separately managed account (SMA).

For example, if replicating the S&P500, the investor would directly own all the stocks in the index.

The concept has gained traction in the US in recent years, with total assets under management in 2020 sitting at around $US350 billion ($482 billion). According to a 2021 report from Oliver Wyman and Morgan Stanley, this could grow to about $US1.5 trillion by 2025, drawing flows that would otherwise be snapped up by ETFs or mutual funds.

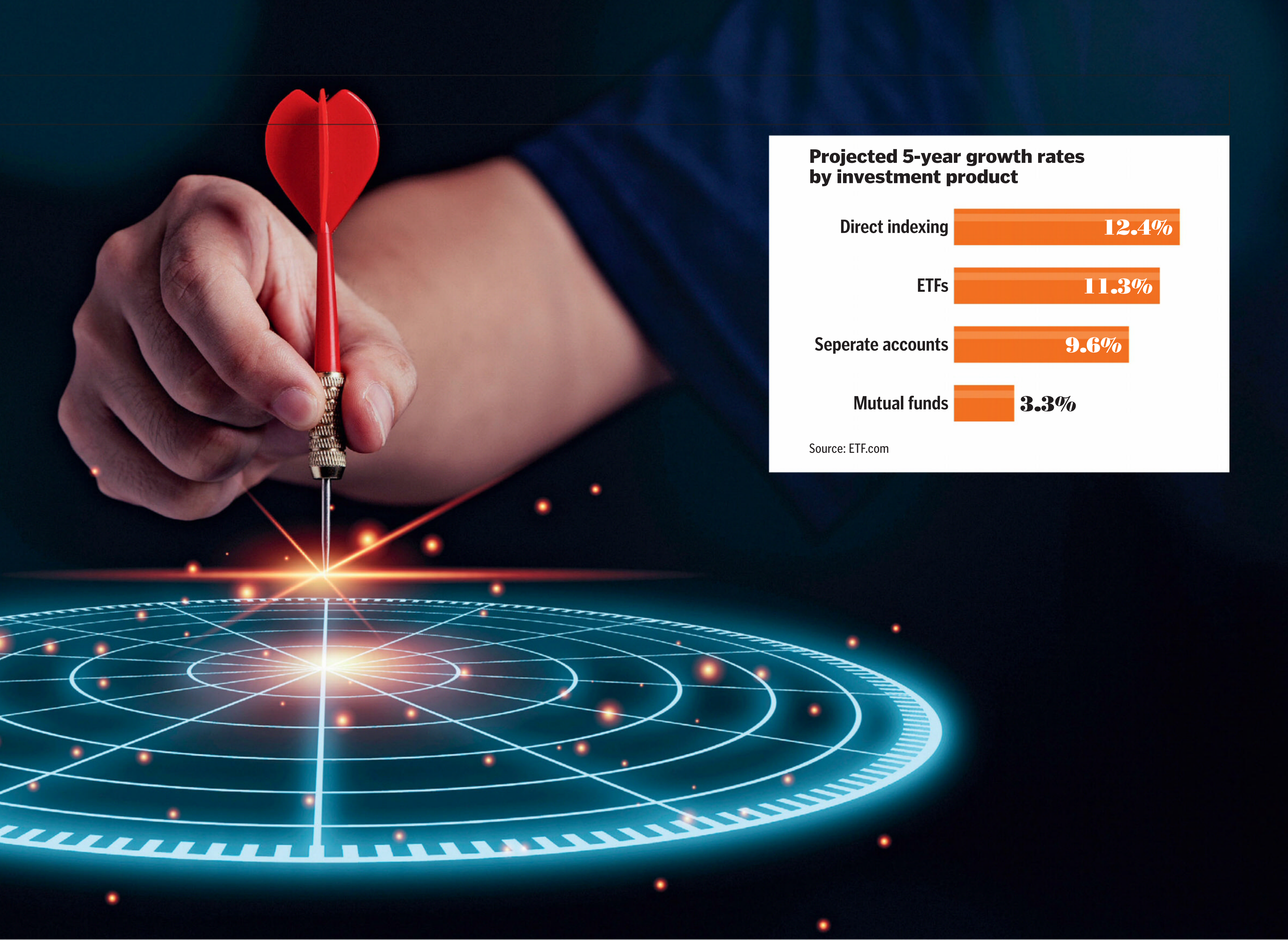
To explain direct indexing further, Vanguard senior investment strategist Inna Zorina uses the analogy of going to the gym.

"Normally, there are quite a wide range of classes at these gyms, so members can walk in and select some classes off the shelf that would suit their needs," she says. "But occasionally, there may be a need for some personal treatment – for example, a member may be preparing for a competition, or they may be dealing with an injury, or they just want a personal approach to their workout, and in this case they will use a coach. That coach would work with them to create a tailored product to suit their needs, and to help them to meet their goal efficiently and effectively.

"It's quite similar when we look at the direct indexing and ETFs and mutual funds. We have a wide line-up of ETFs and mutual funds, and they would suit the needs of the majority of investors. But some investors may need more customisation and this is the niche that will be occupied by direct indexing."

Already in the US, direct indexing is offered by companies such as Vanguard, Morgan Stanley, BlackRock and JPMorgan Chase.

In late 2020, Morgan Stanley acquired asset manager Eaton Vance mainly for its direct indexing subsidiary Parametric, while BlackRock acquired Aperio, a leading



provider of personalised index equity solutions.

Hot on the trail, Vanguard acquired Just Invest, a direct indexing company, in October last year. Then, in December 2021, BNY Mellon's Pershing acquired Optimal Asset Management, the business of which is solely in direct indexing.

Already in 2022, Fidelity, which administers $US11.5 trillion in assets, filed documents with regulators to launch what appears to be the first direct-indexing product for retail investors.

Fidelity Managed FidFolios, which should be available soon, will be accessible to individual investors with as little as $5000, says Fidelity.

One major factor driving the growth of direct indexing in the US is its accessibility for investors. Traditionally, direct indexing has only been available to those who could afford it (in other words, the ultra-rich).

However, two things have broadened the market for this strategy: the rise of commission-free trading and fractional share investing.

Meanwhile, asset managers are responding to this momentum by acquiring direct indexing providers, introducing their own proprietary solutions, and applying direct indexing to new asset classes.

While direct indexing is yet to reach Australian shores, Ilan Israelstam, BetaShares chief commercial officer, says there are many benefits to the approach.

"In a world where we have the right technology and ability to access direct indexing, which at the moment isn't in Australia, it could mean that we could create a product or an investment that meets a customer's specific needs, rather than something that's been put out there by a fund manager like ourselves," he says.

Applying an ESG screen is a major benefit of the direct indexing method

Israelstam says the best example of this is ethical investing, because it makes the most sense for those who want to use direct indexing.

"When it comes to ETFs, the vast majority of investors will go ahead and buy an ethical ETF that they've researched carefully and have worked out meets their ethical standards," he says. "That gives them what they're looking for – they've invested in a simple way, and it gives them the kind of exposure they want."

However, this may not work for someone with a very particular idea of what ethical investing means.

"For example, if that somebody was a vegan, there could be an ethical ETF that took out everything they liked except for a few companies in there that were non-vegan," says Israelstam. "If they used a direct indexing approach, they could create their own index and remove the companies that confront their vegan sensibilities and get exposure in exactly the way they want."

Zorina agrees that applying an ESG screen is a major benefit of the direct indexing method.

"Sometimes a client may want ESG products to invest in line with their values, but they may struggle to find a particular product that meets all the criteria,

and in this case they may want to consider direct indexing," she says.

Other benefits of direct indexing include tax optimisation or increasing or decreasing an investor's exposure to certain securities.

"Sometimes investors may have existing positioning in fund securities, or exposure to a particular company, and they may not want to double that load," she says. "Direct indexing can help them to tailor their portfolio around these so they may exclude a particular security again, to suit their personal needs."

Benefits aside, there are also trade-offs to the direct indexing approach: complexity and cost being the main culprits.

Arian Neiron, VanEck chief executive and managing director, says a major hurdle of direct indexing is that it's not as straightforward as following an index. "Direct indexing is complex, as there are so many mechanical movements and cogs in the wheel that go into that index construction every day.

"Corporate actions are a significant part of this. You've got to have the expertise, resources, and technology to be able to provide the service. Unfortunately, it isn't available in Australia yet within the regulatory framework – it's a fiduciary responsibility."

Neiron predicts it'll be at least a decade before Australia starts to see technology and major adoption of direct indexing. "I really can't see it happening in the short term, but it's a possibility, as investors grow their wealth," he says.

"Currently, the ETF market is within the product proliferation of innovation, and that's going to be a natural challenge for direct indexing, because the pace of innovation and ETF production is faster than the ability of direct indexing and customisation."

In other words, when direct indexing does enter Australia, it is unlikely to disrupt the $10 trillion ETF industry.

A self-confessed sneaker fanatic, Neiron likens direct indexing to purchasing a pair of customised Nikes. "When it comes to shoes, are every pair of Nikes customised? No. You might try to create your own, but at the end of the day, at least in my case, you think, 'I'm not that creative. I'll leave it to Nike to design the sneakers for me'.

"In a similar way, when you're buying that intellectual property in an ETF, you're buying that professional management. You've got to be very self-aware and have that expertise."

And while technology can certainly make direct indexing more accessible, Neiron doubts that it will disrupt the ETF market. "It's analogous to the shoes," he says. "I don't know about your cupboard, but mine only has one pair of customised Nikes, and I hardly wear them."

While still arguably a long way off, direct indexing is an exciting development, and one that large institutions and smaller providers alike are readying for. "Like every provider who's deep in the investing and ETF space, we're definitely having a careful look at direct indexing," says Israelstam.

"We want to make sure if it's done, it is done with a lot of care and consideration and isn't just done to reach something that's topical and faddish. Most importantly, we want to make sure it really adds value to investors and their advisers."

Much like a Spotify playlist, direct indexing allows investors to mix up their own fund with a greater degree of customisation and control.

Of course, this strategy isn't for everyone. To critics, direct indexing is an attempt to rebrand active investing or SMAs, just to extract higher fees than most ETFs charge. For others, it may be exactly the solution they've been looking for.

After all, in the words of Spotify founder Daniel Ek: "Who doesn't love a personalised 'for you' approach?" **M**

Q&A: HOW IT MIGHT WORK

Q. Will direct indexing work for an Australian equities only portfolio?

A. There's no reason to think that it wouldn't work. For a direct equities-oriented portfolio, it's going to come down to the investor wanting something particular. I use the example of ESG situations. There's no reason why you couldn't have an Australian equities ESG portfolio where, for example, there were certain companies that you wanted to exclude. Maybe somebody wants to invest in an Australian ethical portfolio but they want it to be vegan. In that case, they might want to remove a company like A2 Milk, which would normally not fail most of the ESG screens that are commonly in an ETF or index fund.

Q. Can an Australian with access to global platforms access the direct indexing portfolios that are already offered in the US?

A. No, I don't believe there are any platforms available to any investor from Australia. I'm not aware of an end investor being able to access that here in Australia, even from an international group.

Q. Are there any index providers locally that are already talking about creating direct indexing portfolios, or is it not commercially feasible yet to do so?

A. At the moment, it's a new area, and people are still trying to ascertain where there will be sufficient levels of demand and what the right target market will be for that; also finding something that will be understandable and explainable for an investor because it can be quite complicated to work on something like this.

Ilan Israelstam, BetaShares

Need help?

Useful numbers and websites

Australian Communications and Media Authority
1300 850 115
acma.gov.au

Australian Competition and Consumer Commission
1300 302 502
accc.gov.au

Australian Financial Complaints Authority
1800 931 678
afca.org.au

Australian Securities and Investments Commission (ASIC)
1300 300 630
asic.gov.au

Australian Securities Exchange
131 279
asx.com.au

ASFA
1800 812 798 (outside Sydney)
9264 9300 (Sydney)
superannuation.asn.au

CPA Australia
1300 737 373 (within Australia)
+61 3 9606 9677 (outside Australia)
cpaaustralia.com.au

Do Not Call Register
If you want to reduce telemarketing calls
1300 792 958
donotcall.gov.au/contact-us/contact-details

Fair trading/ consumer affairs
ACT: 132 281
NSW: 133 220
NT: 1800 019 319
QLD: 137 468
SA: 131 882
TAS: 1300 654 499
VIC: 1300 558 181
WA: 1300 304 054

Financial Counselling Australia
1800 007 007
financialcounsellingaustralia.org.au/contact

Financial Planning Association
Listing of financial advisers
1300 337 301
fpa.com.au/about/contact-us

Human Services (formerly Centrelink)
Families: 136 150
Older Australians: 132 300
humanservices.gov.au

illion
For a copy of your credit report
132 333
illion.com.au

Legal Aid advice (free)
ACT: 1300 654 314
NT: 1800 019 343
NSW: 1300 888 529
QLD: 1300 651 188
SA: 1300 366 424
TAS: 1300 366 611
VIC: 1300 792 387
WA: 1300 650 579

My Credit File
For a copy of your credit report
138 332
mycreditfile.com.au

myGov
Track down lost super
1300 169 468
my.gov.au

Seniors Card
ACT: (02) 6282 3777
NT: 1800 441 489
NSW: 137 788
QLD: 137 468
SA: 1800 819 961
TAS: 1300 135 513
VIC: 1300 797 210
WA: (08) 6551 8800 (metro) or 1800 671 233

Superannuation Complaints Tribunal
1300 884 114
sct.gov.au

About *MONEY*

Contact us

To send a letter to the editor, write to:
Rainmaker Group
Level 7
55 Clarence Street
SYDNEY NSW
Australia 2000
or email money@moneymag.com.au

For all enquiries and letters, please include name, address and phone details. Letters may be edited for clarity or space. Because of the high number of letters received, no personal replies are possible.

Subscribe

Phone: 136 116
Online: magshop.com.au
Email: magshop@magshop.com.au

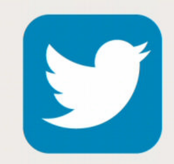
Subscribe to the *Money* digital edition at magshop.com.au/money-magazine

Visit *Money* online

Check out our website and while you're there sign up for our free weekly email newsletter. You'll get our top money stories plus exclusive finance tips.

moneymag.com.au

Follow *Money* on Facebook
facebook.com/MoneyMagAUS



Follow *Money* on Twitter
@MoneyMagAUS

Follow *Money* on Instagram
@MoneyMagAUS

Stay positive when inflation strikes

New research reveals what sectors and strategies do well as the cost of living rises

Inflation is here – and it doesn't matter if you think it is transitory or not. The question that needs to be asked is, what investment strategies have historically done well or poorly in periods of high and rising inflation?

A recent paper titled *The Best Strategies for Inflationary Times* by Henry Neville and others analysed 34 episodes of inflation over the past 95 years. They reviewed the historical performance of both passive and active strategies across a variety of asset classes for the US, UK and Japan.

They found that when inflation was 5%pa or higher at the country level (not necessarily international) it had the greatest impact on investment returns. Neither equities nor bonds perform well in real terms during inflationary periods. Fixed interest with duration and high-yield bonds on average posted negative annual returns (-8%). The higher the maturity, the greater the sensitivity to rising inflation.

The annualised real return during inflationary periods is -3%pa for two-year bonds, -5% for 10 years and -8% for 30 years. Inflation-linked bonds (TIPS), which can also be referred to as floating rate credit, were the only type of fixed-interest category that posted a positive real return of (2%pa) during past inflationary periods.

As for equities, the study found that energy was the only sector delivering a positive real return (1%pa) during inflationary periods. Healthcare was almost break-even at -1%pa. But the worst sectors were consumer discretionary (-15%), utilities (-9%), telecoms (-7%) and financials (-9%). These poorer-performing sectors are exposed to the individual consumer, who is likely to curb spending habits as their purchasing power is diluted by rising prices.

Hard assets such as commodities overall delivered 14%pa during inflationary periods. Among the commodities, the best performer was energy at 41%pa followed by industrial metals at 19%, gold at 13%, silver at 12% and precious metals at 11%. Softer and agricultural commodities delivered more modest but still positive real returns of up to 8%. So, all commodities have positive annualised real returns and have strong positive correlation to inflationary periods.

The opposite is true during non-inflationary periods, when commodities deliver more modest returns of 1%.

Now, let's review investment strategies. The quality factor performs positively in inflationary periods, while low-beta strategies struggle, which may be because low beta usually is linked to long duration and stable cash flows, specifically where they are not entirely linked to CPI. Incidentally, momentum equity strategies have shown to be a standout performer in inflationary periods.

Another factor found to impact investment returns is the relative inflation rates between different countries. The varying rates between countries and regions can be used as a basis for applying regional diversification in portfolios. For example, it was found that when inflation runs low in the US and Japan but high internationally, the investment real returns in the US and Japanese equities were actually positive (6%) and (9%) during the UK's inflationary period over the past 95 years. To put it another way, UK investors would have been well served to invest in US and Japanese equities when UK inflation was running much higher than US and Japanese inflation.

Right now, inflation is running at over 7% in the US and almost 6% in Europe, but in Australia it is currently 3.5%, which puts Australian equities in a good position to generate positive returns and may well be attractive to US and European investors. But if inflation is running higher than 5% everywhere in the world, then that will be a negative for equity markets and bonds.

Max Riaz is an investment manager and director at Banyantree Investment Group, with responsibilities across equity and multi-asset strategies. See banyantreeinvestmentgroup.com.

3 FUNDS TO WATCH

1 BetaShares Active Australian Hybrids Fund

Provides exposure to a diversified portfolio of hybrid securities in Australia. The manager actively manages volatility and downside risk and can invest in hybrid securities, bonds and cash. If hybrid securities are deemed to have too much risk (loss of capital) or to be overvalued, the manager can invest in lower-risk securities. The fund's income should rise in an increasing interest rate environment (and vice versa).

2 Ardea Australian Inflation Linked Bond Fund

Ardea is a value investor with a focus on liquidity and diversification. The investment approach is driven by fundamental analysis with a focus on disciplined risk management. By utilising multiple and diversified investment strategies, the manager can add value over the medium to longer term.

3 Vanguard Australian Inflation-Linked Bond Index Fund

Aims to track the return of the Bloomberg AusBond Inflation Treasury 1+ Yr Index before expenses. The fund invests in high-quality, inflation-linked bonds issued by the Australian government and is a low-cost way to gain protection against the long-term effects of inflation.

SECTOR RESOURCES

Beat the booms and busts

It's hard to predict the future in a volatile business so aim to minimise your downside

If you've been paying attention these past few months, iron ore, nickel, lithium and, yes, oil have been in the headlines a lot. Sometimes for their use in new technologies, but mostly for their volatility and their susceptibility to risks, both economic and geopolitical.

But this isn't new. Those of us with a little less hair these days will remember petrol rationing, and boom and bust in the iron ore sector. Prices have always been volatile for resources, because they are global commodities and supply is almost completely substitutable from one producer to the next.

Not only that, but the supply and demand for industrial commodities tends to ebb and flow. While the use of oil, for example, exploded during the 20th century, the amount being drilled increased and the technology improved, making extraction more efficient and keeping a relative lid on prices.

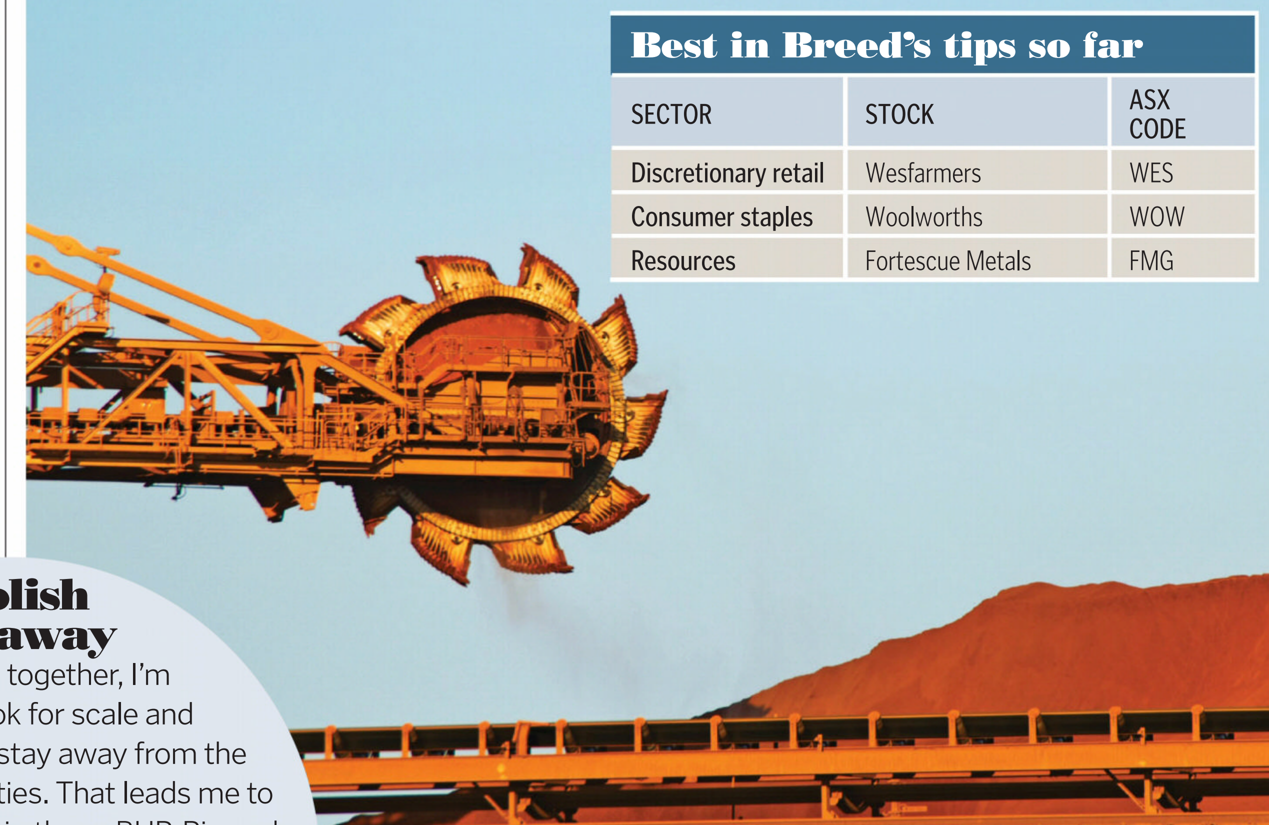
In other words, increasing demand is not enough to sheet home untold wealth to miners and drillers through soaring prices; if supply also grows, prices can remain static or even fall. Overlay that with speculative surges and falls in prices, and navigating this sector can be tricky.

And yet, Australia has some of the largest and most profitable miners in the world. The sector makes up a large chunk of the S&P/ASX 200. And it's here to stay. So how does an investor make sense of the multitude of investment options in this sector, maximising the potential reward without taking undue risk?

First, cross off those explorers not yet mining anything. Some of you would think that obvious. Others would find that scandalous – after all, this is where the raw opportunity is largest. I think the first group is correct. Yes, the potential return on explorers is enormous, just like a lottery win. But the odds, though perhaps not as long, are in the same ballpark.

Foolish takeaway

Putting it all together, I'm inclined to look for scale and track record, and stay away from the "hottest" commodities. That leads me to iron ore, and to the big three: BHP, Rio and Fortescue. Of that group, I favour (and own shares in) the one making strides to further diversify and improve efficiencies, and whose founder still has significant skin in the game, making Fortescue this year's Best in Breed in resources.



Best in Breed's tips so far

SECTOR	STOCK	ASX CODE
Discretionary retail	Wesfarmers	WES
Consumer staples	Woolworths	WOW
Resources	Fortescue Metals	FMG

Next, put the red pen through the small, unprofitable producers. But don't throw away this list. These are the producers worth keeping an eye on, because (almost) every large, profitable resources company begins by being small and unprofitable. It's not enough to recommend an investment, but tomorrow's winners might come from this list, once they grow up a bit.

Then we're left with the bigger guys. Those with the lowest costs, sizeable, preferably diversified operations (geographically or by commodity), stronger balance sheets and a track record. Each is important here. True, the return potential isn't as high, but the risk is greatly diminished. Not eliminated, mind you. Because next we turn our attention to the commodities they dig or drill.

Don't be caught up in what's already riding high. Why? Because commodities are usually cyclical in nature. They have great times and terrible times, in terms of price. If you know something cycles through being cheap, moderately priced and expensive – then back again – you wouldn't buy it when it was expensive, right?

Predicting is hard, though. So rather than try to guess what comes next, focus on whether prices are cyclically low or (preferably and) relatively close to the cost of global production. That minimises (but doesn't eliminate) the size of your downside, improving your odds.

Scott Phillips is The Motley Fool's chief investment officer. You can reach him on Twitter @TMFScottP and via email ScottTheFool@gmail.com. This article contains general investment advice only (under AFSL 400691).

Take the money or reinvest?

Hundreds of listed companies offer dividend reinvestment plans. It's a chance to boost your shareholdings without dipping into your savings, but there are pros and cons to weigh up.

STORY
NICOLA FIELD

A key attraction of investing in shares is the potential to earn regular, passive income through dividends. While a number of listed companies scaled back or suspended payments in 2020 to maintain precious cash reserves, dividends have been very much back on the agenda in 2021 and 2022.

A twice-yearly dividend is a welcome addition to many household incomes. But if you don't need the cash, it can be worth thinking about a dividend reinvestment plan (DRP). It's an option that lets shareholders take the value of a dividend in additional shares rather than cash.

DRPs are not limited to companies. They are also offered by exchange traded funds (ETFs) and listed Australian property trusts (A-REITs). Many BetaShares ETFs, for instance, come with the option of a DRP. The basic principles, especially in terms of what to consider, are much the same across shares, ETFs and A-REITs.

WHY OFFER A DRP?

Companies have a compelling reason to offer a DRP. It lets the business hold onto capital rather than paying it out in dividends. This means more money to reinvest back into growth opportunities, which ultimately benefits shareholders.

Not all companies have DRPs. Among those that do, some are prepared to offer a discount on the shares swapped for reinvested dividends, letting shareholders get more bang for their buck (more on this later).

The real sweetener for many investors is an opportunity to save on brokerage costs. The extra shares provided through a DRP come straight from the company. This eliminates the need for broker involvement, so no broking fees are paid.

There is another significant benefit to DRPs, and that's the power of compounding. As an investor, you're not just reinvesting income. By increasing your shareholding, you're entitled to even more dividends

next time a dividend is paid. In this way, a DRP can have a compounding effect that works along the lines of forced savings.

Vanguard has crunched the numbers, finding that by reinvesting dividends, a $10,000 initial investment in the ASX 200 in 1991 would have grown to be worth $160,498 by 2021. It's an impressive result. However, while DRPs have upsides, there are also drawbacks, and it pays to weigh up the advantages and disadvantages before giving up cash dividends.

HOW IT WORKS

To know if a company offers a DRP, head to the investor information section of its website, and click on the section for dividends. This will explain if a DRP is in place and how it works. Signing up for a DRP means some form filling (also available on the company website), but it costs nothing to join, and you have the freedom to drop out at any time.

Conditions may apply to joining a DRP. For example, shareholders in insurer QBE need to have a minimum of 100 shares to join. Other companies, like AMP, don't apply such limits.

If you're unsure about giving up all your dividends, check the fine print of the DRP documents. Plenty of companies let you choose a mix-and-match option, where you can nominate how many of your shares you want to participate in the DRP. Any shares not covered by a DRP will continue to earn cash dividends.

The shares received through a DRP are typically the same ordinary shares you would acquire through an online broker.

HOW MUCH YOU'LL PAY

The company's website will explain how the value of new shares issued under a DRP is calculated. It's an area where there can be slight differences between companies.

The Commonwealth Bank and Woolworths, for instance, both set the price of shares under a DRP at the market price averaged over 10 trading days after the dividend record date. AMP uses the average over a period of "not less than five trading days".

This timeframe matters because, as a shareholder, you won't know what the shares are trading for when you commit to a DRP. So it takes away an element of control around how much you pay for stocks, something that may be important for investors keen to try to time the market. There is always the possibility that the DRP price could be above the market price, meaning you may overpay for the new shares, though it's likely to be a small downside for long-term investors.

The number of shares received in lieu of a cash dividend depends on the value of dividends declared as well as the market value of the shares when the dividend is recorded. It's unlikely that a dividend payment will exactly round out to a whole number of shares. Where that's the case, the number of shares you receive is rounded down.

To see how it works, let's say you hold 1000 shares in XYZ Ltd, and you've signed up to reinvest 100% of your dividends. We'll say the company announces a dividend of 20 cents a share, and the shares have a market value of $15.50. On this basis, you'd receive a $200 cash dividend (20¢ x 1000 shares). By enrolling in the DRP you will receive 12 shares. Based on a share price of $15.50, this uses up $186 of your $200 dividend. The remaining $14 isn't enough to buy an additional share, so this amount will sit as a cash balance in your DRP account to be carried forward and applied to the next dividend payment.

While balances leftover in a DRP account are likely to be small individually, if you sign up to a large number of DRPs you could potentially have a significant amount of cash sitting idle. Dividends are paid twice yearly at best, and you won't earn interest on the

> If you sign up, just be sure you don't need the cash at dividend time and you can settle your tax bill

balance in a DRP account. So it's money that can't be put to work until the next dividend rolls around.

DOES IT FIT YOUR OVERALL PLAN?

Mark McShane, senior financial adviser at Chrysalis Lifestyle Planning, says a DRP can be a good idea if it aligns with your broader wealth accumulation plan.

If you're focused on income generation, a DRP may not be a suitable strategy. "A DRP will reduce your cash flow, while still creating a tax liability. This is not ideal during passive income lifestyle stages, such as retirement," he says.

The tax liability is a factor worth noting. It arises because the Tax Office treats reinvested dividends as if you had received the cash dividend and then used it to buy more shares. That means the dividend must be included in assessable income in your annual tax return, even though no cash changed hands.

Shareholders who commit to a DRP are still entitled to claim franking credits when reporting dividends for tax purposes. However, high income earners with a marginal tax rate above the corporate tax rate of 30% may need to pay a top-up. As cash hasn't been physically received from the company, this means dipping into personal cash reserves to settle the tax score.

As McShane points out, one of the pluses of a DRP is that it provides a consistent and disciplined approach to investing. Investors automatically build additional shareholdings twice a year, and in this sense he says a DRP is a way to "take advantage of a dollar cost averaging strategy, where share parcels are purchased regularly over time, capturing the long-term benefit of compounding returns".

On the flipside, reinvesting is an automatic process. "So the underlying shares will continue to be purchased regardless of whether it is an unfavourable time to buy, or if the stock has become an unfavourable investment."

Another risk is that over time the build-up of shares in a particular company can reduce portfolio diversification. "As your shareholding in one company grows, it can result in your portfolio getting out of balance," says McShane. You could, for example, have a disproportionately large chunk of your portfolio invested in a single company or industry sector.

When this happens, McShane says the likely result is the need to sell down some shares to re-align your portfolio with your goals and tolerance for risk. "This is time consuming," he says, "and it may result in negative tax and cost implications."

The upshot is that investors need to "proactively manage DRPs and concentration risk".

HOW REALISTIC IS A DISCOUNT?

The prospect of pocketing a discount on shares is a widely touted perk of DRPs. McShane says this discount is "usually somewhere in the range of 1%-5%." For the past few years, though, discounts have been thin on the ground.

It's entirely up to a company's board of directors whether to hand over shares at a discount. Large companies with plenty of capital may have little motivation to entice investors to take dividends in shares rather than cash by offering a discount.

As a guide, the last time the Commonwealth Bank handed out a DRP discount was back in 2017, when investors pocketed a saving of 1.5% on the share price. Similarly, Woolworths makes it clear that directors may provide a discount of up to 10%, though the grocery giant states that no discount is currently payable.

Equity Trustees is one of the few companies to have dished up recent discounts, slicing 1%-1.25% off its share price for DRP participants in the past two years.

ADDITIONAL ADMIN

A DRP will only see investors acquire new shares twice a year in line with dividend payments. But over time, a DRP can mean a bigger administration

burden when you sell the stock. "A DRP will result in increased administration and tax reporting," cautions McShane. "Each share parcel purchased under a DRP needs to have the date of purchase, price and amount of the transaction recorded and tracked through its ownership period."

This highlights the need to keep good records as each DRP share purchase will have a different acquisition price and date – something that's critical for accurate reporting of capital gains.

WHAT TO WEIGH UP

If dividends don't play an essential role in your household income, signing up to a reinvestment program can set you on an automated road to compounding returns. Just be sure you won't need the cash at dividend time, and you have the funds available to settle your tax bill especially if you're a high income earner likely to face a tax shortfall even after allowing for franking credits.

As a DRP will only see you top up shares twice a year, it's not the quickest way to grow your holdings in a particular company. If you're on a fast track for growth, it will be quicker to add shares manually.

Remember, too, when you reinvest dividends or fund distributions, you are putting more money into the same investment. That may be fine if you already have a highly diversified portfolio. But research continually suggests this isn't the case for many Australians. So it pays to regularly review your involvement in a DRP.

While many companies offer DRPs, the fine print of most plans makes it clear that the board of directors can stop the program at any time. And it does happen. Energy giant Santos recently suspended its DRP. Telstra suspended its DRP between 2008 and 2015. More recently, in 2021 Telstra announced the suspension of its DRP given the company's proposed restructure. It has since flagged that its DRP will operate for the interim dividend in the 2022 financial year. ***M***

Discipline goes a long way

Like a good gardener, the long-term investor should regularly pull out the weeds and plant flowers

The life of a trader is not what most of us might imagine it to be – that is, glamorous, exciting and paved with gold. More likely it is solitary, private, a bit boring and, when done right, provides a living.

We could all be traders. We could all be Arnold Schwarzenegger, too. Go to the gym every day, lift heavy weights, eat protein shakes, avoid chocolate and talk with a vague middle-European accent. But the reality is, who can be bothered?

And who can be bothered to be a trader because to do it properly is pretty much a full-time job, and most of us already have one of those, and those of us who don't probably don't want one.

But that doesn't mean we can't adopt some of the core principles of the job, principles that apply not just to traders but to investors as well, principles like "preserve your capital" and "cut your losses". Clichés all, but as any trader will tell you, no trading system will succeed without them, and no long-term investor will either.

The big mistake for long-term investors is that they see things as being part of a portfolio in which the winners make up for the losers. With that mindset, long-term portfolio investors "excuse" the losers and do nothing about them. But if you really want performance, the losers are just as important as the winners, and you need to protect against them. To do that you have to pull the weeds and plant flowers in their place. And if flowers turn into weeds, cut them and plant some more. Do this relentlessly and you will end up with a garden full of blooming flowers.

How do you cut weeds? Simple. Use stop losses. How? Let's cut to the substance.

What are they? An order that automatically closes your trade at a predetermined price, and so limiting your loss. A stop loss is a mechanism that short-circuits debate and emotion and provides certainty.

Requirements: Forget the concept of "portfolio". Think of every stock you hold as a separate trade. Preset a stop loss for each holding, preferably when you are unemotional and in possession of a clear mind. The time of purchase would be good, but any time will do.

The mechanism: It is impossible to set a rule for everyone. For those of us without trading systems you can use a number of different methods to set stop-loss levels. The most obvious is a flat percentage. If it falls by 5%, sell it. But that's very basic and most of us struggle doing that in practice. The market is so volatile these days.

Most (hard-core) traders use "the 2% rule". That means they are prepared to risk a maximum of 2% of their trading capital on any one trade. In other words, on $100,000 of capital (a portfolio of $100,000) they would cut a trade that makes a $2000 loss. Notably, this is not the same as a 2% drop in share price. If they have put $10,000 of the $100,000 portfolio in the trade, it could be a 20% loss on that one trade ($2000 of the $10,000).

Another way to set stop-loss levels is by reference to a chart rather than a percentage. For instance, if you are trading price breakouts (buying stocks that break a resistance level) the stop loss can be set at the price at which it breaks out, and so the resistance level that was broken serves as the stop-loss level if it reverses again.

Then there are rolling stop losses. As prices rise you raise the stop loss to guarantee a profit if the price then falls from its new high.

Once in profit, some people use "partial stops" – they continue to identify levels or technical sell signals and either sell all or part of the position depending on what level or signal is hit.

Others set stop-loss levels with reference to the volatility of the stock, setting stop losses at a level that allows the trade to develop without being stopped out by a normal fluctuation.

The way to avoid this is to learn about volatility and average true range (ATR). Simply put, this means accounting for how volatile a stock is when setting a stop loss. Volatile stocks need more room to move. If you don't understand volatility, you are trading every stock as if it has the same risk, and clearly there is a big difference between trading Telstra and trading Zip Money. It's easier than it sounds.

Ultimately, there are a lot of ways of setting stop loss levels. As noted, a flat percentage is very basic. But the core to it is to make the decision to use them rather than rely on guts, to set your stop-loss levels early, to set them for each individual stock and stop thinking in terms of "the greater portfolio".

I suggest you read some trading books. It's hard-core stuff but takes you ahead of the average punter in terms of trading discipline. Most good trading books are very hard work (dull) and full of theory and, interestingly, are nothing to do with picking stocks but about risk management. It's not what you buy, it's all about what you do after you buy. That's the bit that needs a plan and discipline and vigilance and where almost everyone goes wrong and doesn't bother.

Of course, all of this stop-loss stuff takes a bit of monitoring, and this is where most of us fall down. But it is not as complicated as it might seem.

All you need do is get a list of your stocks, a list of current prices and next to that a column defining your stop-loss levels. Every so often update the current prices and compare them to the stop-loss price. It's that simple.

If you consider yourself a long-term investor and your concern is Armageddon rather than a correction, you can be a bit relaxed. Set your stop losses nice and wide and update current prices once a month or whenever the news "vibe" suggests something could be going wrong. Dance to your own tune.

If you are more concerned about short-term fluctuations, check in more often. Hard-core traders use live prices. The average trader would check against daily closing prices. Other investors might check stop losses against weekly prices. Whatever suits.

But the main thing is to pay at least some attention to what's happening and have an understanding with yourself that you will take action when a price falls a predetermined amount, and stick to your guns.

If you work stop losses diligently, then when the market falls over you will find you have sold each stock on its own lack of merits as it turned down and have ended up in cash, where you should be, without having to make some impossibly big call on all your holdings (your portfolio) at once.

Yes, you will make mistakes. Yes, you will sometimes sell stocks that then go up again. But nine out of 10 stocks that are going down are going down for a reason and are likely to keep going down. And if they don't, don't worry about it. The game is to learn what works and whatever you do it has to be better than setting and ignoring.

Cash is power. Taking a loss puts you in the eye of the storm, gives you clarity and you know you can always buy back.

This is a huge subject to consider, so let me leave you with a core tenet: when it comes to controlling losses, anything is better than nothing – and if your mechanism doesn't work, you can always change it.

Marcus Padley is the author of the daily stockmarket newsletter Marcus Today. For a free trial of the Marcus Today newsletter, please go to marcustoday.com.au.

The pandemic-fuelled migration from the cities to the bush, especially among millennials, provides new opportunities for investors

Cash in on the great escape

STORY ALEXANDRA CAIN

Liana Moule is part of an exodus of young people fleeing the city for the peace and quiet of regional towns. Moule and her husband, Gavin, moved to Victoria's Mornington Peninsula from the Melbourne suburb of Coburg in 2021 after they were both able to partly work from home during the pandemic, and they've continued working from home since then. Proceeds from the sale of their city property paid for a huge chunk of their new home, which they want to knock down and rebuild.

Many couples are in a similar position, and this is changing the way investors consider the future for a range of sectors. According to the Regional Movers Index, for the December 2021 quarter, there was a 15% increase in the number of people moving from capital cities to regional areas during 2020 and 2021 compared with the two previous years. While there was a small dip in migration from the city to regional towns in the last quarter of 2021, the trend for people shifting from metro areas to the country is expected to continue, at least in the medium term.

Savvy investors appreciate that this dynamic is shifting the fortunes of different industries. Aside from the impact on property prices, the millennial diaspora also presents opportunities in sectors like health, energy and even financial services. Here are some of the likely winners.

• Disruptors in technology

The new tech winners are the ones nipping at the heels of the FANG stocks – Facebook (now Meta), Amazon, Netflix and Google – and, at the same time, keeping them relevant.

"Companies with the technology that supports working from home, online retail and digital entertainment have seen large gains," says Australian Retirement Trust's head of strategy, Andrew Fisher. "These trends have already been captured in the share prices of the large US technology stars. But there will be a broader base of future winners in the next phase as this opportunity plays out.

"Expect the share prices of smaller companies in data warehousing and warehouse automation technology to rise. We are looking to identify who will be disrupting the disruptors, as well as the flow-on opportunities in supporting technologies that will improve or expand those disruptive themes."

Local beneficiaries might include data centre **NextDC** and data warehouse stock **Data#3**.

• Here's to good health

Many health stocks busted through the stratosphere during Covid – such as Fisher & Paykel, which makes respiratory devices – and this trend is set to extend into regional areas, albeit in different sub-sectors.

"We're focusing on the medical and medical office space," says Fisher. "A recent investment in Evolution Heath Care in New Zealand is an example and we continue to see opportunities in this area. One of the challenges in regional areas is proximity to healthcare, which is why we're interested in supporting major healthcare infrastructure like medical accommodation providers that complement regional healthcare businesses."

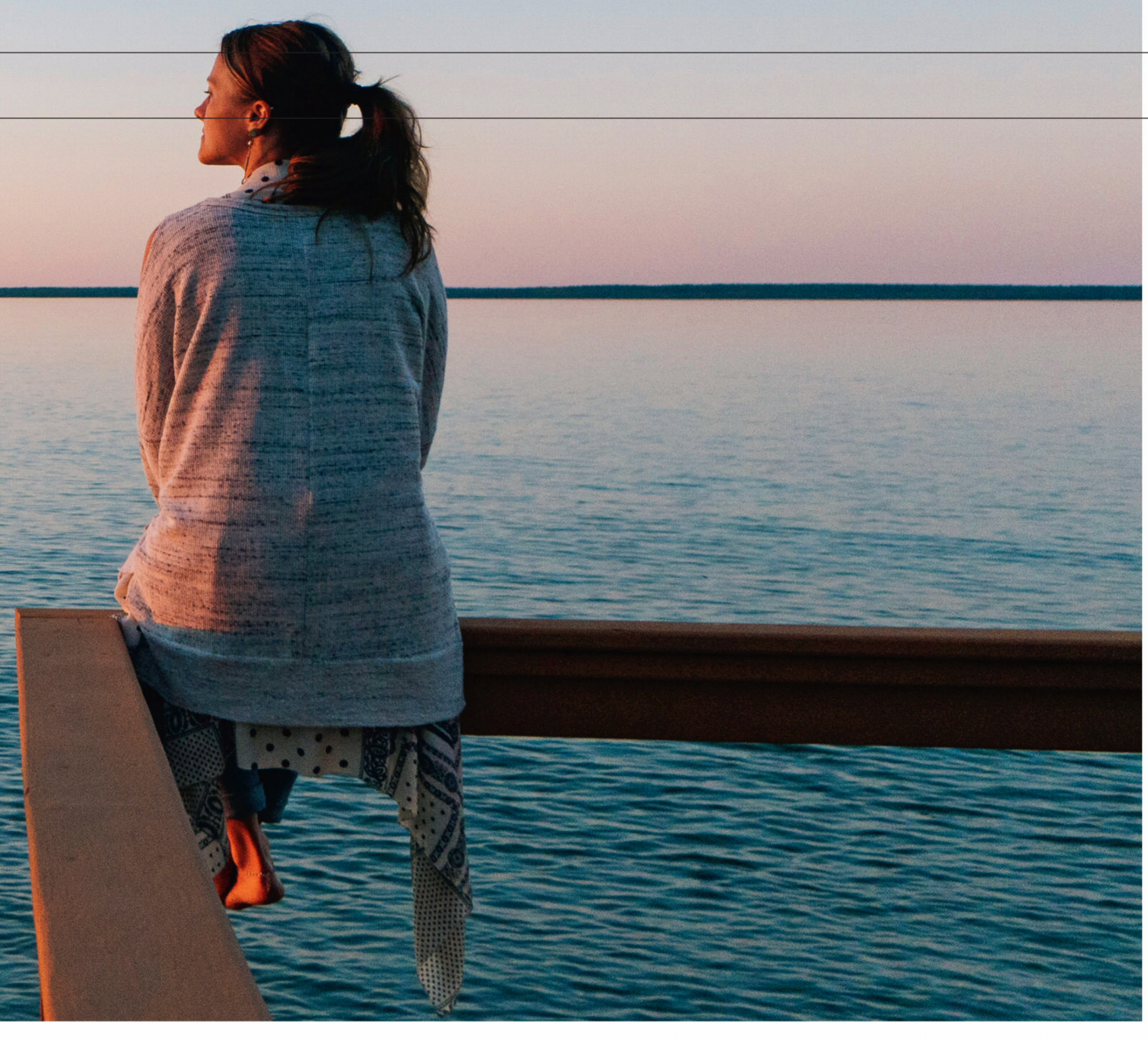
An example is **Australian Unity**, which has an extensive medical property portfolio.

• More shoppers go online

While there's no doubt the big supermarkets were instrumental in keeping all Aussies in toilet paper over the pandemic, people have made an effort to support smaller, local retailers over the past two years. The shop-local vibe will continue to gather pace.

"This has been a notable aspect of the work-from-home trend," says Fisher. "A continuation of the population dispersion theme would see further support for smaller shops. The online retail trend was accelerated due to Covid and working from home and will continue. The pace of growth in that sector will likely slow, but we expect the transition from bricks and mortar to online will only grow."

Chris Brycki, CEO of online investment adviser Stockspot, says growing preference for living in regional areas is positive for digital businesses more broadly. "It's good news for online travel, e-tail and financial services firms. Fewer shopfronts in regional centres mean people will become increas-



ingly reliant on digital businesses rather than traditional shops and banks."

Winners include **Amazon**, which will supply products for smaller shops in regional areas, as well as **Telstra**, which will supply the data for many regional online retailers.

• Travel bounces back

People who are living in the country still want to buy everything they have always been able to get in the city, such as coffee, clothes, devices, furniture and more.

"Logistics and transportation businesses will benefit from this trend, as they increasingly deliver goods to smaller distribution centres and right into central regional hubs and beyond," says Brycki. "Similarly, telecommunications and infrastructure businesses will benefit from this trend, as they increasingly provide all the essential services people living outside of cities still desire."

When it comes to transport and infrastructure, Fisher notes airlines, travel agents and airports were some of the biggest losers over the Covid period, but that's changing and people travelling from the regions into nearby cities and beyond will support companies in these sectors.

"The travel sector was seeing the green shoots of a recovery, but the recent escalation in the Russian invasion of Ukraine has been a setback," says Fisher. "Nevertheless, these distressed sectors are likely to be potential winners at the domestic level. Although this may be offset by potential ongoing structural challenges to the travel sector, with appetite for international and capital city business travel unlikely to revert to pre-Covid levels in the near term. On balance, these distressed sectors are likely to provide opportunities for growth but caution is warranted."

Opportunities might include **Toll**, **Flight Centre** and **Qantas**.

• Resources go up and down

These stocks tend to be driven by commodity demand and commodity prices. When resources are on an upward trajectory, this drives new investment and construction, which delivers significant population and economic growth to regional centres.

The other force supporting mining and resources is the transition to renewables.

"Significant investment will be required to support this shift and the regional centres with close proximity to these investments will see an influx of economic activity," says Fisher. But keep in mind companies that are building this infrastructure will see short- and medium-term gains in the construction phase, which will taper off as projects come online given the workforce required to operate the new technology will be much lower than the workforce required in the construction phase.

Look at **Fortescue** and **Santos** to jump on this trend. ***M***

Consider the risks

There are lots of positives for investors in the sea change/tree change trend. But it's important to be realistic and apply the scepticism you would normally use when making investment decisions.

Australian Retirement Trust's Andrew Fisher believes the main risk is a reversal of the sea change trend as workers return to the office in 2022. "Regional property values are elevated and regional centres have seen an influx of wealth as a result of the Covid-induced, work-from-home trend. Should that trend reverse meaningfully, the outflow of wealth from regional centres could have an equally detrimental impact and any investment seeking to profit from this trend should be tempered with an awareness of this risk."

As a result, diversification remains paramount. Day traders aside, successful long-term investors tend to design portfolios based long-term economic, market or geopolitical forecasts. So, focus on building a resilient portfolio of stocks that deliver robust performance across a range of potential future scenarios.

Regional prices boom

PRD Real Estate's intel shows median house prices in regional towns rose by around 25% on average between the end of 2020 and today.

At the top end, property prices at Tallebudgera on the Gold Coast rose by 55.9% in this period. At the other end of the scale, prices in the central NSW town of Gundagai were up by 14.2%.

Country property prices have also been buoyed by big businesses moving their warehouse or operations, or opening a branch, to regional areas. Local and state government investment in regional infrastructure is also helping to support property prices in the bush.

But it's not just residential property that's benefitting from people's desire to move to the country.

"The continuing convergence between regional and city residential property values is also likely to play out in industrial, retail and office property prices and rents, with growing demand in the regions for commercial property, leading to higher vacancy rates in cities," says Stockspot's Chris Brycki.

DATABANK

The tables on these pages contain data and information to help you compare managed funds, which are pooled funds managed professionally by investment experts.

Managed funds displayed in these tables are multi-sector or asset class specific. Multi-sector managed funds invest across a diversified mix of asset types spanning equities, property, bonds, cash, infrastructure, private equity and alternatives.

Managed funds are normally set up as unit trusts. You may be able to invest in them directly or through a platform.

Top 5 sector benchmarks

Sector	Benchmark	1-year return	3-year return (pa)	5-year return (pa)	10-year return (pa)
Australian Equities	S&P ASX 200 Accum Index	17.2%	13.6%	9.8%	10.8%
International Equities	MSCI World ex AU Index	30.1%	21.2%	15.7%	17.5%
Property	S&P ASX 200 A-REIT Index	26.1%	12.8%	9.3%	13.8%
Australian Fixed Interest	Bloomberg Barclays Australia (5-7Y) Index	-3.1%	2.8%	3.2%	3.9%
International Fixed interest	Bloomberg Barclays Global Aggregate Index	-1.5%	3.5%	3.2%	4.6%

Top 5 Australian funds by size

Name	APIR code	Mngmnt fee (pa)	Start date	Size	1-year return	3-year return (pa)	5-year return (pa)	10-year return (pa)
Vanguard International Shares Index Fund	VAN0003AU	1.18%	1997	$23,416m	29.7.%	20.7%	15.2%	16.9%
Vanguard Australian Shares Index Fund	VAN0002AU	0.16%	1997	$18,526m	17.6%	14.0%	9.9%	10.7%
Magellan Global Fund	MGE0001AU	1.35%	2007	$14,202m	18.3%	15.2%	13.9%	16.5%
DEXUS Property Fund	-	0.55%	1995	$11,338m	12.3%	6.1%	8.9%	10.0%
Vanguard Australian Shares Index Fund	VAS	0.10%	2009	$10,131m	17.6%	14.0%	9.9%	10.7%
AVERAGE*		0.68%		$837m	14.2%	11.3%	8.3%	9.8%

Top 5 funds by 1-year return

Name	APIR code	Mngmnt fee (pa)	Start date	Size	1-year return	3-year return	5-year return (pa)	10-year return (pa)
Ausbil Global Resources Fund	AAP5928AU	1.35%	2018	$231m	81.5%	47.0%	-	-
Robeco Global DM FM Equities Alpha Fund	ETL7610AU	0.65%	2018	$21m	43.9%	18.6%	-	-
Alphinity Global Equity Fund	HOW0164AU	1.00%	2015	$224m	42.7%	25.1%	19.5%	-
Claremont Global Fund	ETL0390AU	1.25%	2014	$88m	42.6%	27.7%	19.5%	-
Aoris International Fund	PIM3513AU	1.50%	2018	$340m	39.8%	23.2%	-	-
AVERAGE*		0.81%	-	$836m	18.6%	14.4%	10.3%	11.7%

Top 5 diversified funds by 1-year return

Name	APIR code	Mngmnt fee (pa)	Start date	Size	1-year return	3-year rtn (pa)	5-year return (pa)	10-year return (pa)
First Sentier Wholesale High Growth Fund	FSF0498AU	1.16%	1999	$459m	34.6%	22.0%	16.8%	16.0%
Fiducian Ultra Growth Fund	FPS0014AU	1.45%	2008	$312m	34.3%	19.3%	12.5%	15.2%
Perpetual Split Growth Fund	PER0066AU	0.55%	1999	$47m	34.2%	23.3%	15.8%	17.5%
BetaShares Ethical Diversified High Growth ETF	DZZF	0.39%	2019	$29m	33.4%	19.2%	14.3%	17.7%
BetaShares Diversified All Growth ETF	DHHF	0.19%	2019	$137m	32.7%	-	-	-
AVERAGE*		0.68%		$604m	11.4%	9.2%	6.56%	8.3%

Source:
Rainmaker Information. Data sourced as at December 31, 2021.

*Numbers stated here depict averages, other than the Rank column, which is the total number of funds in the category. For any queries on these tables, please contact info@rainmaker.com.au.

These products may be recommended to you by a financial adviser.

The performance results displayed are the annualised investment returns each managed fund has delivered after taking into account taxes paid by the unit trust and investment fees.

Research was prepared by Rainmaker Information and for more information see **www.rainmaker.com.au**

RAINMAKER INFORMATION

INDUSTRY INTELLIGENCE

DATABANK

Top 5 Australian equities funds by 1-year return

Name	APIR code	Mngmnt fee (pa)	Start date	Size	1-year return	3-year return (pa)	5-year return (pa)	10-year return (pa)
Paradice Equity Alpha Plus Fund	ETL8096AU	0.99%	2019	$54m	32.7%	11.9%	-	-
VanEck Australian Banks ETF	MVB	0.28%	2013	$193m	30.6%	27.1%	6.4%	-
Bennelong ex-20 Australian Equities Fund	BFL0004AU	0.95%	2009	$4,587m	29.8%	25.1%	18.1%	17.7%
Bennelong Concentrated Aust Equities	BFL0002AU	0.85%	2009	$2,084m	29.5%	20.1%	19.0%	19.8%
Airlie Australian Share Fund	MGE9705AU	0.78%	2018	$288m	28.8%	20.1%	-	-
AVERAGE*		0.69%		$921m	18.2%	14.4%	9.9%	11.4%

Top 5 international equities funds by 1-year return

Name	APIR code	Mngmnt fee (pa)	Start date	Size	1-year return	3-year return (pa)	5-year return (pa)	10-year return (pa)
Ausbil Global Resources Fund	AAP5928AU	1.35%	2018	$231m	81.5%	47.0%	-	-
Robeco Global DM MF Equities Alpha Fund	ETL7610AU	0.65%	2018	$21m	43.9%	18.6%	-	-
Alphinity Global Equity Fund	HOW0164AU	1.00%	2015	$224m	42.7%	25.1%	19.5%	-
Claremont Global Fund	ETL0390AU	1.25%	2014	$88m	42.6%	27.7%	19.5%	-
Aoris International Fund	PIM3513AU	1.50%	2018	$340m	39.8%	23.2%	-	-
AVERAGE*		0.80%		$813m	23.8%	18.5%	13.9%	15.2%

Top 5 income-focused equities funds by 1-year return

Name	APIR code	Mngmnt fee (pa)	Start date	Size	1-year return	3-year return (pa)	5-year return (pa)	10-year return (pa)
DNR Capital Australian Equities Income Fund	PIM8302AU	0.90%	2020	$11m	22.2%	-	-	-
Antares Dividend Builder	PPL0002AU	0.60%	2005	$112m	22.2%	11.1%	6.5%	11.0%
MLC Wholesale IncomeBuilder	MLC0264AU	0.72%	1998	$389m	20.4%	9.1%	4.7%	9.4%
Perpetual Income Share Fund	PTC0002AU	0.99%	1993	$172m	20.0%	11.6%	7.0%	-
Martin Currie Real Income Fund	SSB0026AU	0.85%	2010	$1,008m	19.3%	8.0%	7.0%	12.5%
AVERAGE*		0.78%		$407m	16.1%	10.3%	6.5%	9.5%

Top 5 ESG funds by 1-year performance

Name	APIR code	Mngmnt fee (pa)	Start date	Size	1-year return	3-year return (pa)	5-year return (pa)	10-year return (pa)
Robeco Global DM MF Equities Alpha Fund	ETL7610AU	0.65%	2018	$21m	43.9%	18.6%	-	-
Franklin Global Responsible Investment Fund	SSB5738AU	0.75%	2019	$23m	35.9%	-	-	-
Candriam Sustainable Global Equity Fund	AAP0001AU	0.75%	2004	$91m	34.2%	23.3%	15.8%	17.5%
Nanuk New World Fund	SLT2171AU	1.20%	2015	$610m	31.0%	21.1%	16.2%	-
Fidelity Global Future Leaders Fund	FID5543AU	1.10%	2020	$24m	30.7%	-	-	-
AVERAGE*		0.74%		$314m	19.1%	14.9%	10.4%	11.3%

WHAT THEY MEAN

Performance after investment fees. Investment returns after investment fees annualised to describe each fund's returns per annum. But if your managed fund achieves a high return and charges you an extra "performance fee", Rainmaker has not taken this into account. Past performance is not an indicator of future performance.

Rank. Funds are ranked against all managed funds in each segment, not just those included in each table.

Indices and averages. Arithmetic average investment returns or average fees for all fund investment options within each category, that is, not fund size weighted.

YOUR GUIDE TO SUPER DATA

The table contains information to help you compare super funds. It showcases publicly available MySuper investment options offered by some of Australia's biggest funds. Rainmaker categorises them into risk options based on percentage of growth assets in their portfolio. The high-growth risk option has more than 85% in growth assets (growth has between 75% and 85%), balanced has between 55% and 75%, and capital stable products have less than 55% growth assets.

The performance results are the annualised investment returns each option has delivered after taking account of all taxes and fees. Past performance is no indicator of future performance.

The table only lists funds designated AAA, Rainmaker's Super fund quality rating. Rainmaker Information prepared this research. **www.selectingsuper.com.au**

Best Super Funds: Top 20 MySuper – December 31, 2021

RANKED BY 3-YEAR RETURN

FUND & INVESTMENT OPTION NAME	Strategy	Growth assets	Risk category	1-year return	1-year rank	3-year return (pa)	3-year rank	5-year return (pa)	5-year rank
Aware Super Employer – High Growth	LC	84%	Growth	17.9%	5	14.2%	1	11.4%	1
Virgin Money SED – LifeStage Tracker 1979-1983	LC	90%	High Growth	17.1%	7	13.7%	2	10.0%	6
Mine Super - High Growth	LC	890%	High Growth	19.1%	1	13.6%	3	10.0%	3
GuildSuper - MySuper Lifecycle Growing	LC	100%	High Growth	17.9%	6	13.4%	4	9.7%-	8
Telstra Super Corporate Plus- MySuper Growth	LC	89%	High Growth	18.4%	3	13.0%	5	9.9%	7
Active Super Accumulation Scheme - High Growth	LC	95%	High Growth	17.9%	4	12.9%	6	10.1%	2
smartMonday PRIME–MySuper Age 40	LC	86%	High Growth	16.3%	10	12.8%	7	9.5%	10
Australian Ethical Super Employer- Balanced	S	70%	Balanced	12.7%	31	12.3%	8	9.2%	14
ANZ SCSE - ANZ Smart Choice 1980s	S	80%	Growth	16.4%	9	12.3%	9	9.1%	17
Mercer CS- Mercer SmartPath 1979-1983	S	89%	High Growth	15.8%	12	12.1%	10	9.1%	15
Australian Super - Balanced	S	66%	Balanced	14.7%	15	12.1%	11	10.0%	5
UniSuper - Balanced	S	68%	Balanced	12.3%	35	12.0%	12	9.6%	9
Hostplus - Balanced	S	81%	Growth	18.9%	2	11.8%	13	9.5%	4
VicSuper FutureSaver -Growth (MySuper)	S	68%	Balanced	14.5%	16	11.7%	14	9.4%	11
Vision Super Saver – Balanced Growth	S	70%	Balanced	15.4%	17	11.5%	15	9.3%	13
Australian Catholic Super Employer -LO LifetimeStart	LC	89%	High Growth	13.3%	14	11.5%	16	-	-
Lutheran Super -Balanced Growth -MySuper	S	75%	Balanced	16.0%	25	11.3%	17	8.4%	26
Sunsuper Super Savings - Lifestyle Balanced Pool	LC	77%	Growth	16.9%	11	11.1%	18	9.3%	12
FirstChoice Employer - FC Lifestage (1980-1984)	LC	74%	High Growth	12.8%	8	10.8%	19	8.0%	32
Cbus Industry Super - Growth (Cbus MySuper)	S	70%	Balanced	14.3%	30	10.8%	20	9.1%	16
Rainmaker MySuper/Default Option Index				**14.2%**		**10.8%**		**8.6%**	

*Limited public offer fund.

Rankings are made on returns to multiple decimal points.

SelectingSuper Benchmark Indices – Workplace Super

INDEX NAME	Performance to December 31, 2021		
	1-year	3-years (pa)	5-years (pa)
Rainmaker MySuper/Default Option	14%	11%	9%
Rainmaker Growth	17%	12%	9%
Rainmaker Balanced	13%	10%	8%
Rainmaker Capital Stable	7%	6%	5%
Rainmaker Australian Equities	17%	13%	9%
Rainmaker International Equities	20%	16%	12%

Source: Rainmaker Information. www.rainmakerlive.com.au

DATABANK

WHAT THEY MEAN

Performance after fees: When calculating fees, Rainmaker assumes a member has $50,000 in their account.

Strategy: Some MySuper products invest your superannuation based on age and are known as lifecycle funds (marked LC). The table includes the LC option for 40-year-old members. Non lifecycle funds are known as single strategy (S).

Rank: Funds are ranked against all MySuper investment options available in Australia.

Indices and averages: To produce these indices, Rainmaker analyses the results of more than 3300 investment options.

The year of living dangerously

With petrol prices soaring and home loan rates increasing, Aussies are likely to be feeling a lot less confident about 2022

Readers need to brace for petrol prices that could go as high $2.20 or more a litre. And that's just for plain 94 octane. Those who drive cars requiring higher-grade fuel could soon be paying $2.40 or more.

Driving the price rises is the disruptive effect on world capital markets due the sanctions imposed on Russia for its unprovoked invasion of Ukraine. These disruptions are likely to get a lot more intense with the sanctions on Russian oil.

According to a note from the research group Zenith Investment Partners, "Russia is a major player in energy markets, it is the second largest exporter of oil after Saudi Arabia, providing more than 11% of global oil production and close to 17% of global gas supplies. Europe is its major customer, sourcing around 25% of its oil and almost 40% of its gas from Russia."

Even though prime minister Scott Morrison was reported to have said Australia would release 1.7 million barrels of oil from its strategic reserve to alleviate price pressures, this is a futile response. Each day Australia consumes about one million barrels of oil, most of which is imported.

Anyway, the strategic oil reserve is just smoke and mirrors as it's really just a rental deal to access the US's strategic oil reserves. And in case you're wondering, according to statements released by the federal government last year when it announced this oil rental deal, Australia at any one time only has enough oil onshore for about 80 days.

So if, your gods forbid, Australia ever went to total war, we'd be pretty easy to starve into submission in a siege. Which is why we need those nuclear submarines yesterday.

It's easy to be a hindsight hero, but Australia will soon be paying the price for not buying oceans of oil during the financial nadir of the Covid-19 pandemic in mid-April 2020 when the price plummeted to just $US20 ($27) a barrel. By mid-March 2022 it had reached $US124 and is likely to go much higher.

Oil surging through the price barriers will stimulate price rises all over the Australian economy. According to a Bureau of Statistics research paper that explored the relationship between oil prices and inflation: "Automotive fuel is one of the most volatile series measured in the CPI ... This high level of volatility means that it is often a main contributor to the CPI headline movement."

With inflation by the end of December 2021 already tracking at 3.5% year on year, these latest developments do not bode well. Which just makes the Reserve Bank's commentary that it intends holding interest rates at record low levels for years to come appear even more naive.

But even if rising inflation doesn't force the RBA to arise from its slumber, lenders will need to increase rates anyway. This is because about 40% of the money Australia's banks lend to home buyers is borrowed on overseas wholesale credit markets.

This may not directly lead to lower house prices, but it could take some of the heat out of what has been driving them skywards. This is not a profound economic forecast but simple arithmetic. An example illustrates the play. A home buyer who might be able to afford a $800,000 mortgage charging 3%pa interest would repay $3790 a month, according to the mortgage calculators on InfoChoice's website. But if mortgage rates rose to 4%pa, that same repayment amount would only allow them to borrow about $700,000. That's a lot less money to bid with at those hyper-charged street-front auctions.

If this is compounded with the end of the wealth effect, Australia's economy could be in for some exciting times. Recall that one of the most remarkable aspects of the pandemic has been that, as awful as it has been, claiming almost 5000 lives, it has nevertheless been accompanied by a financial boom. In 2021, the average Australian profited by almost $250,000 due to rising house prices, record super fund returns and stockmarket surges.

But since July last year, according to Rainmaker's MySuper superannuation performance index, by the end of January super funds had returned a median of just 2.4%, albeit the ASX went backwards by 2.8%. At least it hasn't fallen as much as Bitcoin, which went down 45% between its November 10 peak and March 8, according to the Coinbase crypto exchange.

If all this isn't enough to slow Australia's financial mindset, just as Western Australia recovers from bushfires while now facing its own Covid crisis, the east endured torrential rains and once-in-a-thousand-year floods that have claimed more than a dozen lives, devastated communities and all but wiped out major regional towns.

All of which sets a daunting challenge for Treasurer Josh Frydenberg's earlier-than-normal March 29 pre-election federal budget.

Alex Dunnin is director of research at Rainmaker Information, publisher of Money.

"It took years to get there ... it took a whole lot of grit and support from my family"

Children sometimes follow in their parents' footsteps when choosing a career path or they might choose a completely different path. Either way, the career you choose has a major impact on your future earnings so in this new series we'll be focusing on different careers and the reasons our interviewees chose them – what motivated them, the steps they took to get to where they are, and what they consider to be their greatest achievements.

We're starting this series with barrister Carolina Soto.

Carolina Soto

What is your job?

I work as a barrister, specialising in criminal law and mental health law. I have been working as a barrister since 2018.

Did you start your career in this field?

I always knew I wanted to be a lawyer and then, eventually, to become a barrister. My journey to the Bar was not your typical journey. I'm not from a family of lawyers and I'm the first person in my family to be a barrister – and the first Chilean barrister in NSW. Apart from the fact that I don't have any family in the law, I'm a migrant and came to Australia aged 5. I learnt to speak English at a local public school. The other thing is that I'm female and young. This is not the typical trajectory for someone at the Bar.

How did you get there and what did you study?

It took years to get there – to make it through the exams, and it was about seeking out mentors and studying in the evenings. Apart from the academic calibre to pass the exams, it took a whole lot of grit. I had a lot of support from my family. I sought out people who I thought were great role models as I didn't pass the Bar exam in my first attempt. Family and friends encouraged me to keep going. And as deflated as I was, when I didn't initially pass the exam, I thought I really want to do this and I really didn't care how long it would take. I thought if this takes me another 10 years of trying and failing, I didn't care. I could visualise myself in the wig and gown.

When did you decide this was the right career for you?

I knew I wanted to be a lawyer after seeing the movie *Dead Man Walking* about a man on death row. I was completely mesmerised by that movie. I started debating and public speaking, and was fascinated by all things associated with social justice. I then went on to complete a law degree and worked as a lawyer for 13 years before I was called to the Bar. I worked as an associate for a judge in the District Court and saw a female barrister acting in a manslaughter trial. I heard her speak eloquently and passionately for her client, and I remember asking who she was and I wanted to be like that. She was from a migrant background and I thought if she can do it and do it well, I can too. That barrister now is a judge and I have had the pleasure of appearing before her as counsel from time to time.

What are your proudest career achievements?

I have loved every minute of being a barrister. It's been hard juggling kids with court and clients, and it's not uncommon to get calls from clients who have been arrested and you have to go to the police station. But I feel like I've landed in a career that challenges me intellectually and in every other way.

What keeps you doing what you're doing?

With Legal Aid work, you are representing people who can't afford to pay for private representation. Stand-out cases are those when I've represented Legal Aid clients who have been wrongfully arrested or charged and helped them regain their liberty. Gaining someone's freedom continues to be rewarding no matter how many times I do it. It's the highlight of being at the criminal bar, particularly in cases with young female clients with children.

What's next for you?

The big goal is to stay at the Bar for the time being, do a lot more work around diversity in the profession and to encourage more women from migrant backgrounds into the profession. In five to 10 years, I aim to become a magistrate. Once my kids are older, the long-term goal is to work abroad in the International Criminal Court.

What do you wish you knew about your job before choosing to become a barrister?

That being different, as in my case being from a culturally and linguistically diverse background, has become my strength. I have a level of empathy, particularly with my migrant clients, that comes from a lived experience from migrating to Australia from Chile as a young child.

What's the best career decision you've made?

Starting my own chambers just before the first Covid lockdown in February 2020. I wanted to create a space to accommodate flexibility as I worked as counsel with two young children. I also wanted to create a space that would provide financial stability by creating a space for me to determine where, when and how I worked with a young family. It was the best professional career leap of faith that I have ever undertaken and I have never looked back. JULIA NEWBOULD

Hear more from Carolina Soto in our bonus ***Friends with Money*** podcast.

SUBSCRIBE TO Money

SUBSCRIBE & RECEIVE

- **11 PRINT ISSUES** of *Money* for only $74.99 – by automatic renewal
- **FREE DELIVERY**
- **AN ANNUAL SAVING OF 25%**

CALL 136 116 OR VISIT MAGSHOP.COM.AU/MONEY-MAGAZINE

Savings based on cover price of $8.95. Offer valid from 31/03/2022 - 30/04/2022 to Australian residents only and not available in conjunction with any other offer involving *Money* magazine. For terms and conditions, visit magshop.com.au/money-magazine. If you do not want your information provided to any organisation not associated with this promotion, please indicate this clearly at the time of subscription. Subscription copies do not receive free gifts offered at retail. Automatic renewal: After the first payment of $74.99 for 11issues, the subscription will automatically renew and be billed as $74.99 every 11 issues thereafter until cancelled. For all mailing enquiries, please direct to: Magshop Reply Paid 5252, Sydney NSW 2001 Australia (Please allow 10 business days for a response).

The plastic's old The card is new Shopping's cleaner The sea is, too.

Our debit cards are made from 82% recycled plastic.

Banking you can feel good about

That's the Suncorp Spirit

Banking products are issued by Suncorp Bank.