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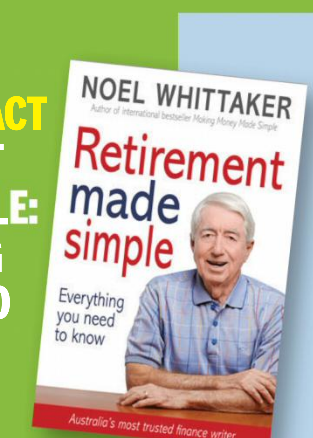

TOP 50
SHARE AND PROPERTY BUYS

MARCUS PADLEY
CHECKLIST OF WHAT REALLY MATTERS

NICOLA FIELD
STAY ON TOP OF DIGITAL BANKING

SUSAN HELY
WHERE THERE'S A WILL THERE'S A RISK

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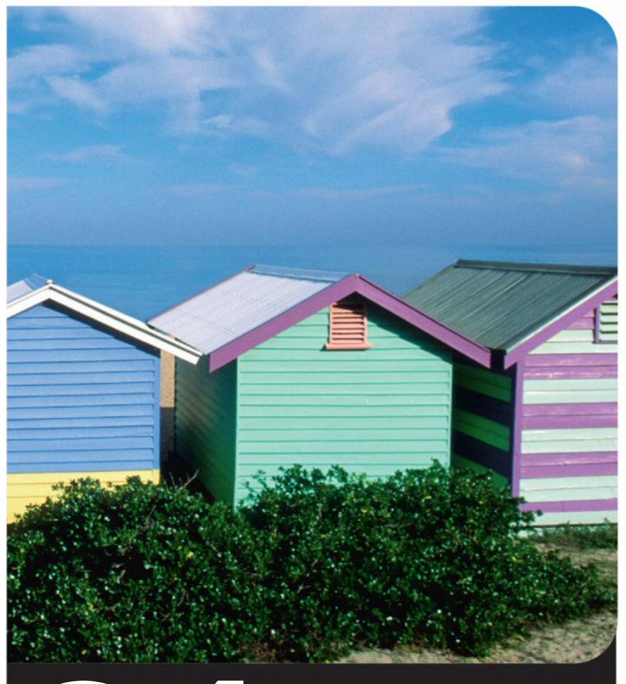

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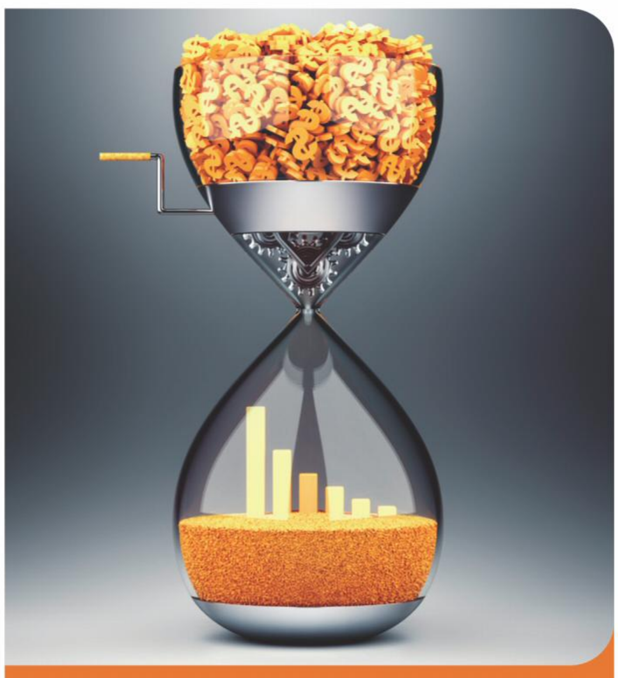

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EDITOR'S DESK

From gloom to boom in 2021

When *Money* magazine first started its annual list of top 50 property hotspots, no one could have anticipated that a pandemic in 2020 would give the term "hotspot" a double meaning – and not a good one.

But our cover story (page 34) is definitely focused on the suburbs and regions that are most likely to enjoy great returns (not places in temporary lockdowns) and you'll find opportunities galore spread across all the states.

In fact, it's heartening to see property expert Terry Ryder, from Hotspotting, predict a property boom in 2021. He says that not since 2001-04 have we seen big price rises across all markets. Check our table of the top 50 suburbs on page 39 to see if you're sitting on a goldmine (relatively speaking) or where to look if you're adding to your portfolio.

In the same vein, sharemarket expert Jessica Amir, from Bell Direct, gives us the top 50 stocks (page 45), singling out five companies that could stand out in 2021 (page 41). We're glad to say that if you invested $2000 in each of the five stocks she wrote about last year, you would have enjoyed a 36.2% windfall as at January 2021.

I can't say the new year won't hold any further shocks, but what we know so far about managing the virus holds the Australian economy in good stead, which underpins our experts' sharemarket picks. For example, household name Telstra is on Intelligent Investor's buy list (page 84).

Finally, there's a lot to say about being alert, but not alarmed. We hope you enjoy our articles in this issue, ranging from how to deal with the financial repercussions of a break-up to Covid-19 concessions for small businesses and more. Here's hoping – and planning – for a prosperous new year.

Michelle Baltazar,
Editor-in-chief

CORRECTION: In our The Best of the Best 2021, Best Moderate Pension Products, on page 91, the figure in **FEES ON $250,000** should be **FEES ON $50,000.**

Feedback

Letter of the month

Desperate retirees really have to dig deep

I have enjoyed reading articles on the plight of retirees who had intended to supplement their incomes with interest received from their investments – confirmation in spades that I am not alone.

We are at a time in our lives when chasing higher turns involving greater risk leaves us vulnerable. Putting our savings in banks has little reward and is even detrimental when balances are sometimes used by authorities to determine what we are and are not entitled to. It can be demoralising seeing someone who has spent freely get handouts, while the person who lived frugally to provide for a better retirement misses out on the same help/perks.

Might there be merit in burying money? An elderly gent told me how his funds were buried for 20 years and as the bamboo grove had grown he had to get a metal detector to find where the tin now was! Imagine if he had lost his memory.

Stories of second-hand bean bags and couches with notes stuffed in them make you wonder about the previous owners.

But for me the best is from a guy who, when I asked him how retirement was treating him, said, "Well, it's like this, Gert. If a man is going to die soon, best I keep spending the way I am, but if I have another 30 years to go, best I rein in my spending." Six months later he was killed in a head-on collision. I was so pleased to hear that he had kept on spending.

So, on behalf of retirees, thanks for any suggestions or advice you can give to make us more comfortable in our golden years while accepting these really are unprecedented times.

Ann

An investor's view of the 'best' ESG funds

I have enjoyed reading your magazine, especially the real-life stories and feedback you provide on the case studies.

As always, I read your Best of the Best

analysis with great interest. It was especially interesting this year given your ESG focus, as I have been investing in ESG funds for more than 10 years. I understand that selecting the "best" funds is a contentious issue, but was surprised at a couple of nominations:

Best Australian Share ESG Funds: Perpetual Ethical SRI. I have been invested in this fund since 2012 and fully exited my position late last year. It had performed extremely well in the first five years of my investment, but I noted that most recently it was significantly underperforming against the benchmark over two,three, four, five and seven years. It remains so now, although it has recovered since your data analysis as at June 30.

Best International Share ESG Funds: Pengana International Ethical Opportunity. I was interested in investing in this fund a number of years ago but it wasn't open to new investors. I called Pengana recently and I note this is still the case now. Therefore, it would have been a good idea to include a note in your analysis regarding this because it's not useful for prospective investors.

Malcolm

Ed's note: Regarding point one, our analysis is based on risk-adjusted data, taking into account returns over multiple periods as well as risks taken to achieve those returns, such as volatility and other measures. So it can't be compared solely in a measure such as five-year return.

Regarding point 2, the fund we named is now closed to new investors although still open to investment from existing investors. There is another fund, the Pengana International Ethical Fund, which is almost identical and is available on a number of investment platforms and is 0.15% cheaper.

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Do you have any new money goals for 2021?

NICOLA FIELD
Nicola, who writes for *Money*, says: "Getting smart about super is top of my money to-do list for 2021. As a self-employed freelancer, I love that I can claim my super contributions on tax. But instead of tipping in one big lump sum as part of the mad scramble at the end of each financial year, I'm setting up regular contributions to steadily grow my super savings. Dollar cost averaging, here I come!"

JULIA NEWBOULD
Julia, *Money*'s editor-at-large, says: "I want to flip my spending mindset and stop poring over shopping catalogues and lock more of my income away for big-spend items like a new bathroom with a bath. I usually set up special accounts for projects like this so I can be motivated as I get close to my goal. I also want to eat out less for both health and wealth reasons."

DAVID THORNTON
David, senior journalist at *Money*, says: "The pressures of 2020 have forced me to focus on paying down debt and saving rather than investing. It's a shame, because it would have been a great time to invest. In any case, I want to jump back on the investing bandwagon. I'm no stock picker so I'll probably find a passive ETF that replicates an index."

ANNABELLE DICKSON
Money contributing journalist Annabelle says: "This is going to be the year when I get serious about investing. Given the low rates in deposit accounts, I plan to put aside some of my savings each month and invest it in a low-cost ETF so that I can reap the benefits of compound interest. Aside from this, I am going to stop buying takeaway coffee every day and make it at home."

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Blackmagicdesign

Introducing ATEM Mini

The compact television studio that lets you create presentation videos and live streams!

Blackmagic Design is a leader in video for the television industry, and now you can create your own streaming videos with ATEM Mini. Simply connect HDMI cameras, computers or even microphones. Then push the buttons on the panel to switch video sources just like a professional broadcaster! You can even add titles, picture in picture overlays and mix audio! Then live stream to Zoom, Skype or YouTube!

Create Training and Educational Videos

ATEM Mini's includes everything you need. All the buttons are positioned on the front panel so it's very easy to learn. There are 4 HDMI video inputs for connecting cameras and computers, plus a USB output that looks like a webcam so you can connect to Zoom or Skype. ATEM Software Control for Mac and PC is also included, which allows access to more advanced "broadcast" features!

Use Professional Video Effects

ATEM Mini is really a professional broadcast switcher used by television stations. This means it has professional effects such as a DVE for picture in picture effects commonly used for commentating over a computer slide show. There are titles for presenter names, wipe effects for transitioning between sources and a green screen keyer for replacing backgrounds with graphics.

Live Stream Training and Conferences

The ATEM Mini Pro model has a built in hardware streaming engine for live streaming via its ethernet connection. This means you can live stream to YouTube, Facebook and Teams in much better quality and with perfectly smooth motion. You can even connect a hard disk or flash storage to the USB connection and record your stream for upload later!

Monitor all Video Inputs!

With so many cameras, computers and effects, things can get busy fast! The ATEM Mini Pro model features a "multiview" that lets you see all cameras, titles and program, plus streaming and recording status all on a single TV or monitor. There are even tally indicators to show when a camera is on air! Only ATEM Mini is a true professional television studio in a small compact design!

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Breaking up isn't that hard to do

2021

Welcome to a new year – hopefully a happier new year

During the Christmas holidays, I started going through a break-up. Apparently, break-ups are common this time of year, mostly because we have more time to reflect on what we do and don't want in our lives.

So, I decided to break-up with my loan provider. It was our Best of the Best issue (December 2020) that inspired me to make a change and I hope it has inspired you, too.

Until recently, I was one of those people who stick with the same providers, regardless of rates and service, because I thought it would involve too much hard work to do otherwise. I'm not alone – despite a third of mortgage holders being dissatisfied with their current bank, few make the switch, according to a 2019 Deloitte Access Economics survey.

This is where *Money*'s Best of the Best issue can help. It provides a comprehensive list of top providers, best-value providers and many other categories of financial products and utilities to take the pain out of decision-making.

When it comes to banks, I continue to be astounded that they don't reward loyalty in customers – once they have enticed you with low rates and cashback offers and you are an established customer you're no longer their target. They will not offer you reduced rates (unless you ask) and won't match rates they offer new customers.

The good news is that when it comes to loans, you don't even have to do the ring-around yourself. Mortgage providers will make the calls for you and match you up with the best providers to suit your requirements. Couldn't be easier. This is precisely how mortgage brokers manage to eke out a living. By building relationships with banks, they can access preferential pricing for customers and are paid a commission by the banks for any customers they deliver.

Making a profit is the aim of any business, and that includes lenders. But is your lender making the best decisions for you?

Late last year the Australian Competition & Consumer Commission (ACCC) found that borrowers with modest mortgages could save tens of thousands of dollars over the life of their loan if they refinanced at the interest rates offered to new customers (almost 0.6% points lower on average).

According to the ACCC, a borrower with a home loan of $250,000 could save more than $1400 in interest in the first year, by switching to the average interest rate paid for new loans. Over the remaining term of the loan, that borrower could save more than $17,000 in interest.

The reason for my recent break-up? I have been with my bank since I took out my first loan 25 years ago. I was happy with the service and the products but felt it was time for my loyalty to be rewarded. As that isn't part of the service promise, I decided to move on.

A couple of phone calls later, and my mortgage broker had found better deals and cashback offers, along with all the services provided by my original bank. It's a significantly better deal and I'm furious that my former lender didn't offer me, their long-term customer, the better rate or the decent cashback offers enjoyed by new customers.

This is a problem that exists beyond the banking system. As a society, we tend to focus on short-term goals. A perfect example is politicians thinking only as far as the next election.

Covid-19 has created a shift in this area, with many people now recognising the value of environmental, social and governance issues – which are long-term by nature. Long may this trend continue.

Julia Newbould is Money's *editor at large.*

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THE BUZZ

Ditch those old habits that cost you money

When it comes to personal finance, there is usually a cost. In some cases it's the cost of doing nothing.

A 2020 survey showed people continue to buy brands they distrust as long as they personally gain from the relationship – whether that's because of loyalty, status or inertia.

People know they can get cheaper loans or better returns elsewhere, but they stay with their provider through inertia or a perception that it's too difficult to change.

And they are not totally wrong, particularly with mortgages. While brokers can help you find a better mortgage, there are forms to complete and information to provide. You may need to change direct debits and or credit card limits – it can be hard work.

Start by checking how much you're paying. That will help you decide whether it's time to look elsewhere.

According to Mortgage Choice, apathy is increasing, with fewer Australians knowing their rate in 2020 compared with previous research (61.5% in 2018 and 71% in 2016). In fact, only 46.5% of respondents knew their interest rate.

AMP research from late 2020 found almost half of all Australians are feeling financial stress, which has been exacerbated by the pandemic.

Mortgage Choice chief executive Susan Mitchell says research shows Australians are more focused than ever on their finances, yet many are complacent about their biggest expense and potentially biggest saving.

"In the past year alone, the cash rate has dropped by 0.65% and many lenders are open to negotiating on rate reductions," she says.

"Let's say your principal and interest rate is 3.99%, and shopping around with the help of a mortgage broker enables you to drop by 0.5% to 3.49%. On a 30-year home loan of $600,000, the savings could be around $170 a month."

Homeowners aged 30 to 39 were the most likely to not know their interest rate (64.5%) while those aged 50-59 were close behind at 56.4%.

As for reviewing their home loan, 13.7% said they never did, while 44.4% said they reviewed it every couple of years. Only 41.9% checked it annually.

The start of a new year is an ideal time to think about your financial habits, and checking your mortgage could be a good habit to pick up.

Julia Newbould

CALENDAR OF EVENTS

Tuesday, February 2
RBA interest rate decision

Wednesday, February 3
ANZ job advertisements (Jan)

Thursday, February 4
Balance of trade

Thursday, February 11
Westpac consumer confidence index

Thursday, February 18
Unemployment rate

ON MY MIND

Retirees to get a new target

There is no "one size fits all" when it comes to retirement. This is especially the case when figuring out how much to save to retire comfortably. Most people are after a lifestyle that broadly matches the one they had during their working lives.

Despite this, the super industry regularly uses retirement targets that claim you'll only be "comfortable" if you spend as much as the top 20% of income earners. These targets are misleading for people on lower and middle incomes, who would have to live more frugally during their working lives than in retirement, which is out of step with people's desire to smooth their income across their lives.

This is as unsurprising as it is unhelpful from an industry that has a financial incentive for you to over-invest in your super.

So, what is the solution? The Retirement Income Review pointed to the need for better guidance to help people plan ahead. With this in mind, Super Consumers Australia, with the consumer group Choice, will develop new retirement savings targets based on people's realistic expectations, to be released in late 2021.

Xavier O'Halloran, director, Super Consumers Australia

NEWS BITES

Challenger will pay $35 million to buy Catholic Super's MyLife MyFinance banking business. Challenger says term deposits are a significant asset class for retirees and the deal gives it an opportunity to play a greater role in supporting the retirement incomes of customers and attracting new customers.

Household wealth has hit an all-time high of $11.35 trillion as Aussies batten down the hatches. The previous high-water mark of $11.24 trillion was recorded in the December quarter of 2019. Residential assets, deposits and superannuation balances accounted for most of the growth.

The tax office has thrown its weight behind self-managed super funds, signalling greater support and collaboration. "With all the challenges of 2020 it has never been clearer that our best success comes from working in partnership with all our stakeholders across the SMSF sector, and I look forward to continuing these relationships of mutual support and collaboration," says ATO assistant commissioner Justin Micale.

How marriage affects a will

Many Australians are unaware that a marriage revokes any previous will. About 40% of all marriages take place over summer, so now is an ideal time to look at how marriage impacts a will.

With about 48% of divorces involving children, 130 people remarrying every day and 6538 same-sex marriages every year, the revocation of wills upon marriage is a crucial issue.

For example, Edward and Mary, while dating, make wills. Both were previously married; Mary has two adult children, Edward has none. Both own significant assets in their own right and own a house together. Mary leaves her property to her two children; Edward leaves his to his sister's three children. They agree that the surviving partner would live in the house they own together. Upon the survivor's death the house would be sold and the proceeds split between the two families. Three years later they marry, but Edward dies two years later.

Edward is deemed to have died intestate so Mary inherits 100% of his estate. Edward's sister's kids miss out completely.
Neil Scott, principal lawyer, Antcliffe Scott

11%

of workers whose hours have been reduced by the pandemic are resorting to credit cards to make ends meet, according to AMP's latest Financial Wellness report. It also found that 22% of affected workers have abandoned their investment plans in order to reduce debt.

NEWS & VIEWS

BOOK OF THE MONTH

COMMERCIAL PROPERTY INVESTING EXPLAINED SIMPLY
by Steve Palise
Major Street Publishing, RRP $34.95

Steve Palise's comprehensive guide to commercial property points out the value in diversifying your property portfolio and looking beyond residential. He dispels the idea that commercial property is more risky than residential, citing commercial returns that are "spectacular" compared with those made on residential investments. Worksheets set out cash flow for commercial and residential and he looks at the various types of commercial property – retail, office, multi-purpose, special purpose, hotels and land. It's a handy step-by-step book for an investment of any kind.

Six readers can win a copy.
Tell us in 25 words or less what kind of commercial property you'd be most interested in purchasing and why. Enter online at moneymag.com.au/win or send entries to Money, Level 7, 55 Clarence Street, Sydney, 2000. Entries open on January 28, 2021 and close on February 28, 2021.

APP OF THE MONTH

STREAK
COST: $8
OS: IOS 9.0 OR LATER, ANDROID 4.1 AND UP

Want to develop new habits in 2021 but worried about sticking it out?

Streaks is the app for you. It allows you to set up to 12 habits that you want to make or break, from flossing daily to giving up takeaway coffee, and extends your streak each day you complete a task.

The Apple Design Award-winning app can be customised to suit your tastes, allowing you to select from 78 colour themes, more than 600 task icons and how often a task should be completed.

You can update the app from your iPhone, Apple Watch, iPad or Mac, and view your task statistics to stay motivated.

At $8, Streak is on the pricey side for an app, but it could be worth it, especially if you're saving $4 a day on coffee.

SHARYN MCCOWEN

TAX TIP

When occupancy costs are deductible

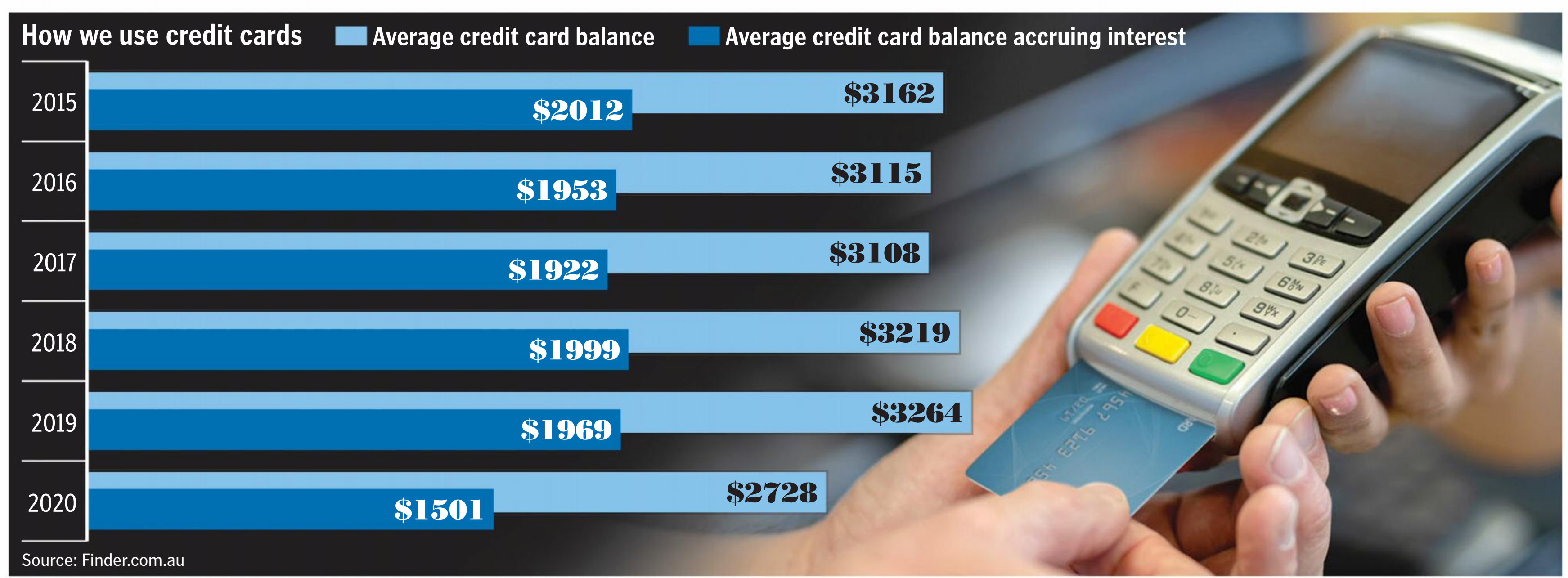
One of the most common questions I've received over the past few months is whether those who have been working from home due to Covid-19 can claim a tax deduction for so-called "occupancy expenses" such as a portion of the interest on their mortgage or a portion of their rent. Many people take the view that as they have been obliged by their employers – and sometimes by the law – to work only from home, the portion of costs that relate to their home office should be claimable against tax.

Traditionally, the ATO has refused to allow deductions for such costs in most cases. Unless your home is your sole base of operations (that is, you are not provided with access to an office by your employer) or you run a business from home, occupancy costs have been a no-go area, with only so-called "running costs" (such as heating and cooling, lighting, cleaning, phone, internet and equipment depreciation) being tax deductible.

But is it now possible to argue that, with offices shuttered, your home has become – temporarily at least – your sole base of operations? Sadly, it doesn't look like it. The ATO has made clear that it is offering no flexibility, stating that "occupancy expenses relating to your home such as rent, mortgage interest, property insurance and land taxes will not become deductible only because you are required to work from home temporarily as a consequence of Covid-19".

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

SNAPSHOT How we play our cards



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* This comparison rate is based on a $30,000 Personal Loan for a five year term. This rate is applicable for unsecured loans only. WARNING: This comparison rate applies only to the example or examples given. Different amounts and terms will result in different comparison rates. Costs such as redraw fees or early repayment fees, and cost savings such as fee waivers, are not included in the comparison rate but may influence the cost of the loan.

MY MONEY

▶ MORE MONEY STORIES ON P46-52

INSURANCE

Data reforms could have a dark side

Hot on the heels of open banking, we might now also be entering the era of open insurance. But a study commissioned by the Financial Rights Legal Centre, a community support organisation, shows it's not without risk.

The Consumer Data Right, which is being applied to banking, could be extended to insurance.

Richard Tooth, author of the study, says open insurance, and open data generally, offer a range of opportunities and risks for consumers. "Greater access to data could lead to improved and new services in areas such as product comparison and financial management," he says.

Implementation of the Consumer Data Right has the potential to provide consumers with many benefits, including the ability to access specified data about them held by insurers, and to authorise the secure disclosure of that data to third parties.

Karen Cox, chief executive of Financial Rights, says increased access to, and use of, consumers' own data could improve disclosure processes when buying and renewing insurance.

"There is also the potential that data can help consumers and insurers work together to produce improved personal and social outcomes in the face of increasing natural hazards born of climate change," she says.

Yet there could be a dark side should the reform be successful.

"Large numbers of people may find themselves unable to access insurance, claim on their insurance, or contest their premium increases," says Cox. "As the insurance industry begins to use new data collection techniques, artificial intelligence systems and algorithms, we need to ensure that consumers' personal information is kept safe, secure and not used against them."

Returning Aussies face a tax hit

The pandemic has seen droves of Australian expats return home, with many more likely to follow in the months and years ahead. But they could be greeted with a hefty tax bill on their foreign investments.

Tax expert Peter Bembrick, from HLB Mann Judd, warns of unique tax implications depending on the time spent overseas, and the jurisdiction. These cover income tax, shareholdings, employee share schemes, cash in offshore banks accounts, and pension funds.

"Property is another key consideration," he says. "Some countries charge non-residents a higher rate of transaction tax or tax capital gains on profits from property investments and, in Australia, if you've retained property while abroad, you may be better to move back into it first before selling.

"This applies particularly to the former family home, as non-residents selling property are now excluded from the capital gains tax main residence exemption and the related 'six-year absence' rule."

Returning Aussies are also at threat of being double-taxed.

"[Returning citizens] may be able to claim a credit for the foreign tax paid upon their return, but only if they have the proper records and structures in place," says Bembrick.

For taxation purposes, shares and managed funds are usually assessed as if they were sold at market value on the date you move.

"The good news is there would be no further Australian CGT implications if these assets are actually sold while a non-resident. However, if they are still owned when Australian tax residency is resumed, they - along with any new investments - will be deemed to be re-acquired at that time for their current market value, so any future capital gains or losses on sale would relate only to the movement in value during the second period of Australian tax residency."

COMPILED BY DAVID THORNTON

PROPERTY

RECOVERY

Home values overcome the odds

Australia's property market finished 2020 on a high, despite Covid-19 and the festive period, which usually sees a drop in prices.

CoreLogic's national home value index shows home values capping off the year 3% higher, with regional values rising by 6.9%. This was largely thanks to a 1% gain in December, the third consecutive month-on-month rise.

The year's house price chart resembles a "V", with a 2.1% drop between April and September.

"The number of residential property sales plummeted by 40% through March and April but finished the year with almost 8% more sales relative to a year ago as buyer numbers surged through the second half of the year," says Tim Lawless, the head of research at CoreLogic.

"Despite the volatility, housing values showed remarkable resilience, falling by only 2.1% before rebounding with strength throughout the final quarter of 2020."

Still, home values have some catching up to do to return to their pre-Covid levels. Melbourne home values are still 4.1% below their March 2019 peak while Sydney values remain 3.9% below their July 2017 peak.

Meanwhile, rents remain subdued, with inner-city units hit especially hard by stalled overseas migration. In Melbourne, unit rents are down 7.6% over the calendar year and Sydney unit rents are down 5.7%.

But it's a different story in Perth and Darwin, which are up 6.8% and 7.6% respectively.

"Both Perth and Darwin have recorded below-average levels of investor activity since housing market conditions started to cool in mid-2014, which has led to a shortage of rental stock," says Lawless. "More recently, with stronger interstate migration driving housing demand, rental rates have been under substantial upwards pressure as demand for rentals outweighs supply."

▶ MORE PROPERTY STORIES ON P54-61

Young people want their own place

The Australian dream of owning your own home is alive and well among young Aussies, according to a Mortgage Choice survey.

Almost half (45%) of respondents indicated the pandemic is more likely to push them towards home ownership.

This is accompanied by an increased focus on saving, with 60% reducing their spending, 58.5% adding more to their saving accounts, and 43.4% applying for government grants for first homebuyers.

Despite the challenges of getting into the property market, the survey revealed that young people are not giving up on the great Australian dream (70% of respondents were under 40). "In times of uncertainty, it is human nature to want stability, and this is what investing in property can provide," says Susan Mitchell, CEO of Mortgage Choice.

"The fact that first home buyers can now access the most competitive home loan rates on record and unprecedented levels of government support such as grants and schemes provides compelling incentives to act on property ownership dreams."

The research also reinforced the need for professional advice. Almost a third of first homebuyers surveyed have minimal confidence in understanding and choosing home loan features, while a tenth have no confidence whatsoever.

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▶MORE INVESTING STORIES ON P62-71

SAFE HAVENS

Gold makes way for Bitcoin

Millennials are turning their backs on gold and buying Bitcoin as a defensive play. A poll undertaken by deVere Group, which surveyed over 700 millennials in North America, the UK, Asia, Africa, the Middle East, East Asia, Australasia and Latin America, found that more than two-thirds (67%) view Bitcoin as a better safe-haven asset than gold.

Bitcoin has soared since the onset of the pandemic; at the time of writing it was up by about 535%.

"It's always been a go-to asset in times of political, social and economic uncertainty as it is expected to retain its value or even grow in value when other assets fall, therefore enabling investors to reduce their exposure to losses," says deVere CEO Nigel Green.

"But, as this survey reveals, gold could be dethroned within a generation as younger investors, who are so-called 'digital natives', believe it competes better against gold as a safe-haven asset."

Add to this the role central banks are playing in devaluating traditional fiat currency.

"Another key factor is the historic levels of money printing, as central banks around the world attempt to prop up their economies following the fallout from the pandemic," says Green. "If you are flooding the market with extra money, then in fact you are devaluing traditional currencies – this, and the threat of inflation, are legitimate concerns to a growing number of investors, who are seeking alternatives.

The trend shows no signs of slowing anytime soon.

"As the world continues to shift towards tech and as millennials become a more dominant part of the economy, we should expect Bitcoin to also take an increasingly influential role, especially in regard to being a 'recession-proof' asset."

Super funds struggle to beat the market

A third of Australian super funds are tracking below their investment objectives as they struggle to match benchmark indices, according to Rainmaker Information, which publishes *Money*.

Rainmaker's performance review compares funds' average returns across more than 900 investment options, to the respective capital market indexes.

Property and domestic shares are the bread and butter of super. Allocations to Australian shares underperformed the S&P/ASX 200 by 0.3% over five years while property underperformed the Rainmaker Composite Property Index by 0.1% over five years.

However, it's a different story when it comes to international shares. Super funds underperformed the MSCI World ex Australia Index by 3.2% over five years.

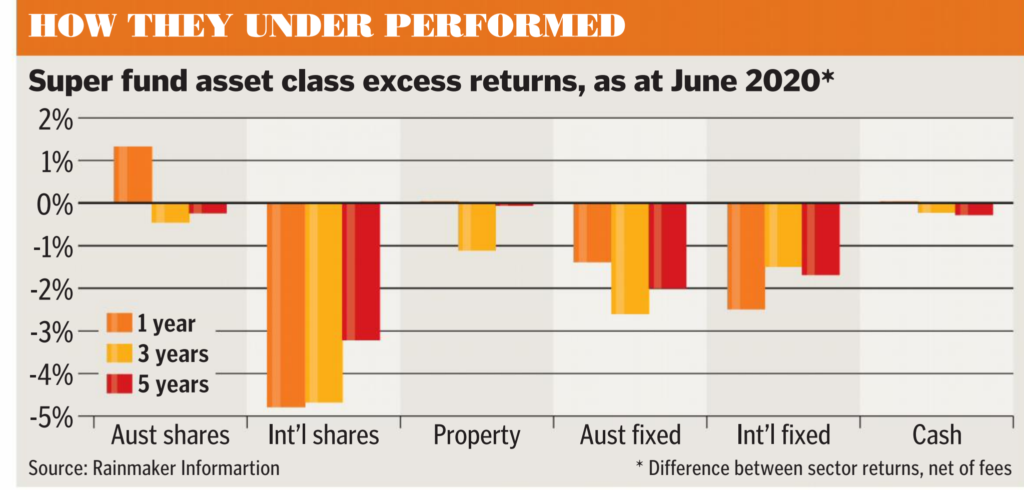
"The irony is that while international shares was the worst asset class for super funds, it was also the best because it achieved the highest index return," says Alex Dunnin, executive director of research and compliance at Rainmaker Information.

"If super funds could be more efficient in managing this complex asset class, their overall returns could be much higher."

Australian fixed income was also left wanting, with funds falling short of the Bloomberg Barclays Australia Breakeven Index by 2%.

But it's not all bad news.

"Despite the asset class underperformance, two-thirds of MySuper products are still tracking above their investment objectives over three years, notwithstanding that investment objectives are formally set over rolling 10-year periods," says Dunnin.



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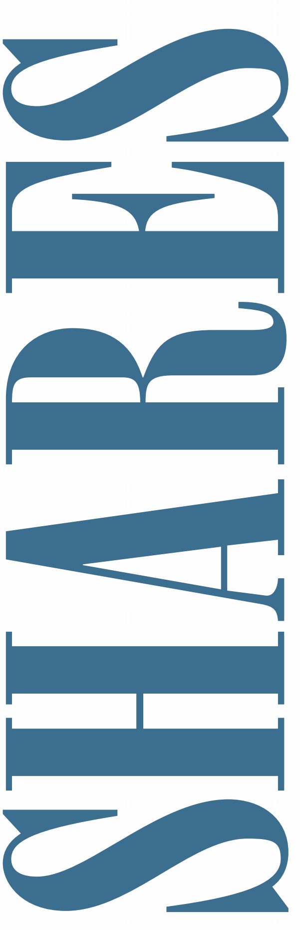


▶MORE SHARES STORIES ON P72-85

GLOBAL ACTION

Tech and Tesla lead the way

Technology and electric vehicles reigned supreme among global equities in 2020 as Saxo Bank's most traded stocks.

Tesla was the most traded stock and it's easy to see why: it returned a whopping 646% for the year to December 15. It was followed by Apple, Nio (known as China's Tesla), Microsoft and Amazon.

Tech was the leading sector, the beneficiary of lockdowns imposed in response to the pandemic. Reflecting this, the Nasdaq-100 ended the year up more than 40%.

"This year was all about the online vs offline world as technology companies were catapulted into the future by the Covid-19 pandemic while many physical industries such as aviation, travel, leisure, hospitality and automobiles came under significant pressure due to the severe restrictions and lockdowns," says Peter Garnry, Saxo Bank's head of equities.

"2020 will also be remembered for the rise of Tesla as its market value surged 646%, reaching a market value of $US590 billion and ending the year as the biggest stock inclusion in the history of the S&P 500 Index. Part of the Tesla story was the increase in EV sales globally despite the pandemic and the rise of 'green transformation' stocks highlighting a powerful new theme in financial markets."

Among Saxo Bank's Australian customers, Afterpay was its most traded stock, followed by long-time market darling CSL, then Tesla, Flight Centre and ANZ.

BUY Aussie Broadband (ABB)

The Intelligent Investor Gaurav Sodhi

RECOMMENDATION

BUY	HOLD	SELL
below $2.00	up to $4.00	above $4.00

BUY at $1.96

Source: Intelligent Investor; price as at November 27, 2020 close of business

Aussie Broadband's shares doubled the day they listed. We had expected a rise on listing but the soaring price was a turn off. A business we had expected to list at just over $200 million was suddenly worth $350 million and we decided not to pursue it.

New information, however, challenges that view. ACCC data shows that Aussie's share of high-end broadband plans is growing quickly. More than 40% of its customers choose ultra-fast plans (defined as more than 100mbs) compared with 12% of the market, and an incredible 86% of new ultra-fast connections to the NBN came from Aussie. This suggests Aussie is collecting the most profitable customers, with a marketing budget that is probably less than Telstra's executive lunch bill.

We think Aussie is on track to generate about $860 million in revenue and, assuming 5% EBIT margins, perhaps over $40 million of EBIT. It isn't profitable today but that will change. Aussie fought over 100 competitors and industry giants, built an industry-leading software platform and is collecting an outrageous share of high-end broadband users because its management and culture are superior. This advantage is intangible and hence hard to replicate. It's also hard for investors to adequately price.

To some, this might look like a $350 million business that makes no money in a competitive industry. In our view, this is a fine example of a business with a deep cultural moat. Those are the hardest to breach. BUY.

Gaurav Sodhi is a senior analyst at Intelligent Investor.

COMPILED BY DAVID THORNTON

STORY ALAN DEANS

Charging ahead

Fact file

David Finn
Founder of Tritium, an electric-vehicle charging innovator; lives in Brisbane's Holland Park; age 42.

A key learning was understanding how to negotiate a good deal when he needed other people's cash; says he may crystallise his 5% shareholding, at the right time, and buy a new venture – "If you have cash, you can get a good deal for yourself". Next time he would keep full ownership himself. Pastimes include swimming, running and rock-climbing.

For 33 years now, the World Solar Challenge has raced small and fragile contraptions down the Sturt Highway from Darwin to the outskirts of Adelaide to show that cars can run cheaply and efficiently solely on the sun's rays. The early involvement of one local techie is now paying off in a big way.

Electric vehicles (EVs) are selling big time in Europe, China and the US as battery technology rapidly advances. New models from the likes of Tesla, VW, Mercedes and China's BYD are cheap to charge and have longer ranges. Brisbane's David Finn is a key part of this revolution with the business he founded, Tritium, because it makes advanced battery chargers that keep EVs juiced up. Looking a lot like petrol pumps, these Aussie-built devices are now sold the world over.

They are sorely needed. If EVs are to take over our roads, drivers need to overcome range anxiety and know their car batteries won't run flat. More chargers are needed in more places so EVs don't become stranded. They also need to be charged quickly, ideally as fast as it takes to fill a tank of petrol, because drivers simply don't want to hang around. This is all now happening.

Finn was part of the University of Queensland's World Solar Challenge team in 1996, and returned three years later as a leader for its SunShark entry. That racer finished third, just 44 minutes behind the winner over a 2999km distance. He was in the support vehicle monitoring critical factors like cloud cover and wind to maximise the car's speed and range, and also watching for punctures. The team trained assiduously so they could change a flat tyre in under a minute.

"It had the power of a toaster, and it was driving at 80kmh," says Finn. "It was fun to see what you had learned in class being put into practice. I became passionate about it, and wondered why we needed engines with hundreds of kilowatts of power to drive a normal car around town? There had to be a better way. It has taken a long time for the technology to be picked up."

The group Finn assembled at the university researched how to develop in-wheel motors, control systems, battery management systems and battery packs. "We were doing a lot of the things that you see now from Tesla, but we were about eight years earlier," he says. "We didn't have their funding."

The team made progress towards making their own car, but didn't have a firm plan to fully develop it. Finn focused instead on his PhD, while also establishing Tritium to develop a motor control product for solar cars. It was sold to other racing teams. "We were the biggest player in the smallest market in the world, but that was okay. It paid for our holidays."

Then a Queensland government grant was approved to develop the motor control device to handle high power loads for small electric vehicles such as postie bikes. That was successfully marketed and later upgraded and sold around the world for use in machinery from cryogenic coolers to irrigation systems, underground electric mining vehicles and remote area power generators. "We were young engineers, and happy to be doing cool projects. Just so long as we got enough to pay the bills, we were happy," says Finn.

But he could see opportunities to "make some real coin". Tritium turned to developing its first fast DC (direct

RICHARD WHITFIELD

TRITIUM
50kW
Veefil
EMERGENCY STOP
TURN TO RELEASE

current) charger with the aid of an Israeli-based start-up called Better Place, led in Australia by entrepreneur Evan Thornley and including Australia's former chief scientist, Alan Finkel.

Better Place started working on a charging network with energy retailer AGL. Finn built a prototype charger, but Better Place eventually ran out of funds. Finn pushed on, winning backing from a federal government commercialisation grant and a company, Varley Group, which made specialised vehicles for the military, and fire and ambulance services. Competition quickly emerged from Nissan, Mitsubishi and Tesla, but Finn held his nerve.

The hard work paid off when California-based ChargePoint, the world's largest EV-charging group, placed a significant order. More orders also were won in Europe. Funds were needed to expand output from the Brisbane factory, and Finn attracted solid backing from an innovation fund run by energy entrepreneur Trevor St Baker and more from its initial backer, Varley. Tritium soon had $12 million in funding from various sources.

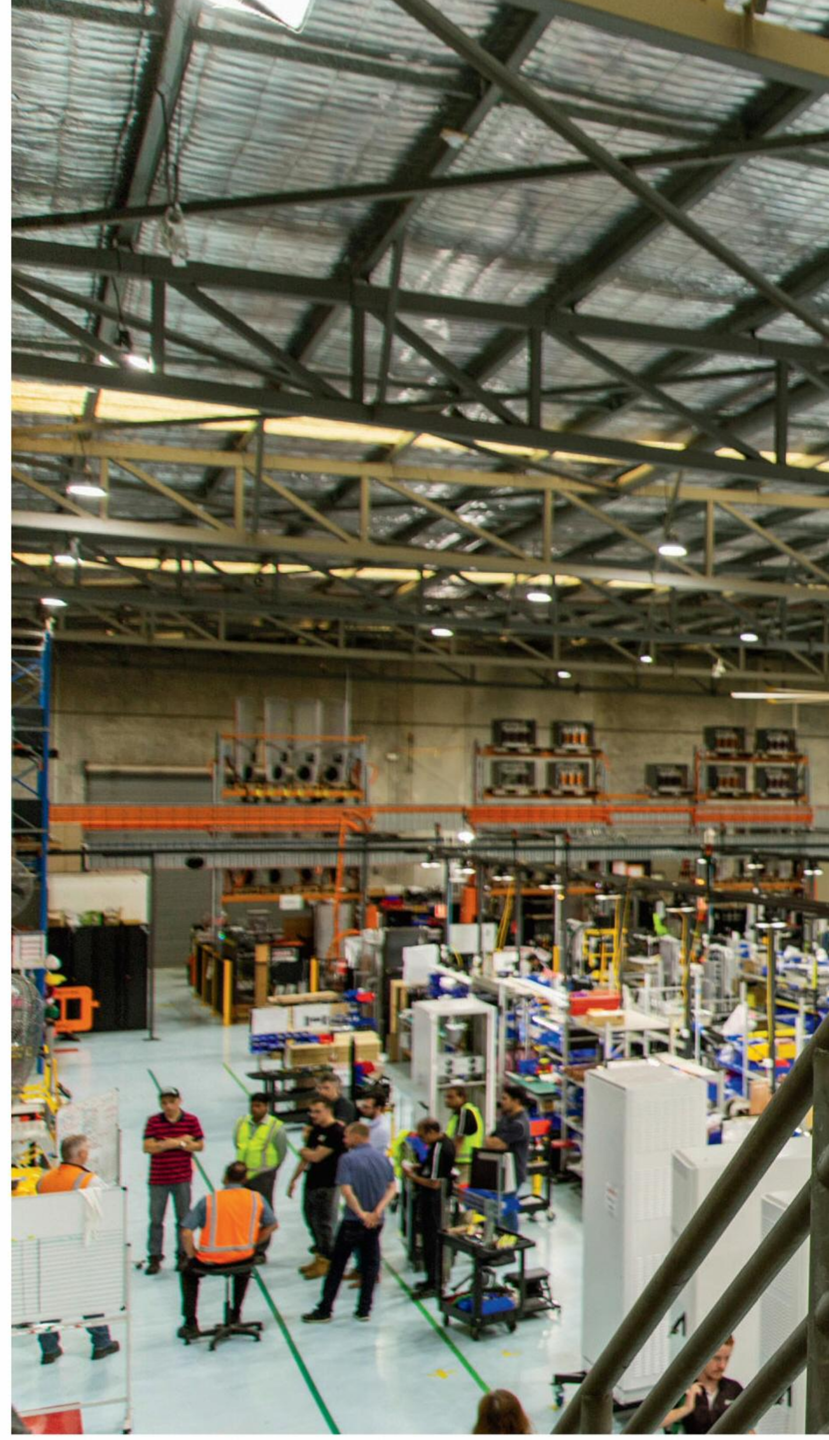
Manufacturing the chargers not only meant scaling up production facilities, but it also required substantial working capital. One factor in their favour was that, despite Australia's distance from buyers, the chargers themselves are small enough to fit in the holds of commercial aircraft. That halves freight costs and overcomes the distance from key markets. Tritium's chargers also are comparatively lightweight, even though they are each as heavy as a small car.

"It was important for us to have a tight linkage between our engineering team and our production facility," says Finn. "But as the volumes build, we have moved closer to our clients."

Finn spent 2018 offshore setting up the manufacturing chain. Tritium now has plants in Los Angeles and Amsterdam, as well as Brisbane. As it ramps up in the next 12 months, it expects also to contract specialised electronic manufacturing services (EMS) companies to build the chargers.

Apart from the ChargePoint deal, sales are being made to Europe's largest charging system, IONITY – a group owned by BMW, Ford, Hyundai, Mercedes Benz and VW. "They wanted to do this high-power, 350kW stuff that is seven times more powerful than our current version. I thought: 'Well, this is the tipping point work. This means people can buy a car and not have to think about where they're going to charge up next.' " IONITY markets its chargers as enabling drivers to stop their EVs, have a coffee and hit the road with the battery fully charged.

I look forward to the day when I crystallise the 5% stake in this company



RICHARD WHITFIELD

Finn has the business pumping, but he isn't resting on his laurels. Tritium has released a new charging platform that pulls together many innovations the company has been working on and is also applicable to other market segments. It would suit charging in public spaces, for instance, such as in the workplace or multi-user dwellings. It would also suit delivery fleets that use their vans for last-mile service and require 150kW charging overnight. Long-haul trucking also has potential.

Finn is enthused by the political support being shown for EVs in the US and Europe. "Biden is saying that he's going to put in 500,000 charging points. California announced it will be all electric by 2035, the UK by 2030."

All in a day's work ... Finn's interest in electrical engineering was sparked early on.

What does that mean for Tritium? Will it go public to raise funding? "That's up in the air," says Finn. "We may sell to someone else. We need to see how it plays out over the next 12 months or so."

One advantage Tritium now has is economies of scale.

"It's now harder and harder for new entrants," he says. "There are more and more regulations in different parts of the world, and keeping up with that is challenging, especially for someone new."

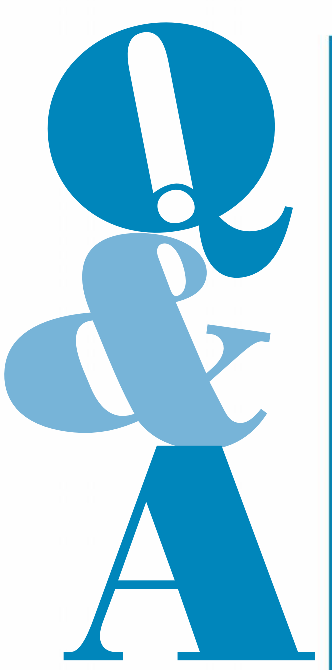
Finn's interest in electrical engineering started when he worked as a shop assistant at Chandlers Electrical. "It was a really good experience, early on. Learning how to sell, how to interact with customers. I was quite an introverted guy, so just walking up to customers and trying to sell them something was part of an important learning curve. Without that, I would probably have ended up being an engineer behind a computer and kept to myself.

"My uncle was an electrical engineer. I had a set of walkie talkies and he fixed them up for me, and I felt that was really cool.

"I started pulling things apart. Printed circuit boards were done manually back then, and I would look at them thinking they were so complicated. How on earth could you work that out? It really fascinated me how those things came together."

Where to from here?

"I look forward to the day when I crystallise the 5% stake in this company. It should be worth hundreds of millions of dollars. Having that cash would provide a lot of sway. You see it all the time that the rich get richer during bad times. If you have the cash, then you can get a good deal for yourself and use that to your advantage. I don't blame anyone for working like that. That's what it is. That's business, right?"



Now that Helena has lost her job, she …

Can't even afford a takeaway coffee

Q I have been "pink recessioned". I was earning $60,000 a year and then overnight I lost my casual job. I was fortunate to have enough in savings to clear all my debts, but in my panic to do that I didn't really think about what was going to happen next.

Now for the first time in my marriage of 13 years I don't even have the money to buy a coffee. My husband earns so much that I don't exist as far as government benefits are concerned. So my question is, how do I have this conversation to, I guess, ask my husband for pocket money? And what is even reasonable to ask for?

Goodness, Helena, I've been answering readers' questions since our first issue in mid-1999 and I thought I had answered just about every money question known to humanity. But this is a new one.

Vaguely similar questions are more usually along the lines of relationship breakdowns and one partner (all too often the female) having no access to money, control-freak male partners and so on. But from the light tone of your email, I sense you and hubby are a good pair. Even better, you make it clear there is ample money coming in from his work.

So, I reckon the solution to this one is a nice meal and a great bottle of red and a chat about a line of funding until a new position opens up for you.

As his high earnings mean you may be ineligible for government support, I hope he will have a bit of a chuckle and suggest an amount. If not, or if he is a man who loves a budget, why not jot down a few points about what is a sensible amount?

Seriously, though, I hope this conversation goes really well. While most modern relationships don't "fully merge" family funds, it seems to me we agree to marry or partner for better or worse. In your case this is a moment of "worse" and I would like to think that your husband will be really happy to assist during your pink recession.

Do send me an update; I reckon quite a few of us will be waiting with bated breath to hear how it goes!

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*.

By investing for his kids, Matthew will see the …

Power of compound returns

Q My question relates to investing in a child's name. As you have stated in the past, with the parent as trustee you can then transfer the asset to the child free of CGT. Who bears the income on the way through? Also at what age is it appropriate to transfer the investment to the child?

Interesting question, Matthew. As well as doing this for our kids from an early age, we are now doing the same for our grandkids. The income issue is simple: the trustee pays the tax each year. That means it makes sense to hold investments as trustee in the name of the lowest taxpayer.

The next part of your question, as to when to release the funds, is quite challenging. I think the answer is needs-based. If money was required for secondary or university education, that would always come first. Education and knowledge lead to better financial outcomes, so I'd release funds for that.

Once we get past that, then things like a car may be important, although I'd prefer to resist that. A car is a depreciating asset and a money burner, though very convenient. Once we can travel again, I'd release funds for an extended overseas trip. That, I believe, is knowledge-enhancing and this benefit is with you forever.

In the perfect world, it would be used for a home deposit. This is what two of our kids did. Our other child managed to hang onto his childhood investment and in his 30s he still holds it. We started buying him CBA shares for a few dollars decades ago, with the dividend reinvestment option. The amount this has built up to is testimony to the power of compound returns. In each case we transferred ownership to them at around 25.

Carmel bought an investment property but now wants to know …

Have I done the wrong thing?

Q I'm retired, aged 66, and a self-funded retiree. I live with my partner, who owns the home we live in. We are financially independent.

I bought a residential investment property 10 years ago and have 20 years left to repay the remaining $200,000. I've just read *The Barefoot Investor* and now I'm concerned I've made a big mistake by investing in a residential property, and by having a fixed interest rate. One strategy suggested in the book is to invest in a property trust like BWP Trust.

Should I sell the property and put the maximum amount of money ($1 million) into super, and invest the rest in a property trust? Or do you have any other suggestions for my money?

I've known Scott Pape, the author of *The Barefoot Investor*, since he was a young adult and I like his values, his ethics and his advice. But when you write a book you cannot take every individual's situation into account. I've written plenty of books and you can only provide broad information.

You've owned your property for 10 years. How has it performed? A good performance would be around 3% income after running costs and capital growth of, say, 3%-4% a year. If it is doing well, I see no reason to pay selling costs, capital gains tax on any profits and the brokerage fees to re-invest!

If it has performed poorly, sure, getting rid of a bad investment makes sense. But even if you did that, I'd be thinking that a diversified pool of assets would be a much better idea than a single property trust.

Super is a great retirement asset, but here I would want you to seek advice. I don't see how you could pop $1 million into super these days.

More importantly, though, the real issue is your property. If it is performing nicely and likely to keep doing so, I'd hang onto it.

Phil is a renter and doesn't qualify for any grants, but …

At 50, you have lots of time to become an owner

Q My fiancée and I are long-term renters, always in credit, no problems. I work for a state government agency and my average income is $85,000. My fiancée does not work, but this may change in the near future. We live on the NSW south coast and want to buy a home closer to Sydney, perhaps in the Sutherland area.

My problem is that about 20 years ago I bought a small unit and utilised the newly established FHOG for the deposit and then sold it a couple of years later. My understanding is that this now makes us unable to benefit from any of the grants or concessions for our first home.

We have about $40,000 tied up in a share portfolio. I have some super, and I have no loans or credit cards debts. We are thinking of investing, as we do have a good amount of disposable income each pay. Our major issue, however, is time. We are both in our early 50s.

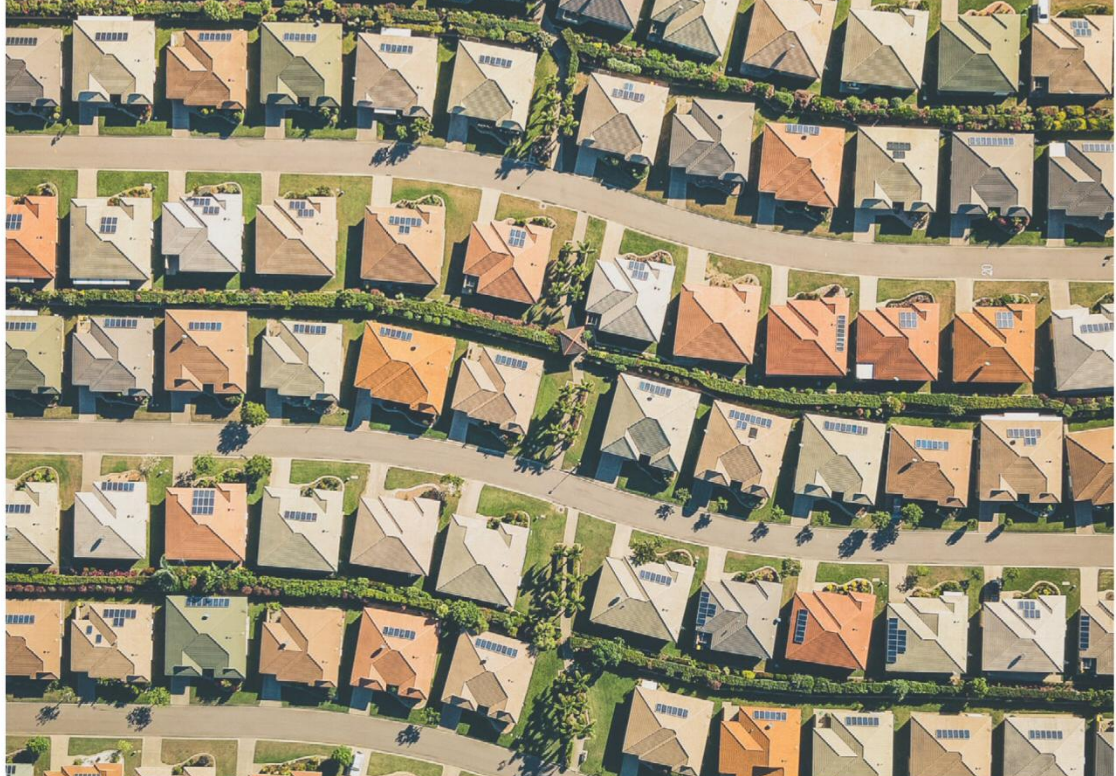
Sorry to disagree, Phil, but you have plenty of time. I reckon anyone under my age of 65 is a youngster and as a couple in your early 50s you are just babies.

I reckon you are right about not being able to access first home owner grants, but I have to say this is just not my area at all. I'd double-check with a property expert, such as a professional mortgage broker or lender, as to what is available here. In these strange Covid times, new support seems to pop up on a regular basis.

This is an issue that only you and your fiancée can decide, but is the option of buying in her name as a first home owner a good one for you both? You could ask a solicitor to document this as a permanent record.

More broadly, though, I love the idea of you owning a home and paying down the loan over the next decade or so of your work. Loans are ridiculously cheap right now, and I can see you with a mortgage in the high 2% range, meaning you could really use your surplus income to pay off the loan inside your working lives. This, I feel, should really be a key goal for you, so I'd do your research and chat to some lenders.

If you can hang onto your share portfolio, even better. I am sure it is delivering better returns than the under-3% cost of a mortgage, but I appreciate a decent deposit is important. Again, talk to a lender about this.



When she returns to Australia, Sally's retirement plan is to ...

Sell one property to become debt free

Q We are living overseas. I'm a housewife (no kids) and my husband is working as an expat. We have two properties: an old elevated, four-bedroom, two-bathroom house in Nightcliff, Darwin, and an old (but in good condition) two-bedroom cottage in Edge Hill, Cairns.

We have been paying off the Nightcliff house as this is where we will reside when we finally pay it off (in about five years). We plan to live there for two years and give it a coat of paint, then sell it and move to Cairns (using the money that we get from the sale of the Darwin home to pay off what we owe on the Cairns home), to live in the low-maintenance cottage for our retirement.

Meanwhile, we are making nearly two extra repayments above the minimum required on the Nightcliff home to pay it off. The cottage in Cairns is on minimum payments. Both get good rents – Darwin $650 a week (we owe $412,000) and Cairns $550 (we owe $380,000). Payments are made from an offset account.

Can you see any problems in doing it this way instead of just depositing the extra money into the offset account and paying the minimum? They are both mortgaged as investments and we never lived in the Darwin home, only in Cairns.

The key issue is to end up having no debt on your home and any residual debt on investment properties. But as you will sell your Darwin property in a couple of years and pay off your long-term home in Cairns, I can't really see a better way of doing this.

It would have been handy if you had lived in the Darwin home for a while and then had the "six-year exemption" to keep its tax status as your principal residence, but that is pretty useless, hindsight-type information.

So, on the face of it, the situation looks fairly straightforward. If there is any further complexity with your financial affairs, or you want professional advice rather than the general information in a column such as this, I'd bounce your plans off your tax accountant.

But it seems to me that you will sell your Darwin home and pay capital gains tax on any profits. You should definitely discuss this, in advance of the sale, with your accountant. Then you pay off your Cairns home and live there debt free. It sounds pretty good to me.

Mark wants a lifestyle with ...

Less work, more fun

Q My wife and I are both about to turn 60 and our mortgage is around $60,000. We are both working full time but would like to slowly wind back our working hours/days. I have a good super plan and will be able to retire comfortably when the time comes. Our combined wage is around $150,000. I have about $60,000 in shares in BHP, CBA, CSL, Wesfarmers, etc.

Should I sell all of my shares and pay off our mortgage and enjoy a little financial freedom while still contributing to our super funds?

Mark, I'm loving the idea of a bit of financial freedom for you both. My problem is your mortgage is probably costing you around 2.5% to 3%, and even with dividends under pressure I reckon your shares are paying you more than that. Over time, your shares should also grow in value.

Taking into account the dividends, I suspect you could be worse off selling the shares and paying down your mortgage. I appreciate, too, many of us work most of our lives, then die too rich. But I am not sure that converting quality shares into no mortgage will provide more "financial freedom". If it is a sleep-at-night sort of thing, then I'd do it.

But it seems to me that keeping quality assets is a darn good idea. My view is to do a complete "funding your lifestyle" plan. My suspicion is that paying off the small mortgage is a pretty low priority. Topping up super from your salary could be very tax effective and then a plan to draw down from super to improve lifestyle could also be an option.

There are many moving parts here. Seeing a good professional, fee-charging adviser may well be money well spent, or at least have a chat to your super fund.

I am about five years older than you, as is my wife Vicki, and we really get the importance of sleeping at night and using our assets before we drop dead!

With a $320k inheritance on the way, Ash's best move is to …

Buy a new home where you want to live

Q Hi, Paul. I am 46 and a single parent with three kids aged 10, 12 and 14. I am not working due to the loss of my job, am on Newstart and have no debts.

Sadly, my parents passed away and I am blessed to be coming into an inheritance of $320,000 and have to move out of their home after caring for them.

I have a mortgage of $260,000 on an old cottage in the Blue Mountains that needs a little work and is worth around $465,000-$500,000. It's tenanted at $400 a week.

Everyone tells me to pay off my mortgage and sell the home and buy another property to live in. Would I be better to sell the Blue Mountains home and get another small mortgage to buy a better house in another area? (I don't want to live in the mountains.)

Or do I keep it for future retirement/income, as I have next to no superannuation, and pay part of the mortgage down, and then rent for the foreseeable future until I am secure again? Or do I possibly use equity and the inheritance to purchase a cheaper primary residence and keep the property tenanted with a mortgage.

Well, Ash, I often find myself at odds with the views of family, friends and acquaintances when it comes to investment. But here I find myself firmly supportive of what you are being told.

You have given me the key clue I need when you say "I don't want to live in the mountains". If you saw yourself living there in the future, hanging onto it makes sense. But the return on the property, after expenses, is not great. The Blue Mountains and other beautiful lifestyle areas have not in the past, and are not likely to in the future, experienced the demand, population increases and hence price growth of properties in area with significant job opportunities, education, infrastructure, entertainment and so on.

So I am with the crowd. Sell and buy where you want to live and work. Clearly, I would want this to be in a growth location, near public transport, schools for the kids and also well located for when jobs return and you can work near home.

Before you do anything, though, get a couple of local agents to give you a realistic valuation. Check out selling and marketing costs. Push your agents to get the best deal in terms of their commission and also the marketing costs.

Also, do remember, capital gains tax may apply if you sell at a profit. This is charged at a discounted rate, and as you will be paying little or no tax, it may have little impact. Take a look at ASIC's MoneySmart website for information on CGT.

Jenna needs to protect her assets because her …

Partner is an alcoholic gambler

Q I would like to buy a small unit or house. I had a workplace accident five years ago and am waiting to receive an impairment compensation payout because, unfortunately, I cannot work again. Payments are ceasing and I will have to apply for the pension as I am 66. I have $200,000 in super, substantial savings and no debt.

After a marriage breakdown 29 years ago, I lost custody of my two children, then nine and 12, who relocated to Queensland with their father. I spent a great deal of money in the Family Court fighting for sole custody over many years and paid child support until they were 18.

I've since remarried, and we are renting as my husband cannot handle money and has no savings. My husband pays our rent; I pay all utility bills and contents/life insurance, buy food and maintain my own car. He is an alcoholic and a heavy smoker with a severe gambling addiction. Am I able to purchase something, paying cash, in my name only?

Oh dear, Jenna. This sounds really awful. Heavy smoking is far from ideal, but an alcoholic, addicted gambler sounds like hard going to me. You are smart to hold your savings in your own name; we both know where they would go otherwise.

Yes, you can indeed use your substantial savings to purchase a home in your name. I would leave your super right where it is, provided of course it is in a large, well-managed, low-cost fund. The money is safe there and less accessible than the savings you have in your name.

I can't make any comment on your relationship and its longevity, but you should note if it were to fail that any of your assets would become part of a separation settlement. The timing of the compensation payout may also affect your plans to buy a home.

Naturally, I would support your decision to get an age pension. This would take pressure off your assets and assist you to keep them intact. One thing is for sure: I really would like you to own a home. As we age, the security in living in a home we own is very high.

SMART SPENDING

Destination Uluru

Now is a better time than ever to start exploring our own backyard and what better place to visit than Uluru. Take in the culture of Anangu, the traditional owners of Uluru-Kata Tjuta National Park.

Ancient beauty ... clockwise, from above, majestic Uluru; the illuminated night sky; the Red Centre lives up to its name; hikers on the Valley of the Winds walk.

Five things to do

Walk: Uluru

The best way to get up and close to Uluru is by walking around it. The self-guided base walk is about 10km and takes you around the entire rock. There are incredible ancient paintings and carvings by the Anangu people etched into Uluru. Plan to start walking early in the morning at parts of the track close as the temperature climbs. Keep in mind this is a sacred site and some areas are not to be photographed. (Tip: buy a fly face net in town as the pests are incessant.)

Visit: Kata Tjuta

Also known as The Olgas, Kata Tjuta is a formation of domed sandstone rocks around 40km west of Uluru and is just as spectacular. If you're up for a challenge, the Valley of the Winds walk is a 7.4km (and at some points very steep) circuit that weaves through the domes and takes you to different viewing platforms. The scenery is impressive and while the rock formation is similar to Uluru, Kata Tjuta and the Valley of the Winds walk, through ancient formations and along a creek bed, is a unique experience.

Indulge: Sounds of Silence

The Sounds of Silence is a truly remarkable experience. It commences with a short walk to the top of a sand dune where we were met with canapes, sparkling wine and the sounds of a live didgeridoo performance. As the sun set over Uluru, we moved to a beautifully set table and enjoyed a local produce-inspired dinner. In the highlight of the night, the resident stargazer pointed out the constellations, galaxies, planets and shooting stars.

See: Field of Light

British artist Bruce Munro's installation has become an iconic scene in the Red Centre. The Field of Light has more than 50,000 solar-powered bulbs that cover a space larger than seven football fields. Wander through the installation once the sun goes down and be mesmerised by the lights as they change colour against the night sky.

Watch: Sunset over Uluru

If you have arrived by car or plan on hiring one, the viewing area about a 15-minute drive from the town of Yulara is the best place to take photos as the sun sets over Uluru. Sit back and watch as the rock changes to a deep orange.

ANNABELLE DICKSON

DRIVING PASSION

It finally makes sense to buy a hybrid

The hip pocket and the seat of the pants finally agree on hybrids. They have come of age – in particular those with Toyota badges.

Put aside for a minute the Japanese giant's cynical labelling of its conventional hybrid models as "self-charging" – a term that Norway took Toyota to task over and banned it from using. The fact of the matter is, now in mid-Covid Australia, buying a hybrid Corolla, RAV4 or Camry finally adds up.

This hasn't happened overnight. Not long ago, Toyota hybrids were more about making a statement than making sense. The technology was at times clunky and the fuel economy claims hard to achieve.

The cars were also expensive to buy. In the past few years, however, there's been significant progress. Toyota (and Lexus) have incrementally improved its hybrid technology and the cars' real-world operation is much closer to the promises.

At the same time, Toyota has increased the number of models in which hybrid systems are offered.

And in each update and generation, Toyota has also effectively trimmed the cost difference between equivalent petrol and petrol-electric models. It can now be in the order of $1500 or less when the bargaining is done.

Better real-world economy, combined with modest price increments for going hybrid, mean the payback period is shorter than it has ever been.

It makes the decision to go hybrid much easier, and that's before you factor in that in many Toyota models the hybrids are probably the pick in terms of driving appeal.

And then there's the question of resale and total cost of ownership.

Redbook.com.au says the total cost of ownership on Toyota hybrids has definitely improved. Indeed, resale of Toyota hybrids now betters their conventionally engined counterparts.

In the case of cars like the Toyota Corolla SX Hybrid, Redbook projects better than 82% retained value over three years and, over five years, the mid-grade hybrid RAV4 family-sized SUV has almost 5% better retained value than its conventional counterpart.

These trends are in sharp contrast to battery EVs, which Redbook projects will have significantly lower retained values than their petrol counterparts even in five years.

The hybrid Toyota Corolla, RAV4 or Camry are not necessarily the best choice of vehicle in their respective segment. Rather, if you are in the market for a new car and popular Toyota models in particular, you'd have rocks in your head not to at least very seriously consider the hybrid alternative. CARSALES.COM.AU

EXTRAVAGANCE

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No need to miss your annual summer getaway. With this elegant Lotus Wicker Daybed, you can set up a luxury resort nook in your own backyard.

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WINE SPOTLIGHT

2020 Castle Rock Porongurup Riesling $25

Winemaker Rob Diletti punches far above his weight from the remote Porongurups, especially by making some our finest rieslings. This is wonderfully aromatic with lemon and lime zest characters, vibrant lemon flavours that are pure, intense and juicy before a finish that is crisp, pristine and long. Classy!

SPLURGE

2017 Seville Estate 'Dr McMahon' Shiraz $150

There is only a small volume of this impressive shiraz, which pays tribute to Dr Peter McMahon, a pioneer in the Yarra Valley. In 2017, it has soaked up its deluxe treatment – 100% new oak, long time on skins – so that its purity of fruit shines. It is intense and persistent with silky smooth texture and slinky tannins on an elegant finish. Superb.

PETER FORRESTAL

SMART SPENDING

SMART TECH

iPhones galore: how to choose the right model

If you're an iPhone user, it's about as complicated as it's ever been to work out which device is right for you, because at the moment Apple is selling seven models, which is possibly a record. Apple doesn't really make bad smartphones, so it's not as if you could choose an absolute dud from this line-up – they're all powerful and polished devices (even the oldest ones).

But there's a confusing variety of options and prices, starting from $679 for last year's iPhone SE and stretching to an eye-watering $2369 for the new, top-of-the line iPhone 12 Pro Max in its most maxed-out configuration.

So which is right for you? Well, the most pertinent questions are how big do you want your new phone to be and do you really need the latest and greatest?

This month we're spotlighting Apple's newest iPhones, unveiled in October, but the older iPhone 11, XR and SE models are all still available, and can offer decent savings if you're happy with slightly older tech.

PETER DOCKRILL

What is it? iPhone 12
How much? From $1349
Pros: The new default model, likely to be the most popular iPhone this year, offers a smart, flat-edged design (reminiscent of the old iPhone 5), powered by the new A14 Bionic processor. It's got support for 5G networks, a 6.1-inch OLED display, an improved, toughened screen, dual rear cameras, and new magnetically aligned charging capabilities (via MagSafe accessories, sold separately).
Cons: Pricey, and no longer includes a power adaptor or earbuds.
apple.com/au

What is it? iPhone 12 mini
How much? From $1199
Pros: The 12 mini harks back to a time when handsets were much smaller. Several years ago, smartphones exploded in size, delivering enlarged displays but also becoming heavier, bulkier and harder to operate one-handed. The mini is basically technologically identical to the iPhone 12, just shrunk down to a 5.4in screen.
Cons: Expect slightly shorter battery life. Also consider the much cheaper iPhone SE if smallness is your priority.
apple.com/au

What is it? iPhone 12 Pro
How much? From $1699
Pros: Apple's Pro models improve on the iPhone 12 with a host of deluxe features, but it's still the same chip underneath. The 12 Pro comes in two sizes: a 6.1in model and a huge 6.7in device called the iPhone 12 Pro Max. Both sport an additional telephoto lens camera, LiDAR scanning capabilities and stainless steel bodies. The Pro Max also features an improved camera system.
Cons: Nice perks, but are they worth the extra cost?
apple.com/au

GIVE IT UP

Project displaced

What is it?
Covid-19 displaced many people from their jobs, particularly in the airline, arts and hospitality industries. Former Qantas employee Anthony Cohen was among them, along with his partner, a musician. Finding himself without work, Cohen put out a message on LinkedIn asking if anyone had roles for those looking for work. He was swamped with more than 3000 job offers. This was when he realised there was an opening for someone to collate the jobs and help those without work become job ready. Staffed by qualified professionals – career coaches, HR managers, recruiters and mental health specialists – volunteering their time, the service offers skills sessions, résumé and cover letter reviews, job interview coaching, mindset coaching, career coaching and mental health first aid.

Where your money goes:
Cohen started the service with his own savings. Donations help cover the operating costs, which include the systems that connect job seekers to coaches, insurance and legal expenses, and ensuring the service remains available long after the federal government's JobSeeker comes to an end.

How to donate:
There is a GoFundMe page on the projectdisplaced.com website. Alternatively, you can share your expertise as a volunteer or become a strategic partner or sponsor.

WEBFIND

SUPERCOOK.COM

A website is for anyone with a random collection of ingredients and no idea what to make for dinner. Just list the ingredients you have on hand and SuperCook will find matching recipes from popular cooking sites. It aims to reduce food waste, encourage creativity in the kitchen and get more people cooking.

SHARYN MCCOWEN

18+

WHAT IS

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Money

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New competitions are added on a weekly basis!

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*Conditions apply. Competitions are games of skill.

CASE STUDY

We're ready to buy our first home

Dean (right) with his partner, Bradley.

I am 38 and my partner is 36; we share savings of around $30,000 and have $30,000 invested in the ASX.

I personally have $10,000 in savings, $40,000 invested in the ASX and a super balance of more than $150,000. I regularly invest in the ASX with a long-term plan for growth rather than having it sit in a savings account.

We own our cars and are renting at $350 a week.

We recently moved away from jobs where we were both working in remote regions of Australia and have both secured new salary positions on the east coast with a combined weekly income of about $2000.

We will be on probation for the first three months and therefore will not be eligible to apply for a home loan just yet. We had plans to purchase our first home while we were working remotely; however we would have needed to apply as investors (at a higher interest rate) rather than owner-occupiers. With this in mind, along with the pandemic, we decided to wait until we had moved and secured new jobs and apply as owner-occupiers.

What are your thoughts on our investments and savings and our plan to purchase a home after our probation has passed? Are you comfortable with our cash/portfolio balance?

Dean

One of my laws of money is the need to generate surplus income. You clearly get this concept. It can be seen in your individual and joint savings, plus a very healthy super balance. I find it really interesting that people get very excited about where to invest and what to invest in, but this is a secondary issue to what is a far more critical, but boring, issue.

Spending less than you earn, not what you invest in, is the common factor with people who create their own wealth. Unfortunately, we humans do not have an inbuilt mechanism in our DNA around saving. For the vast majority of us, spending is fun. We like holidays, eating out, cars, bigger TVs, clothes and the vast range of "stuff" a modern world makes available to us.

This is one of the great challenges in the world of financial literacy. It is all about how people resist all the great-looking stuff we can buy and the very effective marketing of both products and credit. We can have lots of stuff and have it now, yet not pay for it until a later date.

What is important to your financial future is that you and your partner have built saving into your DNA. Even better, you have done this at a young age and with a nice pot of assets already. Another of the key rules of money, compound returns, is working in your favour.

You've also nailed another of the key rules of money, in that you are building long-term wealth in growth assets, not cash. Cash is a terrific asset for liquidity. In my age group, where most of us are pre-retirees or retirees, some cash is also good as we start to rely on investment income. In bad investment years, our income from property or shares may fall and we need to hold some cash so we don't sell growth assets at a time when markets have fallen.

In your case, some cash is handy as an emergency reserve, but as you have both secured new jobs on the east coast, a lot of cash is a pretty useless long-term asset, in particular when interest rates are close to zero. I am sure you will have seen good growth in your super and shares. Obviously these are more volatile, but they provide far higher returns over the longer term. Quite frankly, you are doing a lot right, which is brilliant.

> **Paul's verdict:**
> **Remember to buy with your head, not your heart**
> With interest rates around 2%, a big mortgage is okay, so try to hold onto your shares

Next, we move to property. As owner-occupiers and first home buyers you will qualify for assistance. Check online in your state to see what is available. As you say, you will also get a great rate – I suspect this will be close to 2%.

All the help and cheap money means property is not going to be a bargain buy. That, however, is okay. A well-researched purchase in a growth location is very unlikely to be anything but a decent investment. And you get to live in it!

I'd suggest you head off to a couple of lenders and see what your borrowing capacity is. With the sort of loan rate you are looking at today, I would prefer to see you hold onto as many of your ASX investments as you can. The rule here is pretty simple. If your mortgage is around 2%, you would rather hold investments earning above 2%. Naturally your significant super balance will remain as an investment.

What I would encourage you to do is what you are already doing: spend less than you earn and apply surplus income to your asset base. A large mortgage is not a big issue with interest rates as low as they are now, so my inclination would be to add your savings in excess of your repayments to your investment portfolio. In reality, for many years your investment mix will be out of whack, simply because your home will be a big proportion of your wealth. This is normal in your age group – we've all been there. It is only as wealth growths outside your home that a technically better investment mix is achieved.

So, I think you are right on track. Do plenty of research on a home before you buy and remember your first home is very unlikely to be your final home, so buy with your head, not your heart. You need a property that not only appeals to you, but also to a future buyer or renter.

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.

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GET READY FOR ANOTHER BOOM

STORY TERRY RYDER

In the face of dire predictions, shares and property came through 2020 in surprisingly good shape.

Real estate reaffirmed its status as a resilient asset class, with price rises across the nation. In fact, we are on the cusp of a new boom, driven by a "lifestyle exodus" into regional areas.

After an initial plunge, the sharemarket staged a remarkable recovery, finishing the year more or less where it started. While political and financial risks remain around the world, the prospects for 2021 are promising.

Property guru Terry Ryder, from Hotspotting, and Jessica Amir, a shares expert from Bell Direct, reveal where they see the greatest value in 2021, providing their top 50 buys.

- 5 standout locations, page 36
- 5 standout shares, page 41

Australia is on the cusp of a national real estate boom – the first since the start of this century. In many parts of the nation, the strong up-cycle is already happening.

We haven't had a genuine boom since the one from 2001-2004, when all the major markets experienced big price rises. The one that drove Sydney and Melbourne prices higher from 2013 to 2017 was not a nationwide event, as few other locations shared that price uplift.

But right now forces are building which will generate growth in most major cities and towns in 2021 and beyond. They will be boosted by new events that will energise economies, including infrastructure spending and increased activity in the resources sector.

We currently have a remarkably strong situation – everywhere, in fact, except the two biggest cities, which are so often the exception rather than the rule.

Data from CoreLogic and other credible sources suggests that most markets had price growth in 2020. Many of our capital cities and regional areas recorded some growth in most months since February, when the pandemic struck.

The trend I call the "exodus to affordable lifestyle" has been under way for some years, energised by the ability of people to work remotely. Pandemic lockdowns turned a steady drift to the regions and the smaller cities into a stampede.

The regional areas in particular have been pumping strongly, with ultra-low vacancies, rising rents and buyers outnumbering sellers. People at the coalface, including buyers agents, valuers and selling agents, have reported highly competitive markets – and the data supports those views.

This means significant sections of the nation already have notable up-cycles under way, particularly those where the virus was under control early, local economies are strong, consumer confidence is high, vacancies are low, first homebuyers are active and the lifestyle exodus is having an impact.

Locations that have most or all of those factors in play include Perth, Adelaide, Brisbane, Hobart, Canberra and regional centres like Launceston, Ballarat, Bendigo, Albury-Wodonga, Orange, the Central Coast, Newcastle, the Sunshine Coast, Mackay, Rockhampton, Townsville, Victor Harbor and Mandurah.

It's significant that the major banks, whose economists issued very negative forecasts for property prices early in 2020, are now predicting significant growth in 2021.

What will drive markets

The lifestyle exodus is a long-term trend that will continue to boost markets in the regions and the smaller capital. First homebuyers and low vacancies will continue to influence markets in 2021.

The big factor yet to be felt is the huge infrastructure spend. Federal and state political leaders intend to generate an infrastructure-led economic recovery and that will turbocharge a residential property boom.

The best places to consider have excellent existing infrastructure (public transport, schools, medical services, retail outlets, etc) plus proposed spending on new infrastructure.

New motorways, rail links, hospitals and universities improve the amenity and desirability of the locations directly impacted. These projects generate major

economic activity and employment – and from that flows demand for real estate. So, a good strategy for investors is to buy property that lies in the path of progress.

The federal budget provided evidence that the government intends the post-pandemic economic recovery to be largely inspired by spending on major projects. It's also clear that state governments are ramping up their spending on roads, rail links and other projects to generate jobs and are willing to go into debt to achieve their objectives.

Follow the newcomers' trail

Where are prices most likely to rise in 2021? There's not a single, simple answer, but here's one suggestion: follow the trail blazed by first homebuyers. They are the most active cohort in residential real estate, with investors strangely reticent about entering the market, although there were signs of revival late in 2020.

A December article published by realestate.com.au noted that first homebuyers were "dominating the real estate market in a manner not seen in more than a decade, blowing away years of complaints about housing unaffordability".

According to the REIA Housing Affordability Report: "FHBs now make up 40.8% of owner-occupier dwelling commitments, which is the highest since September 2009."

The activity of first homebuyers also shows up in Hotspotting's latest quarterly survey of sales activity: in most cities, the suburbs with the greatest uplift are the cheaper ones. These are the places where prices are most likely to be rising.

Australia has a rental crisis that is largely unheralded in the national media. The shortage of rentals in many parts is so dire that tenants face the prospect of having nowhere to go.

In market after market, any property that becomes available for rental attracts queues of applicants – typically 40 or 50 parties applying for the same property. It's common for tenants to make offers well above the asking rent and/or to offer to pay three or six months' rent upfront.

Real estate analyst Simon Pressley, head of research for Propertyology, has been calling attention to the rental shortage for some time. "It's a very real crisis," he says. "There is an enormous rental housing undersupply. Most of Australia is below 1%, which means there is virtually no rental stock available."

According to an SQM Research report published in December, the national vacancy rate was 2.1% but the number was deceptive because our two biggest cities had rates of 3.5% (Sydney) and 4.4% (Melbourne) and this was keeping the average higher.

But five of the eight capital cities had vacancy rates below 1%, while Brisbane was 1.8%. And the biggest problems are being felt in the regions, where centre after centre has a vacancy rate closer to zero than to 1%.

Louis Christopher, of SQM Research, says that without Sydney and Melbourne in the figures, the national rate would be much lower than 2.1%. "Regional Australia has put out the 'No Vacancy' sign," he says.

The Weekly Rents Index published by SQM Research showed monthly rises for houses in six of the eight capital cities in November. In annual terms, rents nationally were up 5.1% for houses. Among the cities, Perth and Darwin both recorded 9% annual rises.

HOW 2020 TURNED OUT

This time last year we told property investors to "think small". We suggested the best growth would occur outside the two biggest cities.

Although no one could have forecast the pandemic, outcomes were largely in line with our expectations. Price data from four major research sources showed how well residential property performed, especially outside Sydney and Melbourne.

SQM Research's Weekly Prices Index showed that nationally house prices rose 8.5% and unit prices 7.3% in the year to December. Seven of the eight capital cities recorded annual growth and the regions did better than the capitals.

CoreLogic figures published in early December also demonstrated how well the various markets performed. Since February, there had been nine months of house price data and Canberra and regional Tasmania recorded growth in all nine. Adelaide, regional Queensland and regional NSW recorded increases in eight of the nine months, while Brisbane, Darwin and regional South Australia had growth in seven.

In annual terms, 13 of the 15 market jurisdictions (eight capital cities and seven regional areas) recorded house price growth in the year to December. The best performers were regional Tasmania (10.6%), Darwin (9.1%), Canberra (7.8%) and regional NSW (7.4%).

All jurisdictions except Melbourne rose in the September-October-November quarter, including quarterly rises of more than 3% in Adelaide, Canberra, Darwin, Hobart, regional NSW and regional Queensland.

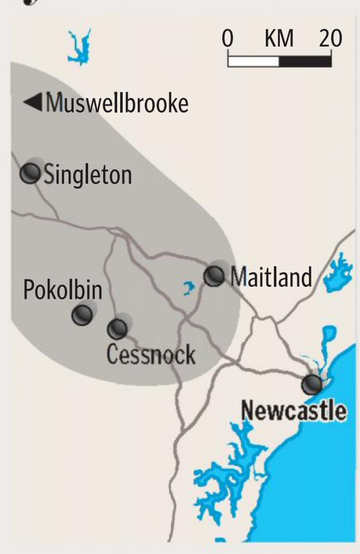
In fact, 2020 turned out to be a great advertisement for residential real estate as an asset class. Multiple factors explain why prices held up so well, including: the economy has been stronger than predicted; most of the nation got the virus under control early; many people sought the safety of bricks and mortar; government stimulus measures and support from lenders made a big difference; first homebuyers have been highly active; vacancy rates are ultra-low in most locations; the lifestyle exodus is a powerful force; and expats returning home have more than compensated for the absence of migrants.

NEW SOUTH WALES

STANDOUT LOCATION:

1 Hunter Valley:

The region is a natural fit for the two trends expected to dominate 2021, the infrastructure boom and the lifestyle exodus. This is a renowned wine district and the home of horse breeding as well as a key centre for energy production. Centres such as Maitland, Singleton and Muswellbrook are expected to thrive.



2020 reviewed

Northern Beaches: While 2020 was a struggle for Sydney, some precincts did well, headed by northern beaches suburbs like Dee Why (up 18%), Allambie Heights (12%), Avalon Beach (13%), Mona Vale (15%) and Frenchs Forest (17%).

Many markets across the country enter 2021 poised for big growth, but few places more so than regional NSW.

With sales activity rising in regional centres right across the state, markets outside Sydney are well positioned to benefit from trends driven by lifestyle choices and infrastructure spending.

The Central Coast is the ideal fit for the "affordable lifestyle" trend, providing a cheaper alternative close to Sydney, and many of its suburbs saw considerable uplift in sales activity in the second half of 2020.

The Blue Mountains and the Southern Highlands also look likely to have vibrant markets.

Further afield, Orange, Wagga Wagga, Dubbo, Goulburn and Albury-Wodonga are well placed among the inland centres, while "sea change" demand will boost Byron Bay, Ballina, Port Macquarie, Coffs Harbour, the Tweed region and the towns of the Eurobodalla local government area.

Sydney emerged quite well from the difficulties of 2020 and looks set for a better year overall in 2021. The northern beaches and the inner west will lead the more expensive markets, while younger buyers will target more affordable areas like Blacktown, Penrith and Campbelltown.

The substantial infrastructure spend in Sydney will also put the spotlight on these cheaper areas, especially with the continued rollout of the new airport and the Aerotropolis.

VICTORIA

STANDOUT LOCATION:

2 Mornington Peninsula:

The peninsula ended 2020 as Melbourne's most vibrant market. It will continue to thrive as more people leave the inner city in search of lifestyle at affordable prices. The precinct has a good track record of growth and ultra-low vacancies and has a range of pricing through its suburbs, from $500,000 to $1.5 million.

2020 reviewed

City of Moreland: The well-located suburbs in Moreland LGA, a little north of the CBD, did remarkably amid the Covid restrictions, with places like Brunswick, Coburg, Glenroy and Pascoe Vale recording double-digit growth in median prices for both houses and units.

Melbourne had a lot to deal with in 2020, but it remains a strong and resilient city and we can expect it to revel in the post-lockdown freedoms. Even with all the restrictions throughout much of 2020, it managed to deliver price growth in many suburbs. I expect 2021 to be a big year for the city's market.

Lifestyle and infrastructure are the big drivers and the City of Monash is a good expression of both, offering great amenity at a relatively affordable price and boosts to come from expansions to its medical-educational precincts and the advancement of the Suburban Rail Loop.

Affordable areas, including the municipalities of Whittlesea, Hume, Brimbank and Casey, will see plenty of activity from first homebuyers.

Mornington Peninsula ... vibrant market

Estates offering affordable land will be particularly busy.

Regional Victoria has been, for the past three years, the national leader of the trend that is seeing large numbers of people relocating from the big cities to the hill and sea change areas.

Geelong and Ballarat continue to be strong, and Bendigo is also rising, but the movement has rippled out to more distant regional centres such as Warrnambool, Mildura, Wangaratta, Wodonga and the towns of East Gippsland.

QUEENSLAND

STANDOUT LOCATION:

3 Toowoomba:

Australia's second biggest inland city will benefit from infrastructure spending and the movement from the big cities. New transport infrastructure is having a big impact and there is more to come, most notably the $14 billion Inland Rail Link. Most suburbs have median house prices in the $300,000s and $400,000s; vacancies are close to zero.

2020 reviewed

Moreton Bay LGA: This growth precinct in Brisbane's north performed well in 2020, with suburbs like Caboolture South, Bellara, Bellmere and Upper Caboolture recording house price growth in the 7%-10% range.

Brisbane is overdue for a boom and we saw the first signs of an up-cycle in 2020, with vacancies down and rents rising in all precincts except the CBD and inner-city suburbs (where vacancies remain high) and sales activity surging in the second half of the year.

Double-digit growth in house prices in many of the pricier areas in the past year is another signal of rising momentum.

Brisbane is benefiting from interstate migration, as "refugees" from the biggest cities target the more affordable Queensland capital. Spending on major new infrastructure, a missing element in recent years, will have a big impact in 2021.

The inner north has rising momentum and first home buyers are targeting the Moreton Bay LGA in the far north and Logan City in the far south.

Regional Queensland is poised to be a national leader in sales activity and price growth. This is the most buoyant regional market in six years.

Large numbers of Australians are moving north and targeting affordable lifestyle areas like the Sunshine Coast, Mackay and Townsville.

Regional centres impacted by the resources sector are rising also, with the mining sector gathering strength. There are signs of recovery in centres like Gladstone and Emerald.

Toowoomba ... new infrastructure

WESTERN AUSTRALIA

STANDOUT LOCATION:

4 Rockingham:

The suburb is the designated centre for government infrastructure in south Perth. Rockingham LGA offers affordable suburbs – most with median house prices in the $300,000s – beside the bay and close to some of Perth's biggest jobs nodes. With first homebuyers busy in Perth, this precinct will thrive in 2021.

2020 reviewed

City of Melville: The suburbs of Melville epitomised the beginnings of the Perth revival in the second half of 2020, with vacancies below 1% in many postcodes and suburbs like Applecross, Leeming, Melville and Willagee recording moderate price growth.

It's been a long time between up-cycles for Perth but its time is near. The second half of 2020 showed signs of uplift, with vacancies low, upward pressure on rents, sales activity increasing and early indications of a return to growth.

Property markets are being boosted by improvements in the WA economy, with the resources sector rising and a growing list of big infrastructure projects in Perth.

First homebuyers have high levels of support and this cohort is leading the Perth revival. There have been notable increases in buying activity in outer-ring areas such as the municipalities of Wanneroo, Rockingham and Armadale.

Solid middle-market areas, including the municipalities of Melville, Stirling and Joondalup, are poised for good growth in 2021.

The latter part of last year saw evidence of regional areas south of Perth, notably Mandurah, joining the nationwide affordable lifestyle trend. There were also signs of improvement in Bunbury, Busselton and Margaret River.

Regional resources centres like Port Hedland and Karratha have continued to grow their prices after finding the bottom of the trough in 2018, with still some way to go to reach the crazy levels of the previous mining investment boom. A new resources boom is building, likely to be boosted by the big infrastructure spend planned by state and federal governments, so prices in these centres will show further recovery.

Victor Harbor ... affordable lifestyle

SOUTH AUSTRALIA

STANDOUT LOCATION:

5 Victor Harbor:

The seaside towns about 80km south of central Adelaide are rising as people seek a more affordable lifestyle. Victor Harbor, Encounter Bay, Port Elliot, Hayborough and McCracken all entered 2021 with sales activity and prices rising. The median house price for Victor Harbor rose by 10% in 2020 but is still just $370,000.

2020 reviewed

City of Marion: Most Marion suburbs recorded price growth in 2020, headed by Hallett Cove (6%), Trott Park (5%), Marion (8%) and Plympton (7%).

Adelaide was one of the best capital cities in 2020. CoreLogic data shows prices grew in every month except one after the pandemic struck in February.

Adelaide keeps delivering good sales activity and above-average results on house prices in selected precincts. It has avoided the boom-bust scenarios seen in recent years in Melbourne and Sydney and the sharp downturns that have plagued Perth and Darwin.

With a median dwelling price around $460,000, Adelaide offers great value for money. The outer-ring precincts in the north have the most affordable suburbs in capital city Australia and there was a surge in sales in the City of Playford (where some suburbs have medians below $200,000) in the second half of 2020.

There will be strong results there and in neighbouring Salisbury this year, but also in middle-market areas that offer good quality at attainable prices, including the municipalities of Marion, Port Adelaide, Campbelltown and Tea Tree Gully.

While Adelaide is the most underrated market in the nation, regional South Australia is perhaps the most surprising. Most towns have recorded strong price growth in recent years, but they continue to fly under the media radar screen.

The Victor Harbor area is rising, as are the towns of the Barossa Valley, and we will see further improvement in regional centres like Whyalla, Mount Gambier and Port Lincoln.

OTHER STATES AND TERRITORIES

The "other states and territories" deserve greater prominence – Canberra, Hobart and Darwin have been among the outstanding performers in 2020. They also have extremely low vacancy rates and rising rentals.

Canberra stood out as the only capital city to deliver price growth every month after the pandemic struck in February, according to CoreLogic data. House prices rose 8% last year.

Hobart has been a leader for capital city price growth for several years and in 2020 recorded a further 6.5% increase. But regional Tasmania did better, rising 10.5%, says CoreLogic.

After several years of decline, **Darwin** prices surged in the second half of 2020 and were up 9% by the end of the year.

Canberra, Hobart and Darwin all have vacancy rates well below 1%, according to SQM Research figures published in December. Rents have surged in Darwin in particular. We expect Canberra to do in 2021 what it always does: deliver steady, consistent markets with solid price growth.

The greatest price uplift for Tasmania this year is likely to be seen in the regional towns, where there was a noticeable increase in sales activity in the second half of 2020.

The Tasmanian economy is ranked No. 1 in the nation by CommSec's State of the States report and this healthy economy will continue to drive price growth, further boosted by the lifestyle trend, for which Tasmania is a natural fit.

Darwin is clearly on the comeback trail – how far this extends will depend on the territory economy, which continues to be weak. It has been the only city suffering population loss in recent years, but the trends unleashed by the pandemic, with an influx from other parts of Australia, may reverse this.

Canberra ... rising star

HOTSPOTTING'S TOP 50 LOCATIONS FOR 2021

SUBURB	MUNICIPALITY	STATE	MEDIAN HOUSE PRICE	GROWTH (%PA) HISTORICAL 1 YEAR	GROWTH (%PA) HISTORICAL 10 YEAR	GROWTH (%PA) FORECAST 2021	MEDIAN WEEKLY RENT	MEDIAN YIELD
Engadine	Sutherland Shire	NSW	980,000	13%	6%	12%	$650	3.4%
Castle Hill	Hills Shire	NSW	1,575,000	14%	8%	10%	$660	2.2%
Freshwater	Northern Beaches	NSW	2,480,000	6%	7%	15%	$1295	2.7%
Lilyfield	Inner West	NSW	1,775,000	7%	7%	12%	$800	2.3%
Mt Druitt	Blacktown	NSW	670,000	8%	8%	12%	$400	3.2%
Bowral	Wingecaribee	NSW	1,100,000	20%	8%	15%	$590	2.8%
Byron Bay	Byron Bay	NSW	1,835,000	34%	11%	10%	$850	2.4%
Terrigal	Central Coast	NSW	960,000	7%	6%	15%	$560	3.1%
Googong	Queanbeyan	NSW	675,000	4%	0%	15%	$660	5.1%
Orange	Orange	NSW	450,000	7%	4%	15%	$380	4.4%
Oakleigh	Monash	VIC	1,140,000	5%	6%	10%	$550	2.5%
Thomastown	Whittlesea	VIC	615,000	4%	6%	10%	$360	3.1%
Hastings	Mornington Pen.	VIC	545,000	12%	6%	15%	$400	3.7%
Golden Square	Bendigo	VIC	355,000	6%	4%	15%	$340	5.0%
Traralgon	Latrobe Valley	VIC	330,000	5%	3%	15%	$330	5.2%
Warrnambool	Warrnambool	VIC	390,000	8%	1%	10%	$380	5.1%
Parkdale	Kingston	VIC	1,195,000	8%	6%	12%	$570	2.5%
Sebastopol	Ballarat	VIC	330,000	10%	5%	10%	$320	5.0%
Kedron	Brisbane City	QLD	785,000	6%	5%	12%	$485	3.2%
Ashgrove	Brisbane City	QLD	1,100,000	13%	5%	12%	$550	2.6%
Petrie	Moreton Bay	QLD	420,000	1%	3%	10%	$370	4.5%
Palmwoods	Sunshine Coast	QLD	565,000	2%	3%	15%	$480	4.4%
Nambour	Sunshine Coast	QLD	425,000	5%	3%	15%	$410	5.1%
Rangeville	Toowoomba	QLD	455,000	0%	3%	15%	$380	4.4%
Emerald	Central Highlands	QLD	340,000	6%	0%	20%	$360	5.5%
Gympie	Gympie	QLD	280,000	5%	1%	20%	$320	6.0%
Kirwan	Townsville	QLD	320,000	4%	0%	15%	$360	5.9%
Mt Barker	Mt Barker	SA	410,000	8%	2%	10%	$380	4.8%
Oaklands Park	Marion	SA	480,000	3%	2%	12%	$410	4.4%
Salisbury North	Salisbury	SA	250,000	4%	1%	15%	$300	6.2%
Elizabeth Downs	Playford	SA	195,000	11%	1%	15%	$250	6.7%
Victor Harbor	Victor Harbor	SA	380,000	10%	2%	15%	$335	4.6%
Greenwith	Tea Tree Gully	SA	490,000	4%	3%	15%	$370	4.0%
Port Augusta	Port Augusta	SA	150,000	4%	0%	20%	$220	7.6%
Mt Pleasant	Melville	WA	1,200,000	7%	3%	10%	$575	2.5%
Beckenham	Gosnells	WA	380,000	3%	1%	15%	$340	4.7%
Butler	Wanneroo	WA	360,000	3%	0%	12%	$315	4.6%
Heathridge	Joondalup	WA	440,000	3%	1%	10%	$360	4.3%
Warnbro	Rockingham	WA	310,000	3%	0%	15%	$315	5.3%
Dawesville	Mandurah	WA	410,000	2%	1%	12%	$350	4.4%
West Busselton	Busselton	WA	420,000	5%	1%	10%	$370	4.6%
Casey	Gungahlin	ACT	680,000	8%	10%	10%	$570	4.4%
Kambah	Tuggeranong	ACT	630,000	5%	4%	10%	$550	4.5%
Ngunnawal	Gungahlin	ACT	570,000	8%	4%	12%	$490	4.5%
Narrabundah	Inner south	ACT	965,000	6%	4%	15%	$605	3.2%
Howrah	Clarence	TAS	570,000	6%	5%	10%	$470	4.3%
Claremont	Glenorchy	TAS	400,000	8%	5%	10%	$410	5.4%
Lindisfarne	Clarence	TAS	600,000	6%	5%	12%	$485	4.2%
Ulverstone	Central Coast	TAS	310,000	6%	3%	12%	$310	5.2%
Latrobe	Latrobe	TAS	360,000	12%	4%	12%	$310	4.5%

SOURCE: CORELOGIC, 12 MONTHS TO OCTOBER 2020

CATCH THE RECOVERY WAVE

STORY JESSICA AMIR

In an unpredictable year that will go down in the history books, Covid-19 and its tumultuous impact on stockmarkets took most investors by surprise. And equities ended 2020 almost at the same level as they were at the beginning of the year. But 2021 marks a fresh start, and it should be a strong year for the stockmarket and economy, as investors look to a post-pandemic world.

Australia's economic growth is set to exceed prior gloomy expectations as restrictions ease, borders re-open and vaccines are rolled out. This is at a time when business and consumer confidence is rebounding, interest rates are at a record low and savings rates are at a record high, encouraging spending and borrowing. At the same time, global governments and central banks are stimulating their economies and increasing infrastructure spending (on roads, rail, government buildings, etc), which boosts demand for Aussie commodities (namely iron ore, copper and nickel).

These are all reasons why the market is expected to have a positive year with many investment managers predicting the S&P/ASX 200 to rally 8%-10%. Meanwhile, earnings per share (EPS) growth looks set to rebound 15%. As with any market rallies, there will be leaders and laggards.

There are three key themes to consider when investing in the year ahead.

Cyclicals to shine in a V-shaped bounce

Australians have been breathing a collective sigh of relief as the economy charged out of its first recession in 29 years. Gross domestic product grew by 3.3% in the third quarter, after a 7% plunge in the previous three months. The rebound was also ahead of the 2.6% growth expected. The resounding bounce was led by a huge (8%) jump in household spending as people returned to cafes, restaurants and leisure activities. It confirmed that the massive fiscal stimulus and interest rate cuts are supporting the economy.

We are in a domestically led V-shaped recovery. Consumer

confidence has surged to a 10-year high, business confidence popped to a two-year peak, the majority of people who lost their jobs were re-employed at the end of 2020, most of the loans on hold or in arrears were being repaid, while interest rates are at 0.1%.

This all largely supports economic growth and the recovery in the stockmarket, particularly as Victoria had emerged from stage four lockdowns and mass restrictions had eased in NSW.

Just before Christmas clusters emerged in NSW and Victoria. Some domestic borders were closed and restrictions reintroduced. This will likely cause a few economic speed bumps in the much anticipated recovery. So you could expect the first quarter of 2021 to see slightly weaker growth. But after restrictions ease, a rebound in growth and a positive year should be on the cards.

Meanwhile, the UK rolled out the first Pfizer-BioNTech vaccine, followed by the AstraZeneca jab – both world firsts.

THE TOP FIVE PICKS

If you could only invest in five stocks this year, what would they be?

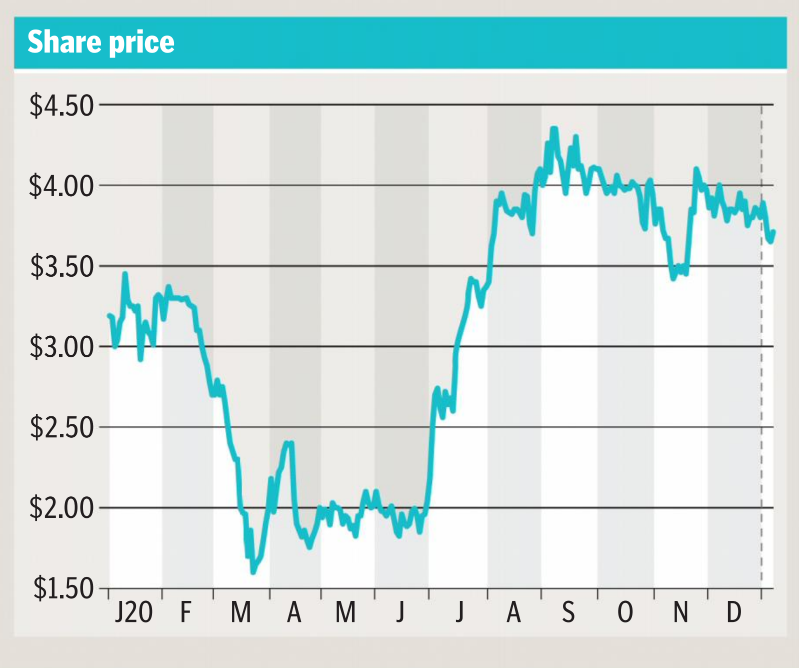
If you had invested $2000 into each of the five stocks we picked for 2020 your returns would have been 76% in Nickel Mines, 11.5% in Uniti Group, 52% in Elders, 42% in City Chic Collective and -0.5% for Macquarie. So you would now have $13,620 – a 36.2% windfall at the time of writing.

Looking to 2021, we have singled out five stocks for your to consider. The list is based on Bell Potter's research, looking at stocks with expected share price growth and forecast earnings growth, which are spread across different areas, including technology, mining, contactless payments and consumer staples. Our top five are Life360, Rhipe, Nickel Mines, Afterpay and Inghams.

STANDOUT SHARES

1 Life360 (ASX: 360)

The family tracking and safety app is one of few microcaps on the ASX that has a true global footprint, with about 28 million monthly active users. It recently collaborated with Google, so your Google devices allow you say, "Hey, Google, where's my family?", and you'll get an update on their whereabouts, after you've linked your Life360 and Google accounts. This is available in the US, UK and Australia. Earnings are expected to ramp up as user numbers grow exponentially. Its shares have already more than doubled from their Covid-19 low, and are likely to continue to rally.



HOW THEY WERE CHOSEN

Bell Direct is an online investing platform backed by stockbroking firm Bell Potter Securities. Our list of the top 50 stocks to watch in 2021 is based on data that is available on the Bell Direct website and provided by Bell Potter. In determining the list, we have focused on companies that attained a buy rating from Bell Potter. These companies are likely to generate a total shareholder return of at least 15% over the next 12 months. It is important to note that the list was compiled mid-December and is based on our recommendations at this time.

We have also screened the list to include companies with a market size of more than $200 million. The list only includes direct Australian equities that can be bought and sold on the ASX and excludes listed products like exchange traded funds, listed investment companies and listed retail trusts.

We have also excluded from the list stocks that are regarded as speculative. The list is ranked based on expected total return, with those stocks that are likely to generate the largest return at the top of the list. Importantly, the content is classed as general investment advice.

Research process

Bell Potter's team of analysts has comprehensively researched each company on the list. This research often involves meeting the company's executives and exploring their facilities. The investment analysts assess each company's financial performance and their forecasts to derive a business valuation. This valuation is usually based on discounted cash flow analysis of the company's expected future cash flows.

The valuation is then adjusted to factor in the management team's experience, as well as any external factors that could impact the business. And the valuation can also be adjusted based on the company's dividend history and policy.

Taking all of this into account, a target price is determined and peer-reviewed before the research report is published. JESSICA AMIR

Across the Atlantic, the US followed, rolling out Pfizer's vaccine, while India approved the rollout of two vaccines there.

Dose of confidence and optimism

So markets are starting to price in what global economies will look like as growth steps up a few notches. Australia is expected to have three vaccines in circulation in 2021, with the rollout beginning in March to the elderly and vulnerable.

While a major outbreak in Australia or a setback in vaccine effectiveness could change the outlook, a V-shaped recovery is still expected (despite restrictions ramping up in NSW in late December). Australia is also likely to have fully recovered from the economic downturn by the end of this year, with growth of 5% in 2021 and 4% the year after, according to the Reserve Bank. Citi, in fact, expects Australia will be back at pre-pandemic levels by the end of the current quarter. This is well ahead of other nations' recoveries.

In this environment, cyclical sectors that were hit the hardest, such as energy and resources, financials, travel, property and telecommunications are likely to see a rebound in earnings. Businesses are more optimistic about the outlook for trading and profitability and business confidence has rebounded to pre Covid-19 levels. Investment, employment and innovation will likely pick up, as could output and earnings. This is why cyclical stocks in these sectors tend to outperform when an economy is in its growth phase.

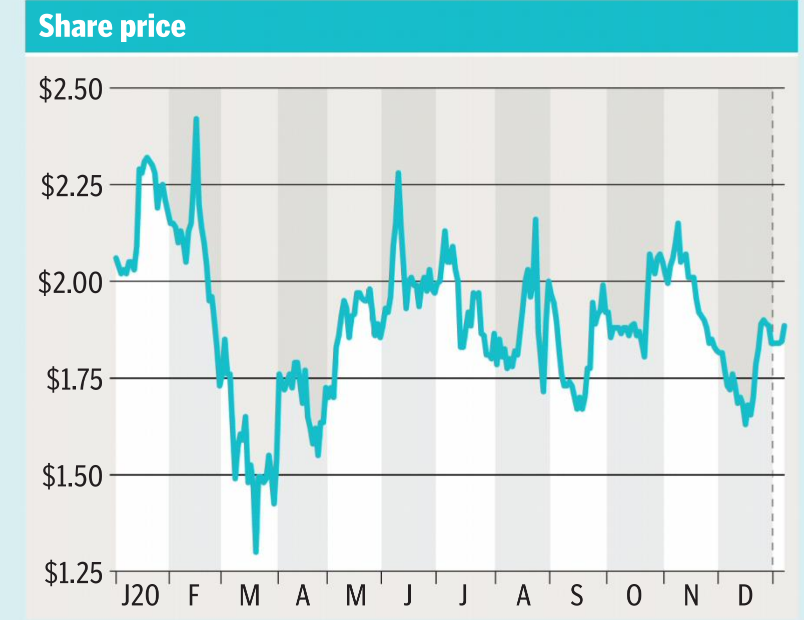
Stocks to consider

With all this in mind, think about cyclicals (stocks tied to economic growth), that could do well; we think airlines, travel and tourism companies could be some of the best winners this year, as Australians look to spread their wings after being cooped up for almost 10 months. Don't forget households' savings are at an all-time high. Flight Centre is a top pick in the tourism sector. It was hit as global travel ground to a virtual halt amid national shutdowns and travel restrictions. However, Flight Centre's liquidity of $1.3 billion far exceeds its monthly cash outflow of around $40 million. This should allow Flight Centre to overcome a deep and prolonged downturn before emerging on the other side of Covid-19 as restrictions ease. Other downbeaten stocks likely to make a comeback this year as economic growth enters the next phase, include investment management firm Challenger, telecommunications service provider Uniti

STANDOUT SHARES

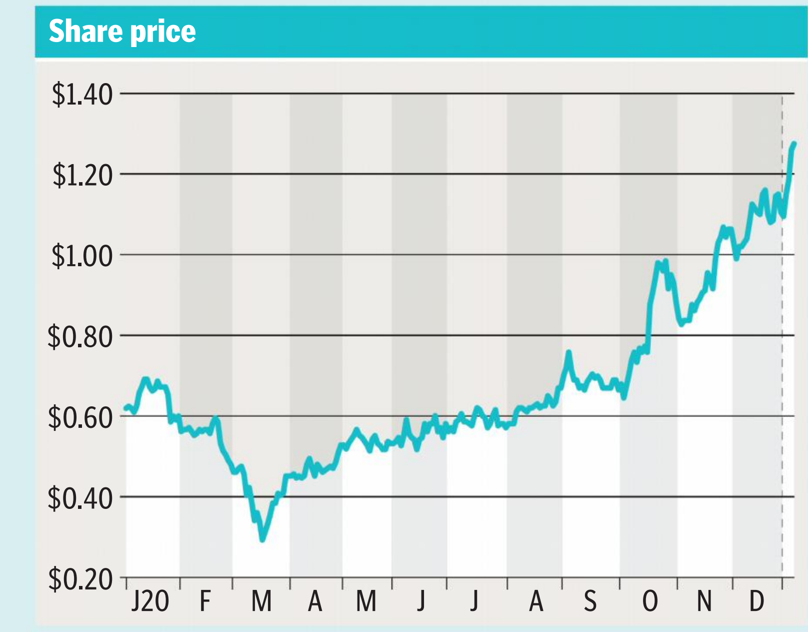
2 Rhipe (RHP)

This cloud distributor and reseller in the Asia Pacific region has a lean operating model and is supported by industry tailwinds, as businesses increasingly move work-from-home. Rhipe shares are up 30% from their Covid-19 low and are likely to find further gains, with sales and revenue predicted to grow in 2021 and beyond.



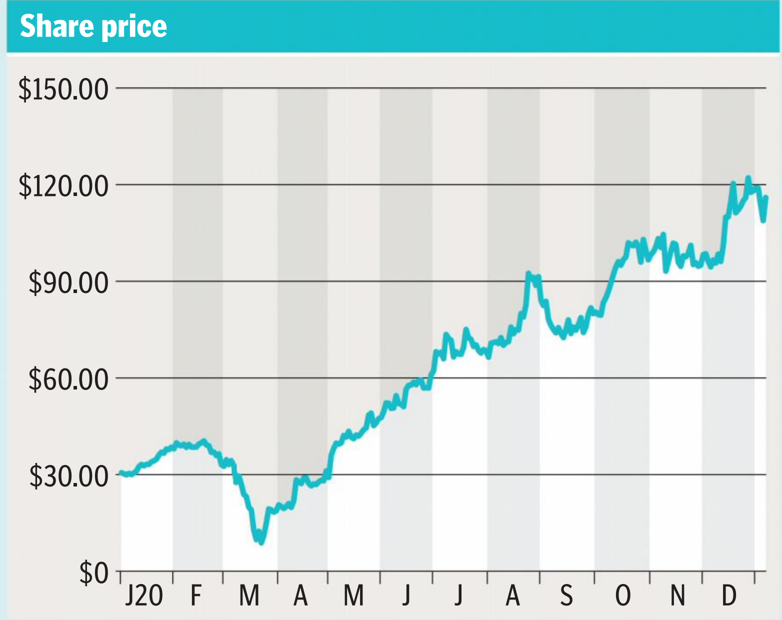
3 Nickel Mines (NIC)

One of the largest pure-play nickel exposures on the ASX. Its shares soared in 2020 after the nickel price rallied to its highest level in over a year. The company is likely to benefit from rising demand for commodities as global growth picks up.



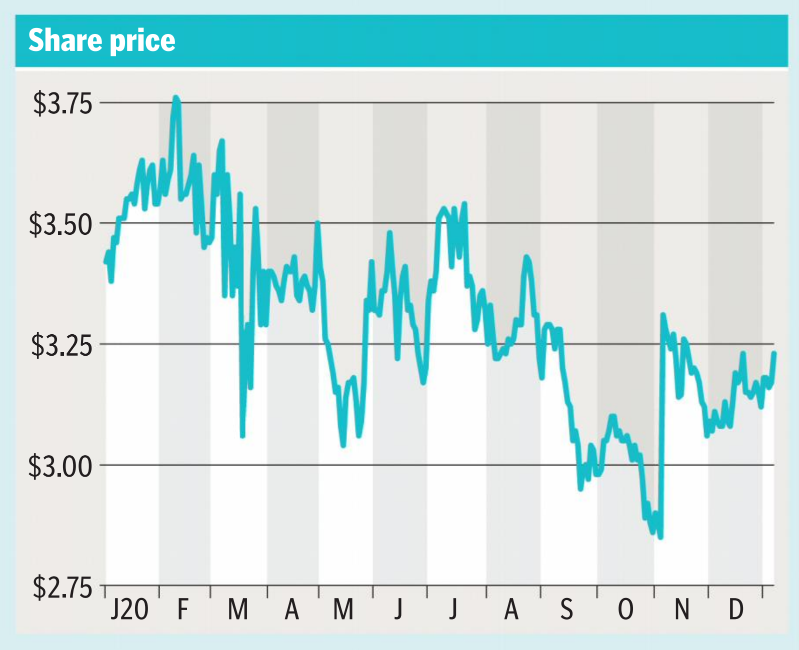
4 Afterpay (APT)

The buy now, pay later leader in Australia and New Zealand is also gaining traction in the US. It recently joined the ASX20 and ASX50, a development that will see it grow further as fund managers are forced to buy the stock. It has expanded into banking by offering a budgeting service, in partnership with Westpac.



5 Inghams (ING)

This a turnround story. Inghams reported a strong rebound in its last quarter. As hospitality restrictions ease, poultry sales are expected to grow further. Meanwhile, the price of wheat, a big cost, is cooling from its six-year highs



Group, construction and property giant Lendlease and toll road operator Transurban.

Tech to benefit from multiple tailwinds

Expect the tech sector to be propelled even higher in 2021 on the back of major behavioural shifts that have accelerated due to the pandemic. As cities around the world went into lockdown, people turned to technology to connect. This changed our daily lives – the way we shop, seek entertainment, work and learn. And we believe these habitual changes will be long lasting.

Think about how many people you know who have been told by their employer they won't need to return to the office. Two of my friends have been told they can work from home indefinitely. Research indicates the work-from-home trend is likely to stay.

A survey by global real estate outfit JLL of more than 2000 officer workers in 10 countries found 72% of them want to continue working from home and a majority want to do so for an average of two days a week.

And it seems many employers are happy to comply. Twitter and Slack, for instance, have allowed their workers to work from home indefinitely while Google and Microsoft are among the many companies that plan to accommodate varying degrees of remote working. This trend supports tech companies in areas that facilitate working from home, such as cloud computing, online education and online retail.

When it comes to shopping, the pandemic accelerated the shift to online retail. Global quarantine measures increased online shopping for many, including previously reluctant older demographics. All in all, the ecommerce industry is set to nearly double to $US6.5 trillion ($8.5 trillion) by 2023.

The pandemic has also significantly transformed the way we spend our leisure time, a trend that's likely to remain. Online gaming has exploded: 30% of surveyed US consumers now subscribe to an online gaming service and 41% play online games either daily or weekly.

Another trend to watch is remote learning. The pandemic forced the global education system to flip on its head. As such, the international education market is tipped to grow at 4.5%, from $US5.9 trillion in 2018 to $US10 trillion by 2030, according to Bell Potter research.

The final tech sector driver is the surge in contactless payments, from cash and credit cards to digital services. Bell Potter estimates that the global contactless economy could double to around $US300 billion in 2024 from $US147 billion in 2019.

Stocks to consider

Top contenders include buy now, pay later provider Afterpay, online fashion retailer City Chic, cloud software company Rhipe, Domino's Pizza and Aristocrat Leisure.

Miners profit from global growth

Commodity markets are roaring higher following the collapse in early 2020. Demand is likely to strengthen as countries increase infrastructure spending, while global growth is ramping up, all fuelling commodity demand.

The price of Australia's biggest export, iron ore, rose more than 70% in 2020 to a seven-year high as demand from China increased, while supply was slashed by Brazil's Vale. China plans to double the size of its economy over the next 15 years. This requires extra steel, of which iron ore is the main component, required for building build roads, schools, rail networks and commercial property.

China's Belt and Road initiative, which aims to connect China to East Asia, Africa and Europe, also consumes a lot of steel.

Stocks to consider

China produces around 90 million tonnes of steel a month. And half of its iron ore needs are met by Australia. For the medium term, this is not expected to change. This means you could expect earnings of Australian iron ore majors like BHP and Fortescue Metals to continue to grow.

Nickel is also used in steelmaking and its price has risen to its highest level in a year, on the back of rising demand from China's steel mills. One of the biggest pure-play nickel exposures on the ASX is Nickel Mines. Its shares surged more than 70% in 2020 as the nickel futures price rallied. Adding to the upward price pressure, supply has been restricted. Indonesia has a ban on exporting unprocessed nickel. At the same time, demand for higher-grade material for battery-grade nickel from producers in Germany and Indonesia continues to surge.

Other stocks to watch as global growth picks up include Emeco (mining equipment), Beach Energy (oil and natural gas) and BCI Minerals (salt and potash). *M*

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BELL DIRECT'S TOP 50 STOCKS FOR 2021

NAME	ASX CODE	EXPECTED TOTAL RETURN (%)	SALES 2021 ($M)	EBITDA 2021 ($M)	EBITDA 2022 ($M)	EPS GROWTH 2021 (%)	EPS GROWTH 2022 (%)	PE 2021 (X)	PE 2022 (X)	DIV YIELD 2021 (%)
Life360 Inc.	360	97.4	148	1	25	115.8	1,207.8	373.6	28.6	0.0
AMP Limited	AMP	69.0	2099	783	932	57.2	20.8	11.5	9.5	4.6
Whitehaven Coal Limited	WHC	67.7	1598	255	525	-176.8	762.7	-70.3	10.6	0.0
Nickel Mines Limited	NIC	59.7	915	485	539	72.8	9.4	7.8	7.1	0.0
Regis Resources Limited	RRL	54.3	786	337	344	-15.4	24.7	11.5	9.2	4.4
Afterpay Limited	APT	46.3	822	77	153	738.6	98.2	559.0	282.0	0.0
Gold Road Resources Limited	GOR	45.7	352	207	213	22.8	-0.1	10.5	10.5	2.4
Inghams Group Limited	ING	42.5	2450	422	460	62.4	31.2	12.8	9.7	5.2
Coronado Global Resources Inc.	CRN	41.0	2917	667	699	188.9	7.4	6.1	5.6	6.4
Rhipe Limited	RHP	40.8	408	16	20	50.9	37.1	35.7	26.1	1.7
Perpetual Limited	PPT	40.6	614	201	243	-9.9	22.3	19.0	15.6	3.1
Emeco Holdings Limited	EHL	40.4	605	246	272	-58.3	28.7	10.4	8.1	0.0
Aust Agricultural Company Ltd	AAC	35.5	250	25	40	31.6	98.8	-67.6	-5619.9	0.0
City Chic Collective Limited	CCX	32.1	232	46	59	44.8	42.4	32.4	22.8	2.3
Resimac Group Limited	RMC	33.4	208	133	130	66.9	-2.0	8.3	8.5	0.0
Pendal Group Limited	PDL	31.9	539	217	219	18.4	0.6	14.5	14.4	6.0
BWX Limited	BWX	31.6	210	35	43	7.7	26.0	30.2	24.0	1.3
IPH Limited	IPH	34.6	363	127	135	0.0	8.6	18.1	16.7	4.2
Cooper Energy Limited	COE	30.4	185	83	171	109.8	527.2	70.5	11.2	26.7
Elders Limited	ELD	31.4	2424	181	190	13.0	8.9	13.1	12.0	2.4
Uniti Group Limited	UWL	28.5	134	72	105	-11.6	48.3	24.7	16.7	0.0
Volpara Health Technologies Limited	VHT	26.9	20	-13	-11	44.5	19.4	-27.9	-34.6	0.0
Praemium Limited	PPS	25.9	74	15	23	6.4	84.6	61.9	33.5	0.0
Pantoro Limited	PNR	25.6	95	38	46	207.8	-11.5	17.2	19.5	0.0
AMA Group Limited	AMA	24.2	1,123	131	164	101.9	1505.5	420.2	26.2	0.0
Westpac Banking Corporation	WBC	11.7	20,217	6755	8001	80.6	18.0	15.4	13.0	3.9
Westgold Resources Limited	WGX	19.3	684	304	408	229.7	–	9.3	–	0.8
Lovisa Holdings Limited	LOV	19.2	276	94	144	46.0	97.2	53.2	27.0	0.7
Senex Energy Limited	SXY	18.8	136	59	95	147.4	115.4	20.6	9.6	0.0
Propel Funeral Partners Limited	PFP	18.4	125	36	40	5.7	13.7	20.1	17.7	3.6
Cleanspace Holdings Limited	CSX	18.2	72	28	23	297.7	-18.2	23.0	28.2	0.0
Johns Lyng Group Limited	JLG	18.2	528	46	50	16.4	11.6	37.2	33.3	1.4
Bank of Queensland Limited	BOQ	16.5	1109	340	371	2.5	8.1	14.9	13.8	3.5
Psc Insurance Group Limited	PSI	16.5	201	64	76	53.5	23.8	30.2	24.4	3.1
Flight Centre Travel Group Limited	FLT	16.4	755	24	373	57.8	147.7	-15.7	32.8	0.0
Domino's Pizza Enterprises Ltd	DMP	15.5	2151	407	469	19.9	19.3	43.3	36.3	1.7
GrainCorp Limited	GNC	15.4	0	248	181	581.6	-62.3	13.4	35.4	4.0
QBE Insurance Group Limited	QBE	14.7	14,256	1088	1410	232.9	28.2	17.3	13.5	5.0
Challenger Limited	CGF	10.9	726	444	505	-19.0	14.1	13.1	11.5	3.5
MyState Limited	MYS	14.4	139	53	54	19.9	0.6	11.2	11.2	5.0
National Australia Bank Limited	NAB	13.6	16,815	5529	7838	-1.4	40.5	19.6	13.9	3.3
Australia and New Zealand Banking Group Limited	ANZ	11.5	17,555	6399	7480	22.6	16.9	14.8	12.6	3.7
Suncorp Group Limited	SUN	10.6	9545	971	1398	-10.8	44.6	19.4	13.4	2.9
Macquarie Group Ltd	MQG	10.1	12,017	2667	3659	-24.4	35.8	24.4	18.0	2.5
InvoCare Limited	IVC	10.5	525	153	170	65.7	13.6	25.55	22.5	3.1
Janus Henderson Group PLC	JHG	7.4	3210	1027	1102	8.6	2.0	10.8	10.6	4.7
IGO Limited	IGO	7.2	921	496	488	12.3	-2.1	15.2	15.5	2.2
Medical Developments International Limited	MVP	6.2	31	7	1	594.1	-207.0	177.9	-166.3	0.0
Rural Funds Group	RFF	5.7	68	52	55	-13.1	7.8	20.9	19.4	4.6
Accent Group Ltd	AX1	3.3	0	227	242	24.2	5.8	17.2	16.2	5.1

Clicks before bricks

Technology has revolutionised the way we do our banking, but the challenge is making sure no-one is left behind

STORY
NICOLA FIELD

There was a time when the neighbourhood bank was a focal point of the community. But bank branches are fast disappearing, and it's leaving plenty of Australians in the lurch when it comes to managing their money.

Since 2017 almost 700 branches have closed. In regional areas, bank closures can have a devastating impact. A parliamentary report found that when consumers are forced to travel for their banking, they often take their shopping dollars with them, leaving local businesses struggling and heralding the onset of population decline as residents move on in search of better-serviced locations.

To date, NAB has been one of the few banks to buck the trend, having pledged in 2019 to keep its 316 regional branches open until at least early this year. But chances are it's only a matter of time before some of NAB's country customers see the curtains close on their local branch.

Covid's digital boost

It's a sign of the times that branch closures aren't limited to regional locations. Figures from the banking watchdog APRA show that over the past three years 374 branches have closed across our state capitals. Westpac kicked off 2019 with plans to shed 22 branches from its retail network, mostly in suburban locations. In July 2020, ANZ closed 10 of its Perth branches.

It's easy to assume branch closures are all about banks putting profits before people. But it's not that simple. The fact is, technology is leading us away from face-to-face banking.

Roy Morgan research found just 4.7 million Australians visited a branch in the six months to October 2018, a massive drop of 27% in only four years. These days, two out of three of us use the DIY options of mobile or internet banking – a trend that has picked up during the pandemic.

"The social distancing required to fight Covid-19 has accelerated the move to digital payments by up to five years in the space of a couple of months," says Paul Ryan, CEO of PayPal Australia. "There are clear signs that the shift to digital services will be lasting."

Role for real people

For many people, online and mobile banking are poor substitutes for a personal touch. Branches still play an important role for older customers, who are twice as likely to visit a branch as younger people.

The Centre for Social Impact found over-65s are the least digitally included age group, though it's not always about digital competence. According to National Seniors Australia (NSA), seniors have high levels of digital literacy. For 15% of over-60s it's the cost of internet access that acts as a barrier to online banking.

Ian Henschke, NSA's chief advocate, says connecting online has been a lifeline for older Australians during the lockdowns, and the organisation proposed a $10 monthly internet supplement for full-rate age pensioners in the last federal Budget. The suggestion wasn't taken up despite an estimated annual price tag of just $192 million.

The cost of internet access isn't the only hurdle. A 2019 NSA survey found 56% of seniors are simply more comfortable talking to a person than using digital services. As one survey respondent noted, older people "do not see very well, we do not hear very well, and it is very difficult to learn these [digital] skills in later life."

In addition, seniors often have concerns about the security of their money when banking online – fears that are not unfounded. The Australian Competition and Consumer Commission found older Australians are grossly overrepresented when it comes to losing money to scams.

> "Social distancing has accelerated the digital trend by up to five years in a couple of months"

CASE STUDY

When the last bank leaves town

The "new normal" of fewer branches inevitably brings added cost and inconvenience for the customer. This was certainly the case for Sharon Bain, when she opened a bank account for her 14-year-old son, Jayden*.

Opening a first account is a rite of passage, and after lengthy research Sharon and Jayden opted for a St.George Youth Saver, one of the few accounts with debit card access for under-16s.

Sharon provided details of Jayden's birth certificate and passport to open the account online, and an email confirmed the account was up and running and a debit card would arrive shortly.

When the card still hadn't turned up three weeks later, Sharon contacted the bank, and was told Jayden needed to visit a branch in person to complete the account opening. At that point, the extent of branch closures became clear.

The Bains live in the NSW Hunter Valley, a three-hour drive from Sydney. It turns out the Bains' "nearest" St.George branch is now 125 km from their home. "I had to pull Jayden out of school for the day and take a day off work myself to make the 250-km round-trip just to open a youth account. Closing branches may have saved the bank money, but it cost me plenty," says Sharon.

Increased funding

The news on accessible banking is not all bad. In September 2020, the federal government announced a $13 million funding boost to make sign language services (such as Auslan) more accessible for seniors. This matters because the support services available through the National Disability Insurance Scheme are only available to under-65s, and the extra funding will assist seniors to access interpreters for activities like bank appointments.

Deaf Australia has applauded the government for "hearing the call" from the deaf community. Nonetheless, the extra funding is low relative to demand. One in six Australians is affected by hearing loss – a figure set to rise to one in every four by 2050 owing to our ageing population. Moreover, the funding boost doesn't compensate seniors for the cost

of additional travel if their nearest bank branch has closed for good.

ATMs get the chop too

Along with the local bank branch, queueing for cash at an ATM could also become a thing of the past. APRA figures show that between mid-2017 and June 2020 the number of bank-owned ATMs fell by 4200.

This can be problematic for vision-impaired customers. A Human Rights Commission survey found blind and low-vision users often stick to one or two well-known machines – rarely do they grab cash from an ATM they haven't visited before.

At the same time, independent operators account for a growing share of the national ATM fleet. These standalone ATM networks are not affiliated with financial institutions, and so aren't obliged to follow Australian Banking Association (ABA) accessibility principles.

In the right direction

Some banks are taking serious steps to be inclusive. Beyond Bank in particular is challenging norms around traditional branch design.

"Creating an accessible and inclusive branch is simply about being more aware and obtaining insights from those living with a disability," says Shane Farley, national manager of community development and sustainability at Beyond.

The bank put words into action by forming an initial partnership with Dementia Australia, implementing a plan to become a "dementia friendly" or-

CASE STUDY

How to make it easier

Lily Parker* is a 23-year-old with Down syndrome, and like all young adults she wants to manage her money independently. Lily can use EFTPOS terminals and ATMs, and she has no problem finding her way around the internet. The challenge lies with online banking.

Lily says she has difficulty with the jargon words of internet banking, and she says if banks used visual aids like picture cues it would be easier for people like her to bank online.

The solution can be Easyread, a system of writing that uses a mix of simple words and images.

Kylie Preston, national project manager at Down Syndrome Australia, says providing information and resources in Easyread helps people with an intellectual disability understand information more easily.

"It is one way organisations can be more accessible for people with a disability. Some banks are doing work in this area to make branches and information more accessible."

She points to the Commonwealth Bank, which now has a number of fact sheets in the Easyread format, and she adds that various Beyond Bank branches have consulted with Down syndrome organisations on branch design and accessibility. When it comes to online banking, though, there is still a way to go to make the service accessible for all customers.

ganisation. From there the branch plans to reduce sensory overload, and a floor plan with the flexibility to create quiet spaces.

"Creating this type of inclusive environment doesn't come with significant additional costs," says Farley. "Using the key learnings of Canberra City, we refurbished our Glendale (NSW) branch in a similar style in November 2020, with the same appreciative response from our customers. Based on the success of our Canberra City and Glendale branches, this will be the new design, look and feel for more Beyond Bank branches moving forward."

Where to from here?

Bank branch closures are not limited to Australia. It's a trend seen across developed nations. On the plus side, Australia's banks have committed to principles of accessible design.

Anna Bligh, CEO of the Australian Banking Association, acknowledges that new technologies have often provided "an invisible barrier" for the four million Australians living with a disability. But she says accessibility principles are helping to ensure that products and services meet the needs of people with special needs. The catch is that the principles are voluntary. They are not legally binding and therefore not enforceable.

That said, the banks are doing their bit. NAB has been working with Nick Morris, 1996 Paralympic gold medallist, to make sure new and existing branches plus ATMs are as accommodating as possible. All new Westpac ATMs are built for wheelchair access, and ANZ was the first Australian bank to add accessibility features to its debit cards such as larger font and high-visibility edges.

These are all steps in the right direction. But it doesn't stem the rising tide of branch closures. There is no simple solution, and for people with special needs, selecting a bank now involves a lot more than simply choosing the one with the lowest fees. *M*

*Not their real names in case studies.

> **Technology has often created an invisible barrier for the millions of Aussies with a disability**

CASE STUDY

Poor old Albert loses his touch

Technology generally makes life easier. But that's not always the case. In 2012, the Commonwealth Bank introduced its Albert payment terminal, a touchscreen tablet lauded as transforming the customer experience. Chances are you've encountered Albert terminals with their smooth glass screen – more than 75,000 have been installed around the country, often at cafes and restaurants.

Albert certainly changed the payment experience for the vision-impaired – for the worse. The smooth touchscreen doesn't have the tactile dots on keys that allow them to navigate a payment terminal.

According to Blind Citizens Australia this left "many people who are blind or vision impaired with no other option but to divulge their PIN to a third party to complete a transaction" – a breach of privacy, as well as a breach of the security agreement customers have with their bank.

In 2018, a discrimination case was launched against the bank and its Albert terminals based on the premise that the nation's 350,000 blind and vision-impaired people should be able to use technology in the same way that everyone else can.

The case was settled in late 2018, a month after the Banking Association launched its accessibility principles for banking services. In the aftermath, CBA upgraded Albert's software to allow easier activation of accessibility features, and made a commitment to improved merchant training.

However, while Blind Citizens says training and awareness strategies are helpful, the high levels of staff turnover in retail and hospitality raise questions about the effectiveness of extra training.

Put your savings to the test

Avoid unnecessary fees and charges on your account and shop around for a better interest rate

Not all savings accounts are created equal. Some have higher interest rates, some charge extra fees and others have "bells and whistles" to help you save more.

So how do you know your money is in the right savings account? How can you make the most of the account you have? Here are some pointers to get you started.

Split your accounts

Do you have an everyday transaction account? The one you use when you go to the shops or to pay your weekly rent, occasional (or regular) coffee and buy stuff online? If you have more than $2000 at any given time in this account, it pays to link it to a savings account. This will attract a higher interest rate on your savings that are most likely just sitting there in your transaction account (check our Best of the Best issue to see the range of interest rates offered by various savings and transaction accounts).

So let's say you had $7000 in your account and you split it into two, with $5000 going into a savings account that attracts a base rate of 1.68% and earns $84 a year. Assuming you make only one ATM transaction a month on your savings account and unlimited transactions on your transaction account, then the interest you will earn over five years would be around $420. The point here is that you can make a few handy dollars each year by choosing an account that offers higher interest, no matter how small.

Test your fees knowledge

In 2017, the buy now, pay later provider Afterpay earned 24% of its annual income from late fees. And the consumer body Choice found that in the same year households paid nearly $480 on average in banking fees.

I'm quoting 2017 figures because the industry has responded and now there are many products that will cost you nothing – so long as you understand the terms and conditions.

For example, all big four banks offer accounts with no monthly fee as long as you deposit a minimum amount each month. NAB's Classic Banking Account doesn't even require a minimum deposit.

Outside the major banks, there are plenty of institutions that now offer fee-free savings or transaction accounts.

Other fees to watch out for include internet banking fees, EFTPOS fees, ATM fees (if you exceed the number of transactions you're allowed to make), non-bank or foreign ATM fees (banks such as ME, for example, would refund ATM fees), dishonour fees (as high as $30-$50) and "exceeding your credit limit" fees.

If your bank still charges phone transaction or branch withdrawal fees, you may want to switch as they should be part of the service.

Boost your credit score

With the launch of open banking, which allows for easier sharing of financial data between banks, a strong savings profile will help you get better rates and terms when you apply for a home loan, buy an investment property or borrow capital.

It pays to shop around and pick the best savings account for your needs. Doing so means more interest paid on your account, zero to low fees (they all add up) and a higher credit score, which rewards you yet again with more savings.

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.*

Trade in the Toorak tractors

A simple checklist can help us overcome the common biases that keep us in poor financial arrangements

I'm often asked why people choose to hold badly performing investments, stick with banks that charge higher rates or stay with high-cost or benefit-light insurance providers. Is it laziness? A misguided sense of loyalty? Or are there some other common behavioural drivers at play?

An efficient market relies on us being rational decision makers, willing to change suppliers when there's good reason to do so. However, even when bank and insurance customers have good reasons to switch, they're unlikely to change.

Even the recent royal commission and very public banking scandals have had a weak impact on consumer behaviour. Behavioural economics research shows that unless they have been directly impacted by a scandal, customers are unlikely to take advantage of better offers from competitors.

Multiple research papers examining developed nations between 2016 and 2020 consistently show a staggeringly low rate of 3%-6% of people switch to a better deal. So, what is going on? The answer is something I discovered through my own experience as a proud owner of a second-hand 2003 Land Rover Discovery – the "Toorak tractor".

I bought my Discovery online and flew all the way from Brisbane to Melbourne to pick it up. I loved it. Problem was, as much as it pains me to admit, it was actually a bit of a lemon. Each year I would spend thousands fixing problems that would thrust me into "limp home mode", but I still loved it. Even when the suspension bags blew out on a Fraser Island trip, forcing us into a 4WD driving holiday without any suspension at all, I still preferred to spend money on the Discovery rather than change to a cheaper, more reliable alternative.

Why I stayed with my choice primarily boils down to three key psychological drivers: sunk cost, confirmation bias and the "better the devil you know" trap. The same drivers are working against us when we should shift financial institutions or let go of poor-performing investments.

I had paid a lot for the car and had spent a great deal of time and effort getting it home. I had "sunk" a lot of cost into it. Further to this, every time I had an expensive service or repair I would convince myself that it would be the last one and I was about to enjoy a long period of expense-free driving. With things like mortgages, insurance policies and shares, we often "sink" so much time researching and going through arduous application processes that we convince ourselves we're better in the long run sticking with our choice in the face of cheaper options. We're simply too invested in the current solution to be open to the idea of change.

My ego was clearly also playing its part. I simply ignored any evidence suggesting there was a better choice and surrounded myself with other enthusiasts who shared my views and bolstered my identity. We have an in-built confirmation bias that means we take note of all the bad stories about other options and dismiss any evidence that questions our choice. Our ego doesn't like being proven wrong.

The final mental hurdle was me assuming all car companies to be the same, and switching brands would simply be jumping out of the pot and into the fire. Better the devil you know than wasting time and money only to end up in the same place.

This is our brain's survival mechanism telling us that while our current situation may not be ideal, at least we're surviving and change could actually mean we are worse off. We tend to prefer losing money with the status quo than going with something that feels unknown and therefore more risky.

When assessing your finances, ask yourself if you really have made the best choice, or are you propping up a Toorak Tractor?

Three tips to help you switch:

1. Set up an artificial "opt-in" checkpoint. Every couple of years, assume you no longer have your mortgage, credit or insurance products with your current providers. Would your choice be different if you had to start from scratch? If so, you know what to do.

2. De-brand the offering. Preparing a pros-and-cons list with simple options A, B, etc in the title column (rather than the brand) helps disassociate meaningless brand attributes that artificially inflate our perception of value.

3. Start with something simple. Test new or unknown institutions with a simple savings account or small loan. Become familiar with them so the anxiety of the unknown doesn't overshadow a good decision.

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

What's still up for grabs

Businesses that act fast can take advantage of valuable financial support

JobKeeper

There's good and bad news here. On the plus side, it is still available until March 28, 2021 at the rate of $1000 a fortnight for full-time employees and $650 for employees working less than 20 hours a week. If your business has been receiving JobKeeper, you should continue to be eligible as long as turnover remains down by 30% and you complete monthly declarations.

JobMaker

February 2021 heralds the start of JobMaker payments to businesses that take on new employees subject to certain conditions.

JobMaker is worth $200 a week for each new employee aged below 30, or $100 weekly for new hires aged 30-35, for a maximum period of 12 months from their employment start date. Employers cannot claim both JobKeeper and JobMaker.

Apprentice/trainee wage subsides

If you take on a new apprentice or trainee and your business could be eligible to receive 50% of their wage. The subsidy is limited to a maximum of $7000 a quarter up to September 30, 2021.

Loss carrybacks

Talk to your tax adviser about taking advantage of the new initiative to carry-back tax losses made in the 2020 to 2022 financial years, potentially giving your business a refund of tax previously paid. Carryback losses can be claimed when you lodge your 2020-21 and 2021-22 business tax returns, or you can choose to continue carrying losses forward to offset against future profits.

Instant asset write-off

Invest in new assets such as plant and machinery, IT equipment or even an office refit and the tax office will wear the cost, up to $150,000, until June 30, 2022.

If you're thinking of buying a new car for the business, the maximum instant claim is $59,136 for the 2020-21 financial year if you select a passenger vehicle designed to carry less than one tonne and fewer than nine passengers.

DIY research can pay off

There are companies that offer to identify and apply for business grants – for a fee, of course. But finding grants is not hard.

A good starting point is to head to the "Coronavirus information and support for business" page of the federal government's business.gov.au portal. This shows what's available on a state-by-state basis.

Importantly, when you're researching grants, stick to government websites that end with "gov.au". Scamwatch warns that cyber crooks have been especially active during the pandemic, trying to lure in businesses, as well as consumers.

Fringe benefits tax exemptions

From April 1, 2021 the 47% fringe benefits tax (FBT) will no longer apply to SMEs that provide employees with car parking and a variety of work-related devices such as mobile phones and laptops.

In addition, an FBT exemption for certain staff retraining costs has been in place since October 2020. It's designed to encourage employers to help workers transition to new employment opportunities within or outside their business.

State support

The states have their own Covid-driven grants. Here's a sample of what's available:

Queensland: At the time of writing, small businesses in regional Queensland (excluding the south-east) were able to apply for the Small Business Covid-19 Adaption Grant worth between $2000 and $10,000.

NSW: If your business is currently exporting or was exporting before the impacts of Covid-19, bushfires and/or drought, you could be eligible for the Export Assistance Grant.

ACT: An assistance package includes cost savings for a variety of industries. Food businesses, for example, can apply for waivers of business registration, outdoor dining and liquor licensing fees, rebates on electricity fees and payroll tax deferrals.

Victoria: The Small Business Digital Adaptation Program lets businesses trial and receive access to digital products, tools and training to build digital capability.

Tasmania: Small businesses can receive a grant of $750 for the cost of professional advice on recovery from the pandemic.

South Australia: Round two of the Small Business Grants program provides businesses that have been significantly affected by Covid-19 with funding of up to $10,000 to help them survive.

Western Australia: The Apprenticeship and Traineeship Re-engagement Incentive provides a one-off payment to businesses that employ an apprentice or trainee whose training contract was terminated or cancelled by a previous employer on or after March 1, 2020.

Northern Territory: The Business Hardship Package provides relief from a variety of government and council charges.

Battle over an inheritance

Where there's a will, there's sometimes an angry sibling and a legal challenge

Disputing a will was once something mainly rich people did. But these days it is more common across the board. Law firms are openly spruiking services to contest a will with ads, such as "Left Out of a Will?", popping up regularly. Some legal firms promise if you don't win, you won't have to pay legal fees or only pay a fixed fee.

Anna Hacker, national manager, estate planning, at Australian Unity Trustees legal services, says there is certainly more awareness about contesting a will. One reason is the rise in the value of the family home, resulting in a wealthier estate that is worth contesting.

Also the definition of eligible people who can challenge a will has been expanded in some states. If a deceased person has a blended family, it means that multiple partners, either through marriage or de facto relationships, as well as children, stepchildren and grandchildren could be eligible to claim on the estate. Same-sex partners and also people who were living in a close relationship with the deceased at the time of their death – not related by family but providing domestic support or personal care – can make a claim in some states.

Kids and grandkids these days rely more heavily on the Bank of Mum and Dad and see their parents' money as a birthright, says Hacker.

As well, there are disputes because some family members believe the will has been tampered with or hasn't been properly executed. Or the meaning can be unclear, particularly if it is a DIY will. There are also examples of wills being made under pressure, for example when an elderly relative has dementia and is incapable of making a decision.

If you believe you are eligible to make a claim on the deceased estate, you need legal advice to understand if you would be successful. There are a number of strict conditions for eligibility that the court will consider, such as your age, your own financial circumstances, including your current and future needs, whether you are supported by another person, if you have any disabilities and whether you are of good character. The claim must be made within a set time from the date of the death. In NSW, for example, it is 12 months.

Making a claim will most likely splinter family relationships as well as being complicated and time consuming. It can be expensive too.

It is best to ignore advice that any legal costs of a challenge are to be paid by the estate, whether successful or not. Hacker says this used to be the case but "it should certainly no longer be assumed that the court will agree to this".

She says no-one should assume the costs would be paid, especially if someone was very difficult when making a claim. She says even an executor might not have their costs paid. "If they are successful, it is more likely the costs would be covered, but if they are not I would no longer assume the estate would pay."

If you are making or revising a will and are worried that your dependants might fight over your estate, there are some steps you can take to ensure the right people receive your wealth.

Hacker advises her clients to give away some of their assets to their deserving dependants before they die. But it can be difficult to get the timing right, as you may live a long life and need the money or your home.

Just as you outline in your will who will get your estate, you can also name who is not entitled to a share.

Hacker says it is a good idea to record why you are not leaving your estate to some family members. But don't write the reasons into your will. Instead, she recommends you put it in a separate affidavit. She says people who are left out of a will are typically enraged and are determined to challenge it.

"It is important to outline why. It is important for the court to know you have considered these people."

She says there are long waits at courts because of the Covid-19 lockdowns. In Victoria, estate cases won't be heard until 2022. But Hacker says 98% of challenges don't make it to court but settle before trial – "often on the steps of the court".

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

STORY PETER ESHO

Buyer's taxing issue

A NSW proposal to replace stamp duty could benefit downsizers but complicate investors' plans

The NSW government's plan to abolish stamp duty in favour of a broad-based land tax is a bid to remove one of the major hurdles people face if they want to move homes.

Under the proposed changes, announced as a part of the state budget, homebuyers would be given the option of paying an upfront stamp duty on purchase or paying an ongoing land tax.

But even though stamp duty has been in place in some form since 1865, it is still believed to be a highly inefficient form of tax that discourages many people from moving.

An example would be downsizers, who are now at retirement age and living in a large family home and would like to move to a smaller, more manageable property. They are often hamstrung because of the large transactions costs.

With a median house price of more than $1 million in Sydney, stamp duty is around $40,000 on a $1 million purchase.

At this stage, the government proposes that owner-occupiers, investors and owners of commercial properties would face different levels of land tax, which poses an interesting question for property investors and what it might mean for house prices.

Investors could lose out

Looking at the numbers, on the surface it appears that investors who buy large family homes could be losers under a land tax.

Based on the initial figures outlined by the government late last year, they would be forced to pay $1500 plus 1% of the land value each year.

And based on this information, for metropolitan NSW the average residential land value is around $630,400 and the corresponding owner-occupied property tax would be $2391.

By contrast, an investor would pay $7804 a year for that same property.

Given the high prices and the already low yields in Sydney, it makes the prospect of owning property as an investor far less appealing over the long term.

Typically, if investors are priced out of houses, they look to units, but under the proposed changes there could be little difference.

For apartments, it looks as if the net result might be about the same or slightly better, given the smaller land component.

It seems the government will allow people to opt in if they buy between now and when new changes come through.

However, on the surface it looks as if investors will pay more in the future and once a property has opted into the new scheme it will remain that way going forward.

Owner-occupiers hit too

Similarly, for owner-occupiers who are looking at a home for the long term, it appears that a land tax would be detrimental compared with paying stamp duty upfront.

House price values may also be impacted if people hold off buying a property in the hope of qualifying for any changes should they come about.

We do, however, expect the government to backdate any changes or offer rebates, so this strategy is not advised.

A number of economists have also predicted that in the short term prices might rise as the money saved on stamp duty could go towards the purchase and drive up demand.

With a longer-term view in mind, however, the belief is that a land tax makes property more efficient, so there could be increased supply of larger homes. Generally a sought-after commodity, they could fall in value and become more affordable.

The government is taking a voluntary approach to rolling out the scheme, giving homeowners the opportunity to choose between the upfront stamp duty or the land tax.

The opt-in capability of the scheme is appealing, but it is important to remember once a buyer has opted in, future buyers of that property won't be able to opt out and they will pay land tax instead of stamp duty.

In NSW, on average about 5% of properties change hands each year, so on average each is transferred once every 20 years.

If in the first year all buyers switch to land tax, the government will lose 95% of the money it would have received from stamp duty in that year.

Ray Ellis, CEO of First National Real Estate,

What you might pay in NSW

Property type	Currently liable to stamp duty?	Currently liable to land tax?	Potential property tax rate
Owner-occupied residential property	Yes	No	$500 + 0.3% of unimproved land value
Investment residential property	Yes	Yes	$1500 + 1% of unimproved land value
Primary production land (farmland)	Yes	No	$0 + 0.3% of unimproved land value
Commercial property	Yes	Yes	$0 + 2.6% of unimproved land value

expects a two-tier market to emerge. He says the proposal could introduce complications that make some properties less saleable than others.

"If a buyer elects to pay an annual property tax instead of one-off stamp duty, all subsequent purchasers of the property will be forced to pay annual land tax," he says.

"This would have the potential to make properties locked into an annual tax regime less attractive to downsizers and buyers with the capital and intention to stay for the long term."

State of the nation

NSW residents do not currently pay land tax on their principal place of residence, on land used for primary production or on land valued below $755,000.

It is paid on any vacant land, including vacant rural land, land where a house, residential unit or flat has been built, holiday homes, investment properties, company title units, residential, commercial and industrial units, car spaces, commercial properties including factories, shops and warehouses as well as land leased from state or local government. For 2021, land tax is 1.6% above the $755,000 threshold and 2% above the "premium" threshold of $4,616,000.

The Northern Territory is the only state or territory with no land tax. However, for a purchase between $525,001 and $3 million, the stamp duty is 4.95% of the property value.

While the ACT has generous concessions, its land tax rate is 1.12%. It also recently abolished stamp duty for first homebuyers and commercial property under $1.5 million.

Tasmania has a maximum land tax rate of 1.5% and if you were to buy a $400,000 home you would be up for $13,997 in stamp duty.

Victoria's land tax is 2.25%. The state government recently announced land tax waivers up to 50% for purchases of property up to $1 million. Currently land tax starts at 1.4% for properties valued at $25,000 or less and rises to 5.5% for those valued at or above $960,000.

In South Australia, the land tax is 2.4%. Stamp duty is based on a sliding scale, ranging up to $21,330 plus $5.50 for every $100 over $500,000.

In Western Australia the land tax is 2.67%. Generally, for a residential property valued between $360,001 and $725,000 the stamp duty is $11,175 plus 4.75% for every dollar over $360,000.

Queensland has Australia's highest general land tax rate at 2.75%. It has a general rate of stamp duty for those purchasing an investment and a concessional rate for those purchasing a home.

The concessional rate is $10,150 plus $4.50 for every $100 or part of $100 over $540,000 for homeowners purchasing a home between the value of $540,001 to $1 million. This is less compared with the general rate of $17,325 plus $4.50 for every $100 or part of $100 over $540,000.

While land tax thresholds are redetermined each year, rising property values have meant that some property owners have been pushed over the threshold without even realising it in years gone by.

With Victoria and NSW changing their stamp duty regulations, the other states could soon follow.

Hand it over, please

STATE	STAMP DUTY PAYABLE ON A $500k PURCHASE	TRANSFER FEE
NSW	$17,835	$146.40
ACT	$11,400	$409
NT	$23,928.60	$149
QLD	$8750	$1379
SA	$21,330	$4185.50
TAS	$18,247.50	$212.22
VIC	$21,970	$1269
WA	$17,765	$264.70

Rates for a $500,000 established home, primary residence purchase. Does not assume you are a first homebuyer.

Two-speed approach

The Real Estate Institute of Australia has already called for a co-ordinated approach which could see knock-on benefits to the economy as a whole.

Steve Mickenbecker, group executive of financial services at Canstar, says land tax is less likely to distort householders' choice of property, whereas stamp duty is seen as a barrier to getting onto the property ladder.

Tim McKibbin, chief executive of the Real Estate

Institute of NSW, says the reform has the potential to adversely affect the housing market for months, but this won't occur until mid-2021 at the earliest.

The Real Estate Institute of Western Australia recommends a two-stream revenue collection approach. The president, Damian Collins, says this would allow buyers to decide whether to pay the stamp duty upfront or whether to opt in for an annual fee for the duration of ownership. A reduction in upfront costs could encourage more transactions with a significant flow-on benefit to economic activity, similar to the proposed change in NSW.

The REIWA is calling for a $10,000 stamp duty concession for seniors over the age of 65 to encourage appropriate "rightsizing".

But the question remains: who might prefer stamp duty and who might prefer land tax?

For those planning to hold a property for a long time, paying a one-off stamp duty would be more appealing. This removes the annual land tax burden.

In NSW, the average stamp duty is $26,000, which increases for more expensive properties. In a good year, with around 200,000 transactions, the revenue exceeds $9 billion.

Yet from the initial announcement, the NSW treasurer has indicated young property buyers will opt for the land tax scheme, deeming it "the Netflix of property tax".

However, most investors seem to be still unsure about the changes.

From our initial conversations and impressions, many see the choice as a positive, and with affordability being a large stumbling block for those entering the market, the land tax option seems appealing.

But we are yet to see how banks treat each scenario in their servicing calculations and how this will affect overall borrowing capacity. This will also be a major factor.

There is no doubt there is potential for the reform to make it a better proposition to buy an investment property in NSW. The initiative is clearly focused on reducing transaction costs, which is always a positive for investors.

It's likely the NSW government's consultation paper will be backed up by some further policy detail, which in the overall context of current market conditions will be positive for investors. ***M***

Peter Esho is the co-founder of Wealthi, a real estate investment platform.

THE EXPERTS

Penny Carr
CEO, Tenants Queensland

Nicola Carnevale
Associate, Madgwicks Lawyers

Dean Claughton
Principal lawyer, Coleman Greig Lawyers

Bushy Martin
Chief property strategist, KnowHow Property Finance

A property manager with the right skills can keep owners and renters happy even in troubled times

10 MOST-ASKED QUESTIONS

Right in the middle

Q What should landlords expect from good property managers?

A great property manager will possess four key characteristics. With state-based training now a requirement for property management licensing, a great manager will have a baseline understanding of the minimum standards of quality and accountability to be upheld; good communication skills; organisational skills to handle with ease the coordination of multiple conflicting priorities and projects; and attention to detail.

In addition, landlords should expect a good property manager to properly and thoroughly screen tenant applicants from the outset, adhere to the letter of the law in terms of processes, procedures, paperwork and timing stipulated in the relevant tenancy legislation, in order to protect the landlord's interests when inevitable tenancy issues arise, ensure all communications are backed up in writing – the adage "If it isn't written down it didn't happen" applies here – and identify and communicate likely and potential tenancy issues in advance and have contingencies and management plans in place to cover them when they occur.

BUSHY MARTIN

And what should tenants expect from good property managers?

Good managers should be responsive to any issues a tenant is raising. Owners don't want to lose value in their property; it's in the landlord's best interests to maintain the property. Not all do, but many do.

The better the relationship between agent, tenant and owner the better all round. Tenants can help manage appointments with repairers, pest control and other services, and if you're trying to sell the property, they help with appointments.

One of the downsides in property management today is very little contact with tenants and agents – they're often doing things on apps and online. Sometimes repairs and maintenance can fall through – not seen or not seen as important enough. Recently, I had my own issue. The agent had organised a pest inspection and when the pest people contacted me directly I was unsure whether it was bogus or not.

PENNY CARR

Q How soon should a manager start checking the tenant's future plans when a lease is close to ending?

Ninety days out from the lease expiry, they should write to the tenant about the upcoming lease extension (this gives them ample time to think about the year ahead). At 60 days they should touch base with the tenant (if they have not already responded) and find out their plans.

At 50 days, the tenant should receive the lease extension or a "notice to vacate" if they have not responded. Waiting for a tenant to respond and/or not issuing a notice to vacate within 45 days of the lease expiry date may result in a periodic lease agreement by default as the tenant had not received the required notice to end the lease. Inaction is not an option.

Frankly, a good agent will have identified the longer term plans of a tenant at the application stage and throughout the tenancy.

Recent changes to the tenancy legislation in Victoria mean that once a tenant is in a property for more than 12 months, it is now very difficult to get them to leave, so this may impact on how lease terms are managed.

BUSHY MARTIN

Q During crises like Covid, are managers obliged to pass on a landlord's willingness to reduce rents if tenants are experiencing hardship?

For residential leases, under the *Residential Tenancies Act* 1997 (Vic), tenants can end the lease early where they are experiencing financial hardship.

For retail and commercial leases, we find that property managers are more willing to pass along details of tenants' hardship to landlords where the parties have a good working relationship and where the tenant contributes in a positive way to the tenancy mix (particularly relevant for shopping centres). During the pandemic, tenants are protected by the relevant state or territory's legislation and the enforcement of the relevant laws is supported by state-based bodies such as the Victorian Small Business Commission.

NICOLA CARNEVALE

Q If the tenants stop paying rent, at what point should managers alert landlords?

For residential leases, if the tenant is in arrears in respect of at least 14 days' rent and the landlords wish to issue a notice to vacate, they must give the tenant a notice in writing and at least 14 days' notice to vacate. It's important that the manager acts quickly in informing the landlord so that they can determine how to proceed, whether it be by issuing a notice or approaching the tenant to understand the circumstances of the non-payment or part payment. In Victoria, residential landlords can also apply to VCAT for compensation for unpaid rent.

For retail and commercial leases, landlords can re-enter (unless their lease says otherwise) the day after a tenant has missed a rent payment without notice. Therefore, managers should notify landlords as soon as possible after the non-payment to allow the landlord and manager to consider how to proceed with the breach of the lease.

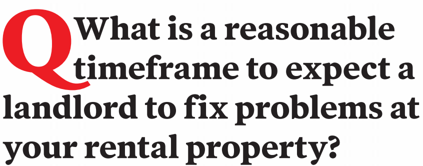
NICOLE CARNEVALE

Q As a tenant, what can you do if you feel the agent isn't passing on issues to the landlord, such as non-working stove hotplates, electrical plugs, blind cords?

It's always a little tricky; there are formal processes. Tenants can call agents informally and ask for things and inform them about things that have gone wrong, but if things don't get fixed they need to make sure it's in writing. Even if you are managing it informally you need to follow up phone calls or visits in writing to show you've raised the issue, when you've raised it and what needs to be done.

In Queensland there is a "notice to remedy breach", which includes a range of issues including repairs. Seven days is given to take reasonable steps to fix a general issue, after which it ends up in the tribunal, and tenants don't want to do that because they worry about what to do when their fixed term ends.

PENNY CARR



Q What is a reasonable timeframe to expect a landlord to fix problems at your rental property?

The answer to this one is set out in the legislation for repairs and maintenance. If it's a general repair, not an emergency, it's seven days. Although sometimes there might be a delay, for example, after a flood. If it's urgent, like the hot water, stove or sewerage, it comes down to reasonable time, and how long it would take to see it and get in contact with a tradesperson – it would be quicker than seven days.

Often there are people named on a tenancy agreement for contacting an agent or plumber if it's an emergency repair.

If a tenant can't get a response from the agent, they should be cautious about paying upfront.

In Queensland, if the problem falls into the category of an emergency you may be able to spend up to a couple of weeks' rent to fix the problem and claim it back. It can be difficult, however, and the tenant has to have the money upfront. Some repair claims could go straight to tribunal for health and safety repair.

PENNY CARR

Q What are the risks of managing your own investment property?

It's always better to have someone manage your investment so that there is a "middle man" between yourself and the tenant. You don't want to be taking calls from the tenant about repairs or delays in rent.

Yes, you will need to pay the agent a fee to manage this on your behalf, but you may be able to recover this cost through outgoings anyway, and it will help you sleep better at night! It also means that you don't need to be across the relevant tenancy laws, as the agent and your lawyer can handle most situations. Of course, you would be consulted, but the day-to-day management of the tenant would be left to the agent.

DEAN CLAUGHTON

Q In tough times, how deep should a landlord cut rents to secure a tenant?

All good tenants have at least two characteristics: consistent and confident rent payment; and care and upkeep of the property.

Both of these are valuable. Cutting rent to secure a tenant that cares for the property will save costs in the long run. The method to approach the depth and length of time of the rent reduction has been shown to us by the Covid-19 issues.

Engage with the tenant and obtain evidence from them of their predicament. This could be in the form of a bank statement, a letter of termination or a BAS statement. These show a transparent willingness to work with the tenant.

DEAN CLAUGHTON

Q Should you allow tenants to rent month-to-month after the end of a lease; or should you try to lock them in for a set period and perhaps offer an incentive for this?

Property investors are generally better served with fixed-term lease agreements. Periodic agreements (often referred to as month-to-month or no end date) often allow the tenant to leave within a short timeframe and it increases the potential of rent loss due to vacancy.

We are fans of fixed-lease terms. It doesn't mean it has to be a year – the first lease term is generally a year – but if the tenant is unsure then give them another month or two, as long as you are aware of the seasonal demand cycles of the rental market in that area.

A month-by-month periodic is really only advantageous to the tenant, except in the instance where the landlord may potentially want to terminate the lease because they have something on the horizon (for example, selling the property, significant renovations or moving back into the property).

Tenants will generally want flexibility on lease terms when they need to reduce the rent they are paying or their future may have some uncertainty around their employment, relationship issues, ill health and/or a change in what they need in a home. So if a landlord were able to offer a stable rent for an extended period, that may sway them to continue for a fixed period.

BUSHY MARTIN

Q What are the most common reasons tenants get evicted?

In large part, non-payment of rent is the most common reason for eviction. Another common breach by tenants is the unlawful subletting of the premises (or part). Under the lease, tenants are required to seek the landlord's consent to sublet to another person or party. However, tenants will often sublet to another party if they themselves are moving onto a different property (for example). For landlords, they do not have a contractual relationship with that person so have limited rights to recover from that new tenant. For existing tenants, it is in their interest to sublet or assign the lease to the new tenant so that they are no longer liable under the lease and are released from performing any of the obligations under the lease.

Landlords can also immediately terminate the lease if the tenant or a guest maliciously damages the premises or any common areas.

NICOLA CARNEVALE

Look on the income upside

Listed property trusts have had a rough time, but there are better days ahead as share prices and yields recover

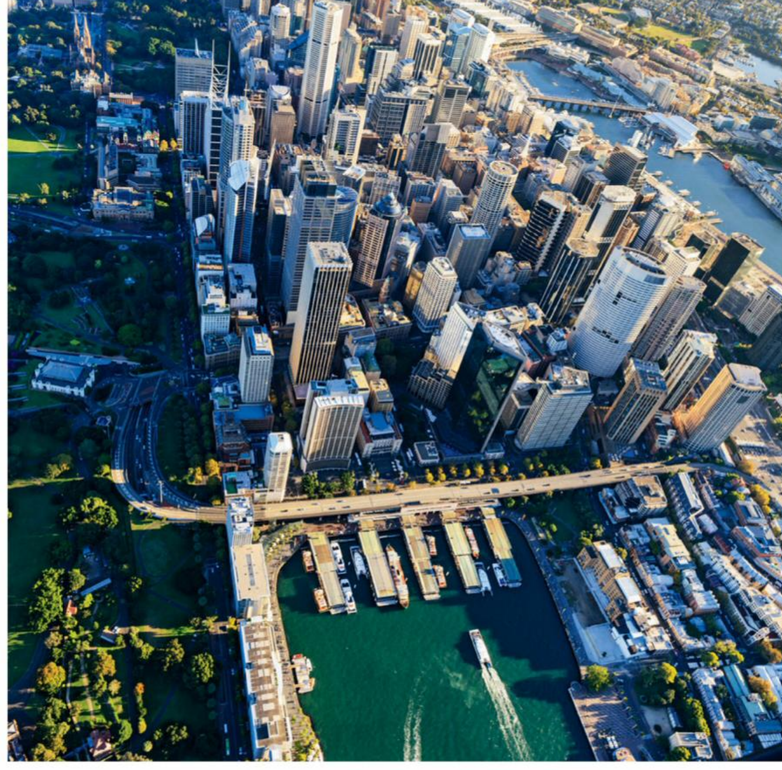
Many people who invest to provide an income for themselves, including retirees, put their faith to varying degrees in Australian real estate investment trusts (A-REITs). And while 2020 was a challenging year for the sector – especially in the early days of Covid-19, when the S&P/ASX 300 A-REIT Accumulation Index fell 44% between January 2 and March 31 – it has come through in reasonable shape. The sector has since bounced back with the index, which includes distributions, increasing by around 55% from the end of March.

A key concern was the impact the lockdowns would have on rent collections and income. This varied, with large-scale and CBD-based retail A-REITs the most impacted while office, industrial and other subsectors were less affected, says Grant Berry, portfolio manager at boutique fund manager SG Hiscock.

"Encouragingly, despite the drop in rent collection, income yield across many A-REITs has remained strong and, as the situation improves, we see the potential for good upside in income yields. In fact, in some cases, distributions are back to the same levels they were before the Covid-19 outbreak," says Berry in an article on firstlinks.com.au.

Despite deferrals and cancellations of dividends by some A-REITs, many still offer attractive yields relative to both bonds and cash, holding at a 3%-4%pa yield differential, says researcher Lonsec. But, as in most sectors, there have been winners and losers.

An analysis by global investment manager VanEck of the performance of 15 A-REITs in the year to September 30 found Goodman Group (ASX: GMG), which has a $52 billion global portfolio of logistical/industrial facilities, has been the best performer. Its share price had risen about 30% (at the time of writing) on the back of strong 2020 earnings and a positive outlook based on its global development pipeline and funds management fees.



The demand for logistics centres to support ecommerce has seen Goodman's development work-in-progress increase to $7.3 billion, according to its September 2020 quarterly report. Goodman also reaffirmed its guidance for earnings to rise by 9% for 2020-21 and a distribution of 30¢ a share, the same as in the past two years.

Charter Hall Group (CHC), which manages listed and unlisted property funds on behalf of wholesale, institutional and retail investors, was the second-best performer. It has $43.4 billion funds under management and its share price has risen about 40% over the past year to date on the back of upgrades to its earnings guidance for the full 2020-21. It paid a dividend of 36¢ per unit for the year, up from 35¢ in 2019 and 33¢ in 2018.

A-REITS owning large-scale retail centres, especially those in CBDs, have been among the biggest losers. Overall, rent collections in retail were only around 55% for the June 2020 quarter, with dividends cut or cancelled by the likes of Scentre Group (SCG). Scentre, the second-worst performer in the VanEck survey, owns Westfield shopping centres in Australia and New Zealand. Its share price has been down about 25% over the past year.

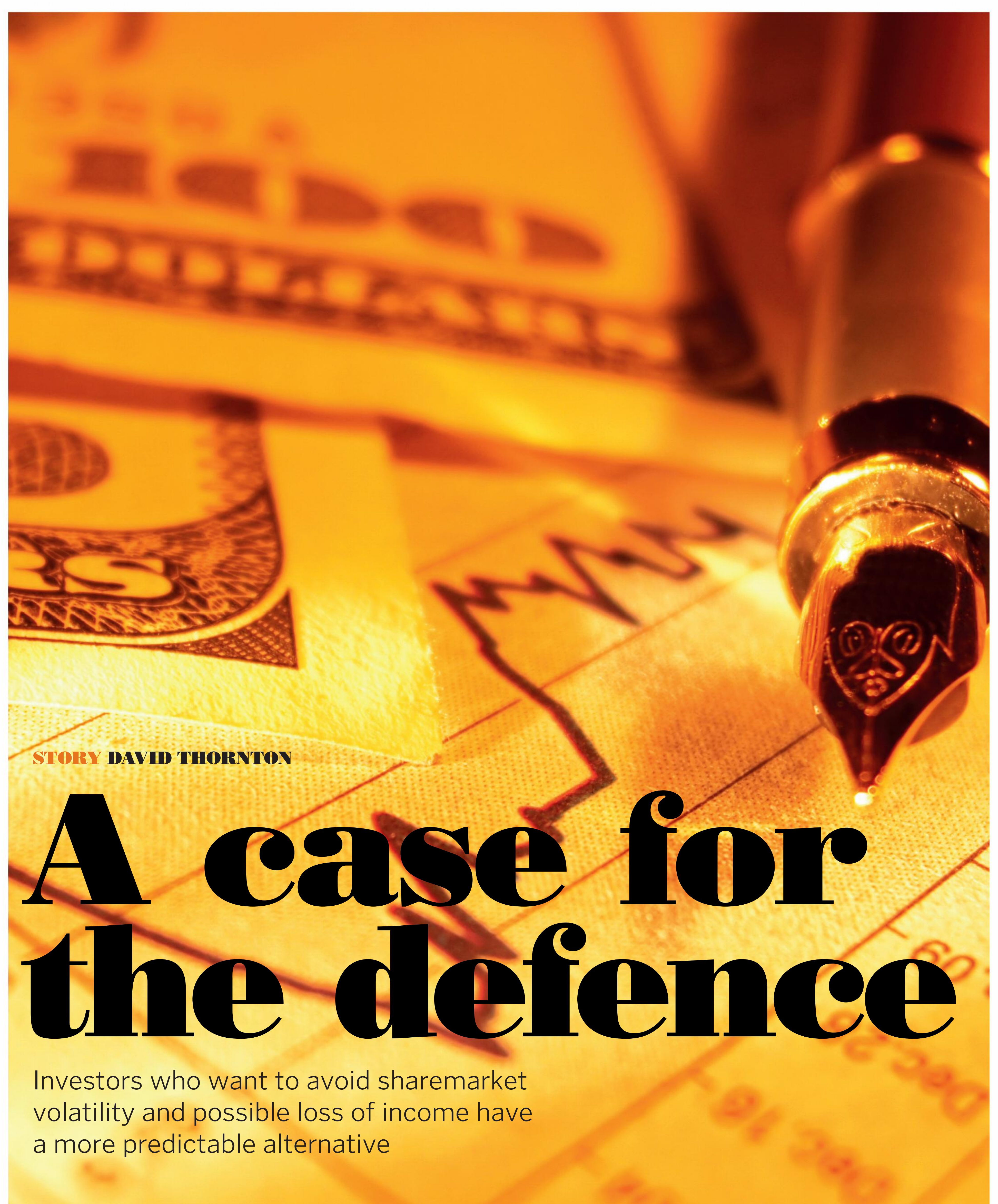
Vicinity Centres (VCX) – one of the largest A-REITs focused on ownership, management and development of shopping centres – was the poorest performer, losing 45% in value over the period. In its September quarter update, it said that only 56% of gross rental billings had been received for the three months to September. It did not provide a full-year 2020-21 guidance due to uncertain circumstances, but did say it intended to pay a distribution for the six months to December 31.

While retail rents for discretionary stores are likely to continue to come under pressure, says Lonsec, some analysts point to both Scentre Group and Vicinity as possible recovery stocks, especially as the rollout of vaccines should greatly increase visitors to major retail centres.

Other winners in 2020 include

- BWP Trust (BWP), which mainly holds Bunnings warehouse properties. Its share price has risen about 3% this year and its dividend yield is 4.2%.
- Waypoint REIT (WPR) owns a portfolio of 469 service station properties. Its share price has been steady for the year and its dividend yield is 5.3%
- National Storage (NSR) is a self-storage owner/operator. It has 194 storage centres under operation or management across Australia and New Zealand. Its share price has been steady for the year and its dividend yield is 4.2%.

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.*



STORY DAVID THORNTON

A case for the defence

Investors who want to avoid sharemarket volatility and possible loss of income have a more predictable alternative

High-quality bonds are arguably the leading defensive asset for retail investors, lauded for their capital preservation qualities. But what exactly are they, how do you buy them and what role do they play in a portfolio?

Bond machinations can be complicated. In one sense they're quite simple, but dig a little deeper and you'll find a pretty big rabbit hole to fall down.

Bonds are essentially loan contracts issued by either governments or companies. You lend them money and in exchange you receive a coupon payment (yield), usually once or twice a year. At the end of the agreed term, the initial loan amount (face value) of the bond will be repaid to the bond holder – provided the issuer is solvent.

Australian government bonds are AAA-rated – the top credit rating – so creditors will almost certainly be paid.

On the other hand, lower quality corporate bonds provide income yield comparable to dividends. But unlike issuers of dividends, issuers of bonds are legally obliged to pay the coupons. For these reasons bonds have carved out a well-earned place as fixed-income stalwarts.

But here's where it gets complicated.

Investors can hold bonds until they mature, or sell them before then on the secondary market.

"The valuation of bonds in the secondary market is simply about the return that's required to offset the risk of not being repaid," says Jonathan Sheridan, from FIIG Securities.

How risk is calculated

Risk depends on two factors. The first is the creditworthiness of the issuer or, put another way, the credit risk for holding the bond. Bonds issued by governments or large companies are considered a safe asset, second only to cash.

"Bonds issued by many governments are highly rated, so they perform well in risk-off environments," says Manusha Samaraweera, from PIMCO. "We call them a flight-to-quality asset. When a downturn in economic sentiment occurs, investors flock to these assets."

There's also a strange regulatory quirk worth mentioning: retail investors are prohibited from knowing the credit ratings of the bonds they buy, hold and sell.

"Credit ratings have been determined to be wholesale products. Ratings agencies only have wholesale licences and therefore retail investors can't be shown credit ratings," says Sheridan. "That is nonsense because a credit rating is a key part of calculating risk."

That's analogous to a car buyer not being privy to its safety rating and having to settle for the dealer's assurance that it's safe – or not.

Corporate bonds carry greater risk but also pay higher yields.

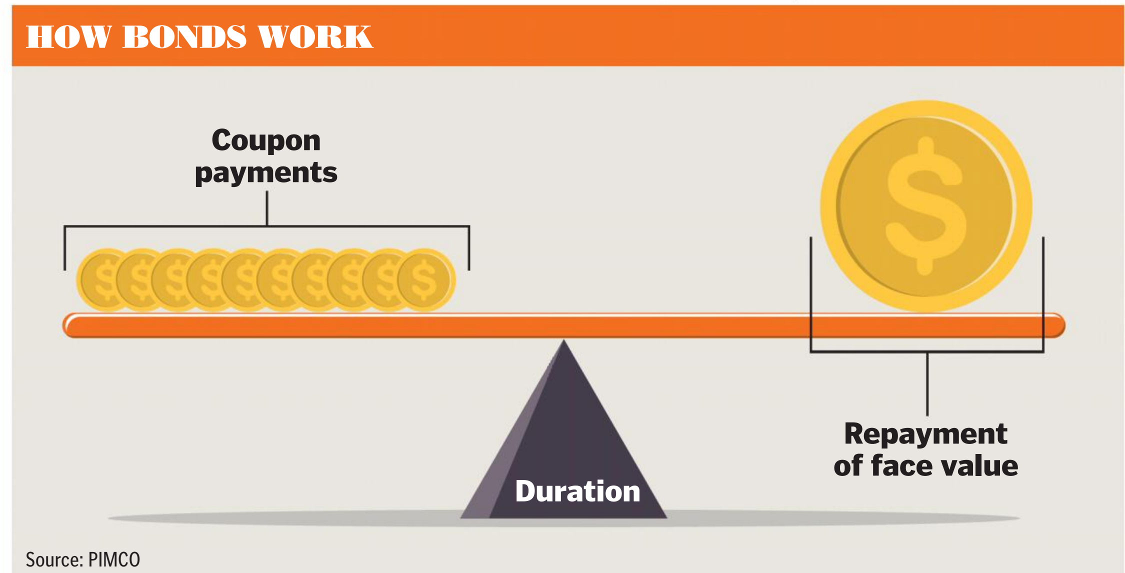
The second factor that influences a bond's risk is maturity: the length of the loan contract. "The longer a corporate bond's maturity, the more chance it could default," says Samaraweera. "That's why corporate bonds usually have shorter maturities."

The longer a bond's time to maturity, the greater the yield investors can expect to be paid because there's a higher level of uncertainty.

This is where you factor in duration, which is a measure of a bond's interest rate risk. The duration measurement takes into account the bond's maturity, yield and the coupon payments left to be paid out.

Bonds are therefore more or less affected by the interest rate environment depending on their duration.

HOW BONDS WORK



Source: PIMCO

Impact of interest rates

If interest rates go up, the bond will trade at a discount because newly issued bonds will pay investors higher coupon rates than old ones. The longer the duration, the more sensitive the bond will be to changes in interest rates.

Because the terms of a bond don't change through its lifecycle – that is, it will continue to pay the same coupon rate at the same intervals – the yield will change as a percentage of the amount paid for the bond. In other words, if an investor pays more for a bond then they will receive a lower yield as a percentage of their total investment. The opposite also applies.

So, if you hear on the finance news that bond yields are falling, that is because investors are paying higher prices to hold the bonds. So yields fall in risk-off markets characterised by high volatility and rise in risk-on markets with low volatility. It's for this reason that bond yields are used as a finger-in-the-wind measure of fear or confidence in the markets.

But there's a caveat. This is normally how it works but due to the pandemic, all bets are off.

The Reserve Bank is artificially controlling prices, and by extension the yields, by buying up bonds by the truckload to maintain liquidity in the market during these troubling times, in a program known as quantitative easing. This has broken the negative correlation high-quality bonds have typically had with equities.

"Over the past 10 to 15 years, you've seen a negative correlation between bonds and equities," says Justin Tyler, from Daintree Capital. "That's been useful as bonds have provided a shock absorber to equities."

So, when economic conditions soured, there was room for bond yields to fall and prices to rise.

"That's not the case now," says Tyler. "We think that going forward, the correlation between high-grade bonds and equities will be low."

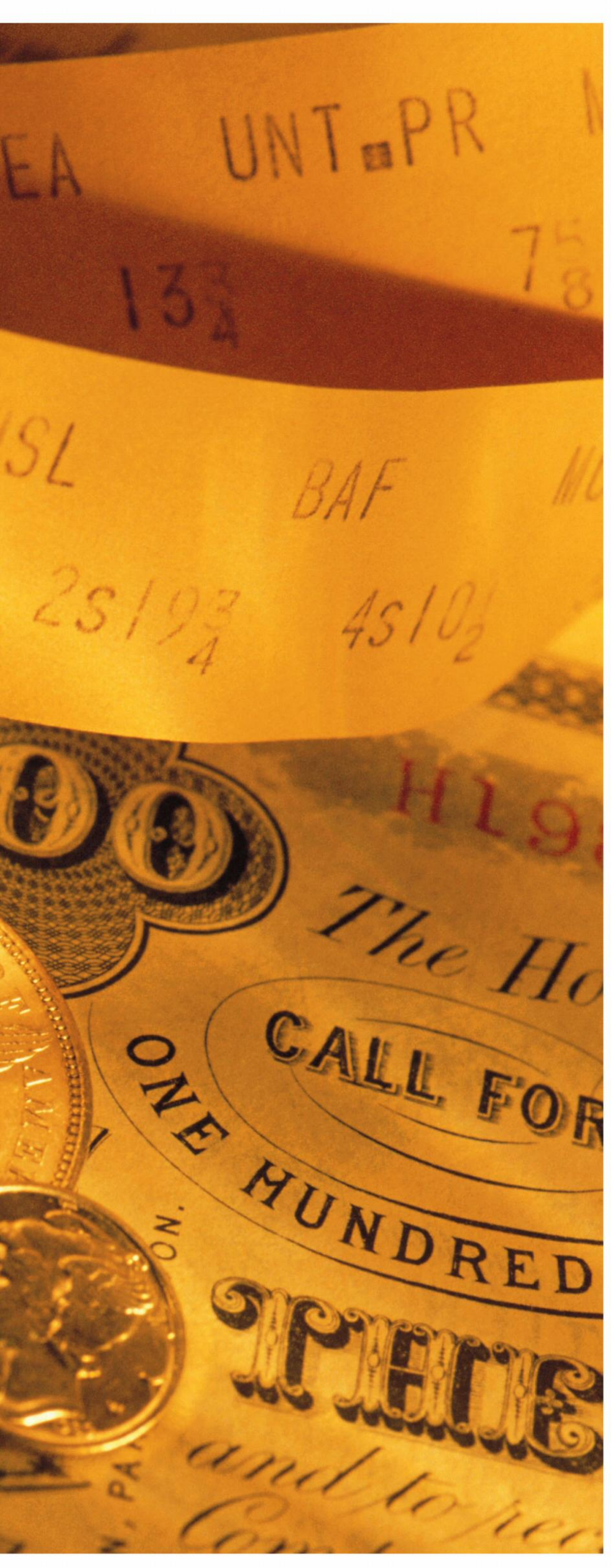
Where they fit in a portfolio

Bonds are generally underutilised by Aussie investors, who have generally turned to term deposits to warehouse their cash.

"Historically, term deposit yields have been high, so sitting in cash hasn't been detrimental to your portfolio," says Sheridan. "And in the same way people don't move their mortgage, they don't move the money in their term deposits."

Sheridan also points to the perceived wisdom that's pervaded the wealth management industry for years: that you need to hold three year's income in cash.

"That's why 20% of self-managed super funds are in cash – because they're being advised to do that. If peo-



ple had 40%-50% of their portfolio in investment-grade bonds, they wouldn't need a cash buffer because they wouldn't have to worry about dividends being cut from their equity allocations."

So how should investors make better use of bonds?

"They have to be clear about the role they want bonds to play in their portfolio," says Tyler.

Broadly they have two purposes: a defence against a sell-off in riskier assets and for income generation. The two roles are chalk and cheese, as are the bonds that service each objective.

High-quality government bonds are a mainstream hedge against market volatility, much like gold. High-grade bonds and gold share the same space on the defensive-to-growth spectrum.

But they do differ depending on market conditions.

"Gold is very good when people are worried about a deflationary environment," says Tyler. "Government bonds have historically been good performers against this backdrop, but the issue is interest rates on bonds are at lows we haven't seen for literally thousands of years.

"If you want income then you can take more risk via corporate bonds, but in doing so you're reducing the amount of defensiveness you have against equities."

The further you go down the credit spectrum, the more the potential to overlap between bonds and equities. In other words, the lower the quality of the bond, the more their yield and risk profiles tend to converge with equities.

Still, Tyler says it's difficult to draw a distinction between low-quality, high-yield bonds and equities because they're designed so differently. One is part ownership of a company and the other is essentially a loan contract.

The second purpose, generating yield, is served by higher risk corporate bonds.

"During a downturn, corporates may find it harder to pay off their obligations, and therefore the prices will fall in deteriorating economic environments," says PIMCO's Samaraweera.

High-quality bonds are a good way to manage risk in your portfolio, and you can add to this through diversification of bonds.

"We advocate diversification across different issuers and diversification through tenor [time to maturity]," says Sheridan.

That way you get exposure to a range of sectors and a range of maturities that carry different levels of risk.

Sheridan recommends moving up the quality spectrum when it comes to bonds with longer maturities. "If you don't get the face value of the bond back, your return won't make up for that." **M**

How to buy them

Government bonds can be bought and sold on the ASX as exchange traded treasury bonds (eTBs), and they are traded in the same way as regular stocks.

Corporate bonds can be purchased directly from the issuer through a public offer at face value. You can also trade them on the secondary market via the ASX, where they're called XTBs.

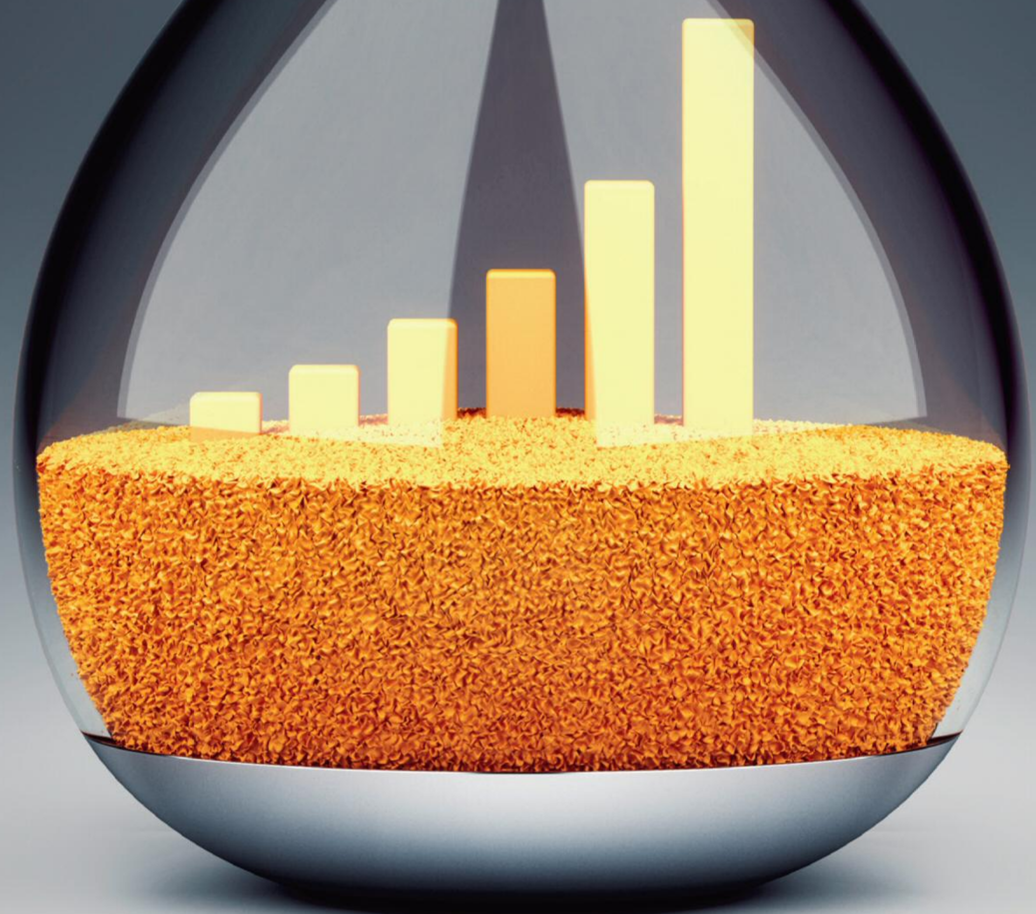
Another option is to invest in a professionally managed fund, which pools investors' money to purchase a collection of bonds. Managed funds typically have management and sometimes performance fees.

Bond exchange traded funds, which passively track indices, are a cheaper way to gain diversified exposure to the market. BetaShares, ETF Securities, iShares, Vanguard and State Street all offer bond ETFs.

STORY DAVID THORNTON

It's all in

Switching or selling investments during a downturn can scupper retirement plans



Timing the market is not something we usually advocate at *Money*: trying to predict the future is a risky strategy. But it can work in retirement, making thousands of dollars' difference to your precious savings.

The business cycle naturally impacts the value of your asset pool, increasing it when the market's going well and decreasing it when it's not.

This is par for the course for all investors. But retirees face an extra challenge.

"When you're accumulating assets you can leave your money to keep growing, but retirees need the money; they need to feed themselves," says Aaron Minney, from Challenger. "If the market is going down, you can't wait it out."

story. It's not as if they can stop paying their rent or buying food to wait for better times.

Drawdowns during a bear market damage future returns, as does moving into cash or other defensive assets. Much of the damage is done to retirees not necessarily by the actual market fall, but by the flight to cash as they go into loss-aversion mode.

"Switching to a more conservative option, such as cash, during or after a market fall can lock in losses and may mean you miss out on any rebound that occurs," says Ellis. "Aware Super experienced a significant increase in member switching as markets fell during the initial phase of the Covid-19 pandemic."

Ironically, ignorance in this case would have been bliss. Aware Super found that those who are more hands-on with their super were five and a half times

the timing

When you're in retirement, you run the risk that you'll sell something at the wrong time. Drawdowns during a down market can make of hundreds of thousands of dollars' difference to your nest egg and income over time.

In finance parlance, this is called sequencing risk.

Sequencing is all about the order of drawdowns. An amount taken out of your investment pool during a bear market will have an exponentially adverse impact on your future returns compared with taking out the same amount during a bull market.

"For these members who are planning for their retirement or drawing an income from their savings, the timing and sequence of returns matters almost as much as the size of those returns," says Jacki Ellis, from Aware Super.

"This risk increases as members move into retirement because the regular drawdown payments that provide an income in retirement can lead them to partly crystallise the losses associated with a market fall, which would otherwise remain 'paper losses' that could be recouped over time to the extent that markets rebound."

Of course, sequencing risk impacts retirees differently. If you're well-off with low income needs, you can reduce your drawdowns to weather a down market. You can focus on long-term returns and prepare a retirement plan that reflects that.

But for people with moderate superannuation balances who need to dip into savings, it's a different

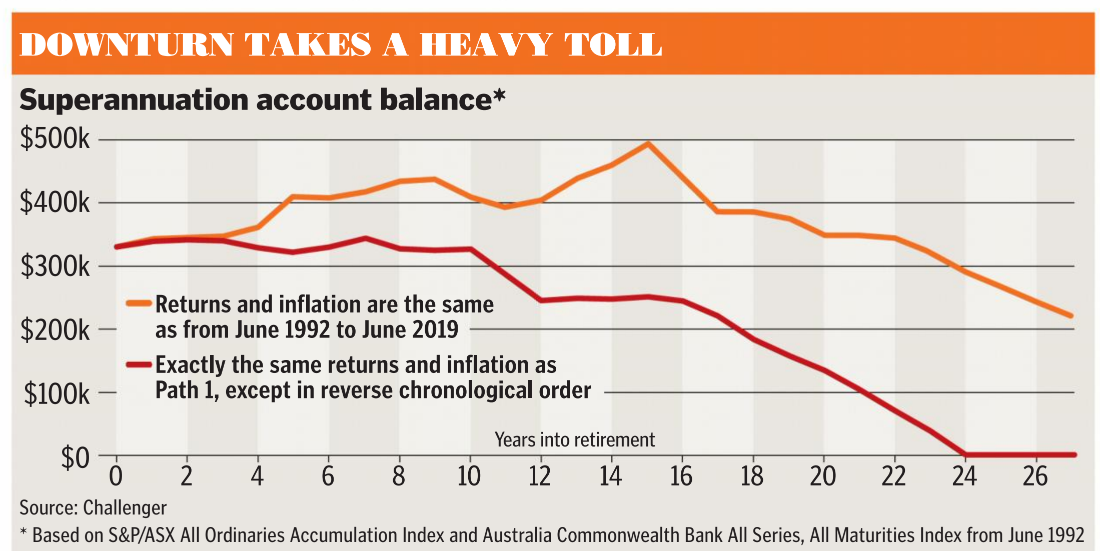
more likely to switch. In addition, people with high balances were four times more likely to switch, and members nearing, or in, retirement were two to three times more likely to switch.

"Retirees are the most likely cohort to move to cash at the bottom of the market and impair their financial outcome, because they're so fearful for the capital they're on for income," says Alastair MacLeod, from Wheelhouse Partners.

Switching into a more defensive investment after major falls is hugely damaging.

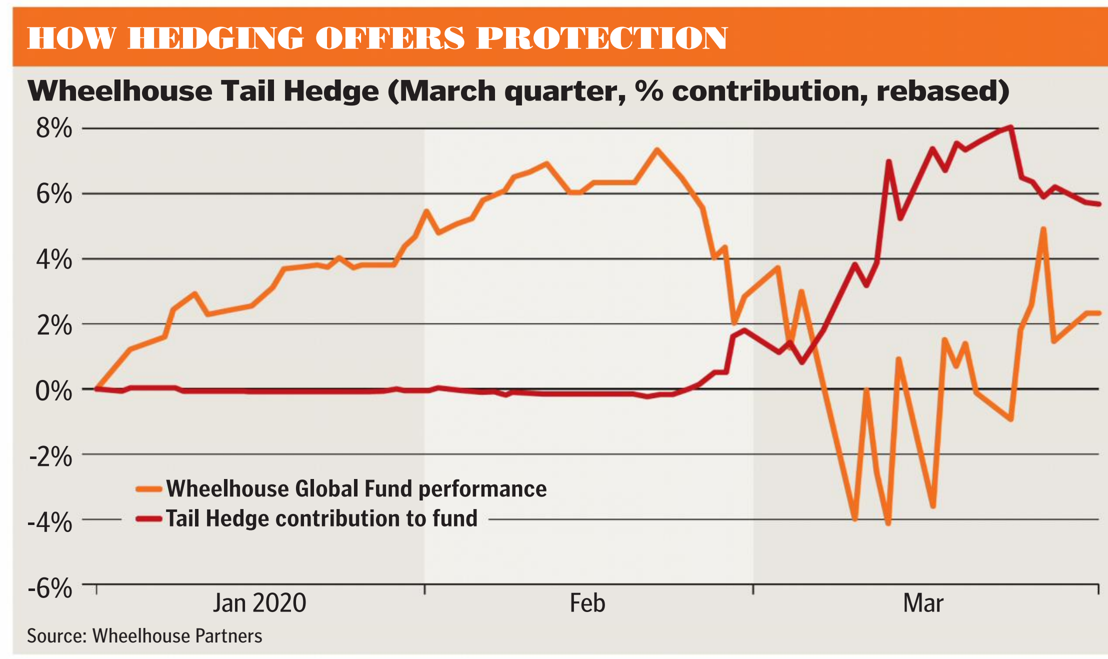
"For someone with a balance of $100,000 at the start of this year, switching to cash towards the end of March would have meant they missed out on the significant rebound in markets that has occurred

DOWNTURN TAKES A HEAVY TOLL



Source: Challenger

* Based on S&P/ASX All Ordinaries Accumulation Index and Australia Commonwealth Bank All Series, All Maturities Index from June 1992



since, reducing their balance by around $16,000 compared to what it would have been if they had stayed the course and remained invested in the default growth option," says Ellis. "Similarly, our research also shows that members who switched to cash during the GFC were on average 17% worse off five years later, compared to where they would have been if they had stayed the course."

The past year painfully illustrated this point.

"You miss out on 3% in November where you effectively get two years of equity returns in one month," says MacLeod.

Getting it right

To minimise the impact of large market falls, those considering retirement would be better off if they deferred their plans, says Ellis. "Delaying retirement by just one year could increase the retirement income of our typical member by around 2.5%.

"Alternatively, those who have already retired could look to take advantage of the reduction in the minimum drawdown rate, which has become a standard government policy response during significant market falls. This helps limit the degree to which retirees have to realise the losses associated with a market fall, mitigating sequencing risk and helping their retirement savings to last longer."

For the 2020-21 financial year, the minimum drawdown rate for allocated and market-linked pensions has been halved, which for someone aged between 65 and 74, for example, is now 2.5%.

Another option is to forget about timing entirely.

"I caution anyone who thinks they can get the timing right," warns Challenger's Minney. "The solution is not to get the timing right, but to have a plan for what you need."

There are several ways to protect your nest egg from sequencing risk. You can set aside the money you need to cover your expenses for a year or two. Divide your retirement savings into a portion for generating growth and a portion for expenses. The growth portion can ride out the bottom of the cycle because it doesn't need to be used for expenses.

"If you know you need money next week, then you don't go and invest that in the sharemarket," says Minney. "You need a solution now for where you get the growth but you're not going to get blown up when the market dips."

This can be done by working out a budget and moving that amount into cash or annuities, which are contracts with investment firms that pay out a regular income.

You can also put your money in a fund that has a hedging strategy.

Wheelhouse Partners protects its investors' capital against severe market downturns by taking out "insurance" through the use of options.

"We have an 'always on' hedging strategy," says MacLeod. "We don't believe it's something you can time. You don't know when the next coronavirus will come."

As with any insurance, you have to pay for it. And this does eat away at some of the return, by about 1.5%. But when things go pear-shaped, you'll be glad you've got it. "We recognise that protection will cost us, but in periods like March these options can add 8%," he says.

At their core, drawdowns can be damaging if they take place when asset values are low. So, before you retire, make sure your portfolio is geared towards capital preservation. That means more conservative investments, which means higher resistance to volatility. Think defensive assets, perhaps including gold and investment-grade bonds. *M*

> "Fund members who switched to cash during the GFC were on average 17% worse off five years later"

Water could be the new oil

Investors can play a role in averting a looming crisis for one of our most precious resources

Human existence is based on water and air. While water in the broad sense may be abundant around the globe, the same cannot be said of fresh or clean water.

Clean water is critical for the production of most goods and services in some capacity, and without it the world as we know it would simply struggle to function.

There is a widening gap between the demand for clean water by humans and industry and the supply. Access to clean water is becoming harder and more expensive due to over-consumption, pollution, environmental degradation and climate change. If these trends are allowed to continue then within the next decade there will be a critical shortage of clean water and competition for it will not just be between sovereign nations but between cities, neighbourhoods, industries and companies.

When we speak of global economic growth, we should be aware that this growth directly places additional stress on water resources. Global economic growth is synonymous with population growth, urbanisation, industrialisation and increases in production and consumption.

As global wealth increases, the population's consumption pattern becomes more energy- and water-intensive. More people can afford to buy meat, build larger homes, and use motor vehicles and other energy-consuming devices, all of which involve increased water consumption for production and use. Consequently, the world is expected to face a shortage of 40% by 2030 under a business-as-usual scenario, as estimated by UNESCO.

Global economic growth will underwrite the demand for clean water in the decades to come. This presents an opportunity for investors to help fund solutions to the worsening problem and earn respectable profits along the way.

Companies involved in water-related businesses stand to grow in the coming years. Investors can hand-pick listed water-related companies on major stock exchanges or, alternatively, gain exposure through active and passive index funds. The allocation to water in portfolios could be framed within the sustainability context or as part of an allocation to a broader natural resources theme.

It is quite possible to get diversified exposure to a broad basket of water-based listed companies involved in activities such as supply, treatment and purification to well drilling and infrastructure construction.

The long-term risk and return prospects for investing in a broad basket of water-based companies look appealing. According to data published by S&P, the S&P Global Water Index exhibited higher absolute and risk-adjusted returns than the broad-based global equity benchmark over the period from December 2006 to August 2020.

As demand for clean water rises and the problem of mismanagement of supply sources become amplified, the opportunity for investors to make a difference through commercial investments will get bigger and broader.

Zach 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 Fidelity Sustainable Water & Waste Fund

The high-conviction global strategy invests in companies involved in the design, manufacture or sale of products or services in connection with the water and waste management sectors. It demonstrates superior sustainability characteristics compared with the market. The theme is global but the long-term drivers impact everyone at a local level.

2 Warakirri Diversified Agriculture Fund

It aims to purchase, develop and own a diversified portfolio of investment-grade Australian agricultural assets and lease to high-quality agricultural businesses. The strategy aims for a net return of 7% to 11%pa. Examples of assets include nuts, fruit, vineyards, infrastructure and water.

3 Duxton Water

The fund aims to construct a portfolio of permanent water entitlements to deliver flexible supply to Duxton's Australian farming partners. Returns are generated by offering irrigators a range of supply solutions including long-term entitlement leases, forward allocation contracts and spot allocations.

Between a rock and a hard place

Young home buyers struggling to raise a deposit also have to keep an eye on their retirement savings

Millennials are caught between a rock and a hard place: whichever way they turn they seem to be stymied. As a demographic they stare down the barrel of stagnant wages, insecure work and high property prices. Expecting them to put more into super is a big ask.

So it might come as a relief to many that the legislated rise in the super guarantee (SG) from 9.5% to 12% of wages may be put on hold. The SG is scheduled to rise incrementally by 0.5% each year, starting this July, until it reaches 12% in 2025.

The possible change of plans follows the release of the Retirement Income Review, which casts doubt on whether any increase is necessary. It noted that at 9.5% most workers will retire with a disposable income equal to the widely accepted benchmark of 65% to 75% of their pre-retirement income.

The report notes some groups, such as renters, especially single people, will be worse off in retirement because they face higher housing costs – which brings us back to millennials and their struggle to get onto the property ladder.

The reality is that house prices have outstripped pay rises.

The Grattan Institute summarises it simply. "While rising house prices may be offset in part by lower interest rates, younger Australians are typically spending about 25% more of their disposable income servicing their mortgage compared to equivalent purchasers 30 years ago."

In response to the review, many economists have warned that workers overwhelmingly pay for increases in compulsory super contributions through lower wages.

When the pandemic struck last year, the federal government allowed Australians to dip into their super and withdraw up to $20,000, subject to certain conditions. Some millennials saw it as an opportunity to cobble together a home loan deposit.

Dominique Bergel-Grant, a financial planner and director of Leapfrog Life, says while home ownership is a bigger priority than boosting super in the early years, what happened was crazy.

"I'm against the idea that the 9.5% employer contribution is accessed by first home buyers for a deposit. I don't support it because it will leave them with not enough money in retirement."

Instead, she gets her millennial clients to build a deposit the old-fashioned way by spending less and saving more, and explains how the ability to use debt carefully can build their wealth.

"If you and your partner save $100,000 to $150,000 you are probably going to be spending $500,000 to $1 million on your first property purchase depending on where you live. If the $500,000 asset increases by 4% a year, your equity is growing by $20,000. If it's a $1 million asset, that's $40,000 a year."

Although the property market doesn't always go up, she says long-term averages going back 30 years show Australian prices increase by about 4% a year.

With interest rates at historic lows and little prospect of rising in the short term, Bergel-Grant says it gives property the edge and underlines why "it's a bigger priority than having another $5000 or $10,000 in super".

She encourages her clients to make more than the minimum mortgage repayments to build a buffer. This also builds up their equity and wealth.

"You then have enough equity in that property to look at making another investment.

There is no guarantee the age pension will remain as generous as it is now

"What I typically say to clients is we won't make extra super contributions until we've got that first property purchase under our belt. So long as they have regular employer contributions going in at 9.5% for their entire working life, that will provide a very solid nest egg that will give them enough money in retirement."

But if there's a break along the way, that gap will need to be plugged, she says. "If you're female and planning on having kids you'll need to have a strategy to compensate your super at some stage. That's where the 9.5% falls down for women because they may work part-time for five years or be out of the workforce and, having done that, never work at the same pay rate again."

She says being disengaged from super is not a solution.

"Don't throw your super statements out. Look at them, call your fund or financial planner. Ask what the money is invested in, ask why it has made or lost money. Look into the insurance. You can't just ignore it."

As clients get older they might downsize from the big family home.

"It can be a good retirement strategy once the kids have left home. The client might have originally paid $1 million – a huge amount of money when they bought it – and it has gone up to $2 million or $3 million."

They can now use $1 million to $1.5 million to top up their super.

"When you sell your family home, there is no capital gains tax payable, which is a massive advantage."

She also points out that the home is exempt from the age pension assets test.

"There needs to be a degree of personal responsibility. It's keeping an eye on the future and understanding what roles your home and super play."

She says there is no guarantee the age pension will remain as generous as it is now.

And if you are renting in retirement, the outlook is grim.

"Realistically, the age pension is designed for a full pensioner living in government housing, which is heavily subsidised. That's the stark reality."

The first home super saver scheme

The federal government's first home super saver scheme allows first timers to use their super to save for a deposit. Its potential tax benefits and investment earnings may help you enter the property market sooner.

If you haven't previously owned a home you can make voluntary, before-tax super contributions of up to $15,000 a year. However, that amount, plus your employer's SG contributions, must not exceed the concessional contribution cap of $25,000 a year.

The maximum a person can save under the scheme is $30,000. The individual limits allow a couple to save up to $60,000 to buy their first home.

"It suits some people and doesn't suit others," says Leapfrog Life's Dominique Bergel-Grant. "If all your money is invested in the sharemarket and it falls significantly you may find you may have been better off having the money outside of super in cash."

She recommends you first work out your timeframe and the eligibility rules and establish the pros and cons.

For more details go to the tax office website ato.gov.au/individuals/super/withdrawing-and-using-your-super/first-home-super-saver-scheme.

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

Teach the children well

STORY DAVID THORNTON

In leading by example, parents can pass on valuable, lifelong insights into the world of saving and investing

We live in a financial world where all choices come down to what we can afford, so it makes as much sense to instil in your children an understanding of finance and investing as it does maths and science. But when and how do you do it?

Probably the most important thing to do is involve them in financial conversations and lead by example. Actions have a greater impact than opinions and it's no different when it comes to teaching your children valuable lessons.

"Your beliefs become theirs," says Vanessa Stoykov, chief executive of Evolution Media.

"Whatever you learn from your parents is usually how you manage money, or you do the exact opposite because you hated how they managed money. If your children see you investing, they'll be more inclined to replicate that; if they see you struggling, they'll probably learn scarcity."

Equally, pointing to other examples can add credibility to your own actions. "Access to seeing how other people live is important. If they see it and want it then they'll emulate it," says Stoykov.

The first step and one you can start as early as age three is teaching your kids how to save.

As they get older you can move on to teaching them how to invest. This way they learn that without the former (saving), they simply can't do the latter and that you need to get capital from somewhere to make your first investment, says Stoykov.

Compare stocks to food

Leading by example through responsible saving habits is within the grasp of everyone because the same concept applies regardless of the scale. Saving cents to get the buying power of dollars is the same concept as saving hundreds to get the buying power of thousands.

It's all about connecting present behaviour with future outcomes.

"Food is a very useful proxy to do this – the ability to delay gratification is huge," says financial literacy campaigner Nicole Pedersen-McKinnon.

This becomes an easy way to connect saving with delayed gratification. You're saving or investing because you want "X".

"I use the term 'future you'," she says. "A mantra of saving, say, 10% for the future you is very important. It's tangible, it's something they want, but it's in the future so it gets them projecting forward. Short termism is really the enemy of secure finances.

"Again to analogise with food, 'Are you going to have two helpings now or do you want to keep some for future you?' "

From here you can introduce themes about investing. This can be done without even mentioning the word investment.

"All of us can see solid businesses from a customer service point of view," says Pedersen-McKinnon.

"You can explain how JB Hi-Fi has done well during the pandemic because they sell products for the home. Convey to the kids what businesses work and don't work, which have closed down and which have flourished and expanded."

This makes it easier to explain the ebbs and flows of the stockmarket.

Make the connections

Connecting the real world to investing allows children to understand the main driving forces behind the stock price chart they'll grapple with at some point.

Chris Brycki, chief executive of the investment platform Stockspot, says his dad opened the newspaper and pointed to all the different companies, all businesses you can interact with day to day, and explained that the sharemarket is a way you can buy a share of that business and share in the profits.

"When you own Woolworths shares, you essentially own a shelf at the supermarket

Game on: do it their way

At some point, you and hopefully your kids will want to dip their foot in more formalised forms of investing, rather than just saving.

Acknowledge the era in which children find themselves these days. That is, digital. So it helps to use platforms that are "gamified" with a slick interface.

"When I started investing with my children, I opened an Acorns account, now called Raiz, which trades exchange traded funds (ETFs)," says Vanessa Stoykov, from Evolution Media.

Another good option is to open an online trading account, such as CommSec or nabtrade, where you can trade shares or ETFs.

These platforms allow you to open "minor" trust accounts, where you act as the trustee for your child. When they turn 18, the trust's assets can be flipped into an account in their own name.

Teaching your kids about finance and investing could be one of the most important gifts you bequeath your kids. It can also be hugely rewarding, not just when your child is young but also as you watch them employ the lessons later in life to gain financial wellbeing and independence.

and receive a profit for those boxes of cereal they're selling," he says.

Stoykov says her son likes Tesla cars, so he invested in Tesla. "If they want it, there's a good chance other people will too," she says.

Once your children have a good idea about the companies behind stocks, you can move on to teaching them a few investing strategies.

Diversification is jargonistic but the logic is straightforward – don't put all your eggs in one basket.

"There are different ways you can teach diversification, but show your kids what can happen if all your investment is in one company, because it can all go to zero," says Brycki.

However, while it's important to convey the importance of lowering risk, this shouldn't translate into a phobia of taking any risk at all. Wrapping them in a zero-risk mindset will see them avoid investing altogether. There probably isn't a successful investor alive who has made their fortune risk free.

The important lesson to pass on here is that "when you're making investment decisions, it's not about getting all of your investments right, but about making a higher probability of the right decisions than others," says Brycki.

Money makes money

Compound growth is an equally important concept to stress early on – the understanding that making small investments today has an enormous impact in the future.

"The power of compound growth is an easy thing to teach. You can go even go onto ASIC's website and use their compound calculator," says Brycki. "By the same token, paying away small costs as soon as possible is also important because debt is an obligation that's preventing investment."

The central message here is about having productive rather than dormant wealth.

Stoykov underscores the importance of conveying the power of money to make money.

"Working smart is more important than working hard," she says.

With a couple of these key investing concepts under their belt, your children may be ready to start learning how to invest in the stockmarket.

Investors, not gamblers

The ASX sharemarket game often promoted at schools may not be the best way to instil a responsible investing strategy. "It doesn't teach kids responsible investing, it creates traders," says Brycki, who won the ASX game as a kid multiple years.

"Losing money as a kid is very important because it makes you humble about your ability and more likely to pick a sensible strategy"

He once won by investing only in gold companies after learning that the Central Bank of England would stop selling gold.

It paid off in the end, to be sure, but was the financial equivalent of putting everything on black. If it comes off, it's a clean sweep but it's a boom-or-bust proposition.

"I won the ASX sharemarket game by taking as much risk as possible, risk you shouldn't be taking in real life. I thought I was investing, but what I was really doing was learning how to be a trader," he says.

Brycki's earlier success with this high-risk strategy could have been a poisoned chalice. He later learned the hard way how turbulent individual stock picking can be, having made a fortune in the 1990s tech boom before losing 80% of the money he'd made.

The money lesson here is a valuable one.

"Losing money as a kid is very important because it makes you humble about your ability and more likely to pick a sensible strategy rather than a gambling strategy." *M*

7 things that really matter

As we get back into the daily routine, it's worth recognising that there are many things money can't buy

Let's pretend we have succeeded in the stockmarket. We are rich. We have gone beyond money and its status. What could now elude us in the pursuit of happiness?

Here are a few things on the shopping list, things that money cannot deliver.

Love. Imagine you are standing at the side of the road and a bus is coming. In the middle of the road, oblivious to their impending death, is a person. You have the option: watch them get run over or push them out of the way and get run over yourself. You or them. No other options. Is there anyone in the world you would step off the kerb for? That's love. Worth more than your life, let alone money.

Family. When the Lord visits you on your deathbed and asks you what you have done in your life that's worthwhile, what will you say? Climbing Everest? Making your first million? For parents it's easy. You simply rattle off the names of the kids. They are, annoyingly, more important than anything else. Money, success, achievement? Irrelevant. Would Bill Gates give up everything he has ever done for the safety of one of his children? You bet he would. The more liabilities (kids) you stack on yourself in life the more you get out of it. Liabilities are your excuse to strive. An excuse to exercise the fullest extent of your mind. It's our responsibilities that give us passion.

Health. Anyone who has had a health scare, a brush with mortality, will tell you that life is finite and to be appreciated because it all might suddenly end. An illness escaped can be a turning point; a minor epiphany that we're all getting closer to popping our clogs every day. When you realise that, you put a bit more effort into being happy. It's more fun when you wake up just a little bit surprised that you did. In the shadow of death you have to laugh. What else are you going to do?

Carpe diem. A photographer turned up at the office the other day wearing a well-worn but tailor-made suit. He was on the other side of 60 and didn't have the equipment you would normally expect of a professional photographer. Something was wrong. Turns out he had recently retired "rich" as a partner of a major accounting firm and with the cosmos at his feet he had finally taken the time to work out what he really wanted to do: photography, a career he had passed up at university in preference to a degree more suited to his grades, accountancy. For 45 years of uncreative desk-bound number-crunching he harboured the regret. So with all the time and all the money in the world he had gone back to university to fulfill his destiny. Admirable stuff, but the shame of it was, of course, that he could have been doing it all his life. The moral of the story is that we all need to stop and ask, "If I had all the time and all the money in the world, what would I do?" You never know, you might find you are doing it already.

Passion. I spoke to a rich man once who complained about his inability to generate passion. He had passionately built businesses and had made a lot of money. But the prospect of building another business, of making money, had waned and he now almost envied those with debt, responsibilities and desire, because they had a reason to get out of bed, a reason to excel. Instead he was bored with his own existence. For him happiness was something to be passionate about. At least that's what he said.

Dreams. If happiness is an expectation met then a dream fulfilled is even better. You have to dream because, as my brother-in-law said to me recently, most people who bother to pursue their dreams achieve them. The crime is that they don't dream hard enough.

Effort. In the words of Ron Barassi, a master among men: "I don't respect talent, good looks, brains. I don't respect the things you are born with. I respect effort. Getting up in the morning and moving those arms and legs." Success through effort will make you happy. Success alone is not enough.

Rich or poor, we can have it all. Money, it seems, is only half of the equation. If that. But probably better to be rich. Back to the stockmarket then.

Marcus Padley is the author of the daily stockmarket newsletter Marcus Today. For a free trial of the Marcus Today newsletter, go to marcustoday.com.au.

Be alert but not alarmed

As you count down to a happy and comfortable retirement, there are many financial challenges to consider and dangers to avoid

STORY NOEL WHITTAKER

Risks come in many shapes and sizes, and recognising them can help you protect your precious assets.

Self-inflicted or behavioural risk

These are sins of omission (things you failed to do) and sins of commission (things you chose to do, which led to bad outcomes).

There are many examples of self-inflicted risk. I hope that knowing about them can save you from making similar mistakes. A classic self-inflicted risk is putting all your money into one investment, particularly if you do so without looking into it carefully – like the man who invested his life savings of $660,000 in a company purely on the grounds of its enticing newspaper advertisements and lost the lot.

It can also be that you draw down too quickly on your capital, reducing its ability to last as long as you do. When I was in private practice as a financial planner we

commonly heard of situations where retirees drew aggressively on their capital to help their children out of a problem, and so put their own assets at serious risk.

EXAMPLE *I received an email from a man who told me that he and his wife had gone tenants-in-common with their daughter, on a 75:25 basis 30 years ago, to help her buy her first home for $80,000. For 30 years she has paid all expenses in relation to that house. The parents are now faced with a double whammy: the house is worth $600,000, which means their 75% share is worth $450,000. They are on a minuscule age pension, which would be $35,000 a year more if the house was in just their daughter's name. But if they transferred it to her now, they would be liable for a large sum in capital gains tax, and still have to wait out the required five years before the asset vanished from Centrelink's records.*

Self-inflicted risk includes choosing to live too frugally and dying with far more money in your superannuation than you ever intended. At the other extreme, it includes investing overly conservatively, so that your money won't generate the returns you need to achieve your goals.

Opportunity risk

This means that you make a choice, and in hindsight discover that a different choice would have given you a better outcome. For example, when the GFC hit in 2008, a friend with a self-managed superannuation fund switched the entire fund to cash to prevent any further downturns. The problem is that he has never found the right time since that date to switch any of that cash back to growth assets, and as result has missed out on all the growth that happened in markets everywhere in the past 12 years.

Or what about someone who has understood that the way to make money in real estate is to get a property at a bargain price and add value to it? They buy a rundown house in a good area for $400,000. Another person gets suckered into buying an apartment for the same price. After five years and a minor renovation the house could be worth $650,000, and the apartment would be worth $390,000 at best.

It is difficult to eliminate opportunity risk, as capital gain cannot be guaranteed. Thorough research before making the commitment helps to prevent the problem, and ongoing monitoring of the performance may help you to say "enough" after a decent period and act to withdraw your funds and look for greener pastures. A good tip is to write down the reasons for buying each asset at the time you do it. This may help you later when you are trying to decide to retain or sell.

Non-diversification risk

Reams have been written about the need to diversify – not to put all your eggs in one basket – but many investors who think they have diversified end up with no real diversification: all they have is a lot of similar baskets. This applies to people whose entire investment portfolio consists of suburban rental houses, or who are entirely invested in bank shares, or who have only cash-type deposits, even if they are with four banks. It is also common to see poorly skilled investment advisers spread a client's money over four equity trusts that have precisely the same approach to investment. This is not meaningful diversification.

The only true diversification is to spread your assets among various classes of investments, as well as among various markets. This is why it is vital that investors in managed funds clearly understand the nature of the underlying assets that make up the portfolio.

Longevity risk

This is the risk that your lifespan will significantly exceed your life expectancy. You may think that's a fantastic thing if you are ageing well, but it does bring up the possibility that you may outlive your money. You can mitigate this by having an appropriate asset mix, spending rationally, and having annual reviews with your adviser. There are many studies showing that more than 50% of older people underestimate their life expectancy, usually by about seven years. Fortunately, there are products that are being developed now to meet this challenge.

Life event risk

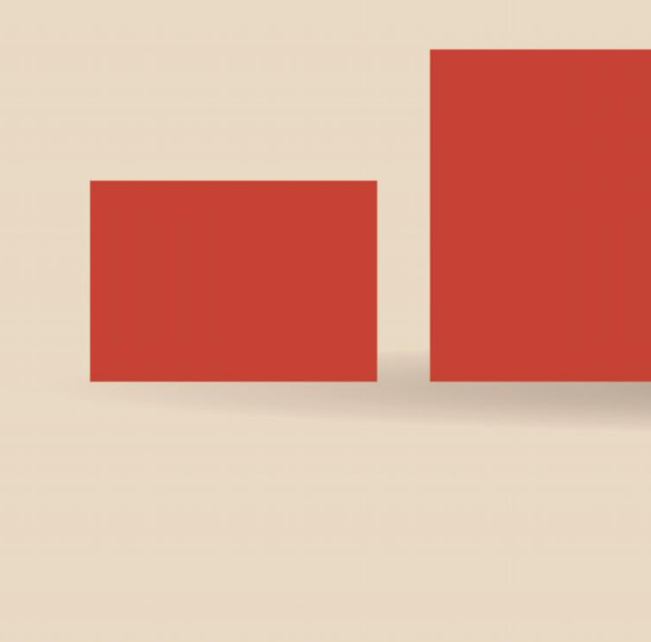
This means an unexpected change in circumstances that could have an adverse effect on your financial situation. These could include a financial collapse, such as the GFC in 2008 or the Covid-19 pandemic in 2020. It could also mean the death of a spouse, child or parent, a serious change in a family member's health, or an unexpected need for money for one of your children.

The way to mitigate this type of risk is to keep a good buffer of capital and be flexible in your investments. For example, a lifetime annuity is very inflexible whereas an account-based pension is highly flexible – you can withdraw as much as you wish on demand. However, account-based pensions have other risks, such as market risk and legislative risk.

It's a good policy to make sure your children have adequate life insurance, income replacement insurance and trauma insurance. If they don't, you may find them looking to tap into your funds if they have a financial or medical setback.

CHECKLIST

- Self-inflicted risk is the most common and under-assessed risk: this is the risk that you will act foolishly, or foolishly fail to act.
- Outliving your money, or having to deal with unforeseen life events, are other serious risks.
- Changing rules are a risk that a good financial adviser can help you reduce.
- Market risk can be minimised by diversifying your investments and keeping a cash buffer.
- Credit risk is reduced by researching investment opportunities with due diligence, and by diversifying your investments.
- Re-investment risk must be assessed at any point that you consider disposing of high-quality assets.



Legislative risk

Governments are continually changing the rules, and today's perfect financial plan may be obsolete on budget night. Luckily our government seems to have learnt its lesson about the folly of retrospective legislation, which is why we now have such a range of confusing transitional measures.

In the retirement space, legislative changes could include increased taxes on earnings or withdrawals from superannuation, restricted access to lump sums, changes to the balance or contribution caps, and tightening of the age pension. In 2017, for example, the pension rules were considerably tightened, and in 2019 Labor proposed a policy to eliminate refunds of franking credits.

About the only way to guard against legislative risk is to stay as flexible as possible, seek expert advice about your affairs, and monitor your investments regularly. This applies particularly in the areas of superannuation and age pensions. It is a good idea to join a group such as the Association of Independent Retirees or National Seniors Australia. They are always right across any potential changes and do a great job of keeping members fully informed.

Market risk

This relates to a situation in which you have bought an asset and its value drops. The asset may be anything from a bar of gold to shares in BHP; the nature of it makes it subject to the ebb and flow of market forces.

You protect yourself against market risk by first recognising that any asset that has the potential to rise in value may also fall in value. Once you appreciate this, you should know not to put all your funds into one asset class, or to invest in growth investments when the time frame is short. The catch 22 is that while investments like shares and property have the potential to suffer falls in value, these asset classes have historically shown the best returns over the medium to long term. This is what "risk versus reward" means. If the best returns were available in bank term deposits, there would be no point in taking a higher risk by going into property or shares.

The major danger in investing in share trusts and good property and is that you will be forced by circumstances to sell the assets when the market is depressed. This must be avoided, which is simple to do by keeping sufficient money in cash assets for your foreseeable requirements.

When Covid-19 struck, many retirees copped a double whammy: their share portfolios plunged and then three of the major banks announced there would be no dividend payments for the next six months. Those who did not have three years' expenses in cash – instead relying on the combination of their dividends and franking credits for current spending – were caught out.

Market risk is one of the easiest risks to handle – if your money is with a good superannuation fund or being handled by a good adviser, you should not be at risk of losing it over the long term if you can stay invested during the inevitable downturns.

Credit risk

Credit risk is the chance that the institution you invest in will not pay it back. This may be caused by many things, including dishonesty, bad management or one or more of their borrowers have defaulted and the underlying value of the security is insufficient to discharge the debt.

Leading examples of losses because of credit risk are Gold Coast–based MFS Group, which collapsed in 2008 owing $2.5 billion, and Wattle, which scammed investors of at least $130 billion in the late 1990s. There's also the Virgin bond issue, which fell from $100 at issue in 2018 to $14.50 in April 2020, when Virgin went unexpectedly into administration as the pandemic gutted the aviation industry.

The cure for credit risk is to use substantial corporations that have been recommended, in writing, by your investment adviser and to spread your money

between different companies so that if one does get into trouble it doesn't take all your money with it. I am amazed how often the media feature people who have lost their life savings by investing them with just one institution.

By asking your adviser to put all recommendations in writing, you put yourself in a position to take legal action if you lose money in a "very safe" investment. Be extremely wary of any investments advertised in the newspaper.

The major problem with investing in products such as MFS, Wattle and even Virgin is that you will probably lose all your money if they go bad. In contrast, if you invest money in an index fund or a good managed fund, their spread of assets makes it more likely that its value will recover after a fall.

Re-investment risk

I have a friend who is a big fan of the biotechnology company CSL. She invested $100,000 in it shares at $10 each in 2006 and saw them rise to $316 a share by January 2020. Her big decision was whether to stay with them or take some profits. It was no easy decision, but I did point out to her that if she sold a small portion, she could probably wipe out any capital gains tax with a personal deductible contribution to her superannuation.

Let's assume she did sell $100,000 worth to get her original stake back – the balance would then be riding for free. She is then faced with re-investment risk: the risk of not being able to replace a very good investment with one that is as good. There is no easy answer. But anybody who is considering selling a share or a property just because they have a good profit should keep in mind that re-investment risk is a real issue, and needs to be considered. *M*

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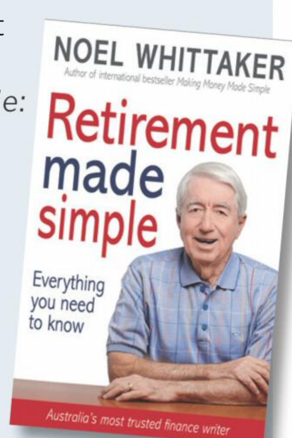

This is an edited extract from Noel Whittaker's *Retirement Made Simple: Everything you need to know* (NWH, RRP $29.99) and available now. For your chance to win one of five copies, tell us in 25 words or less what most concerns you about retirement.

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Seeing profits in 3D

STORY GREG HOFFMAN

Cutting-edge technologies hold out exciting possibilities but for investors the rewards can be elusive

Search YouTube for videos about 3D printing and you'll find all sorts of things. There's talk of spacecraft carrying 3D printers to print their own spare parts and tools in an emergency, production of complex prosthetics and even working artificial human organs.

This exciting technology has captured the imagination of many Australian investors, with tens of millions raised by companies listed on the ASX that are focused on 3D printing (or "additive manufacturing") in recent years.

New technologies always present opportunities and threats. Whether it's railroads in the 1800s, aviation and television in the 1900s or the internet in our current century, there are always big winners and big losers. But who will they be when it comes to 3D printing? Will it be those companies selling the services to others, or the companies that are their customers? Or perhaps it will be centred around certain industries like aerospace, vehicle manufacturing or defence?

Those attracted to this technology now have access to a number of investment choices across those various categories. ASX-listed companies involved in 3D printing in one way or another include Titomic (TTT), Amaero (3DA), AML3D (AL3), Aurora Labs (A3D), 333D (T3D), PPK Group (PPK), Oventus (OVN) and PWR Holdings (PWH). Some of these companies have raised significant sums of money from investors but are yet to produce any meaningful revenues in relation to their market valuations.

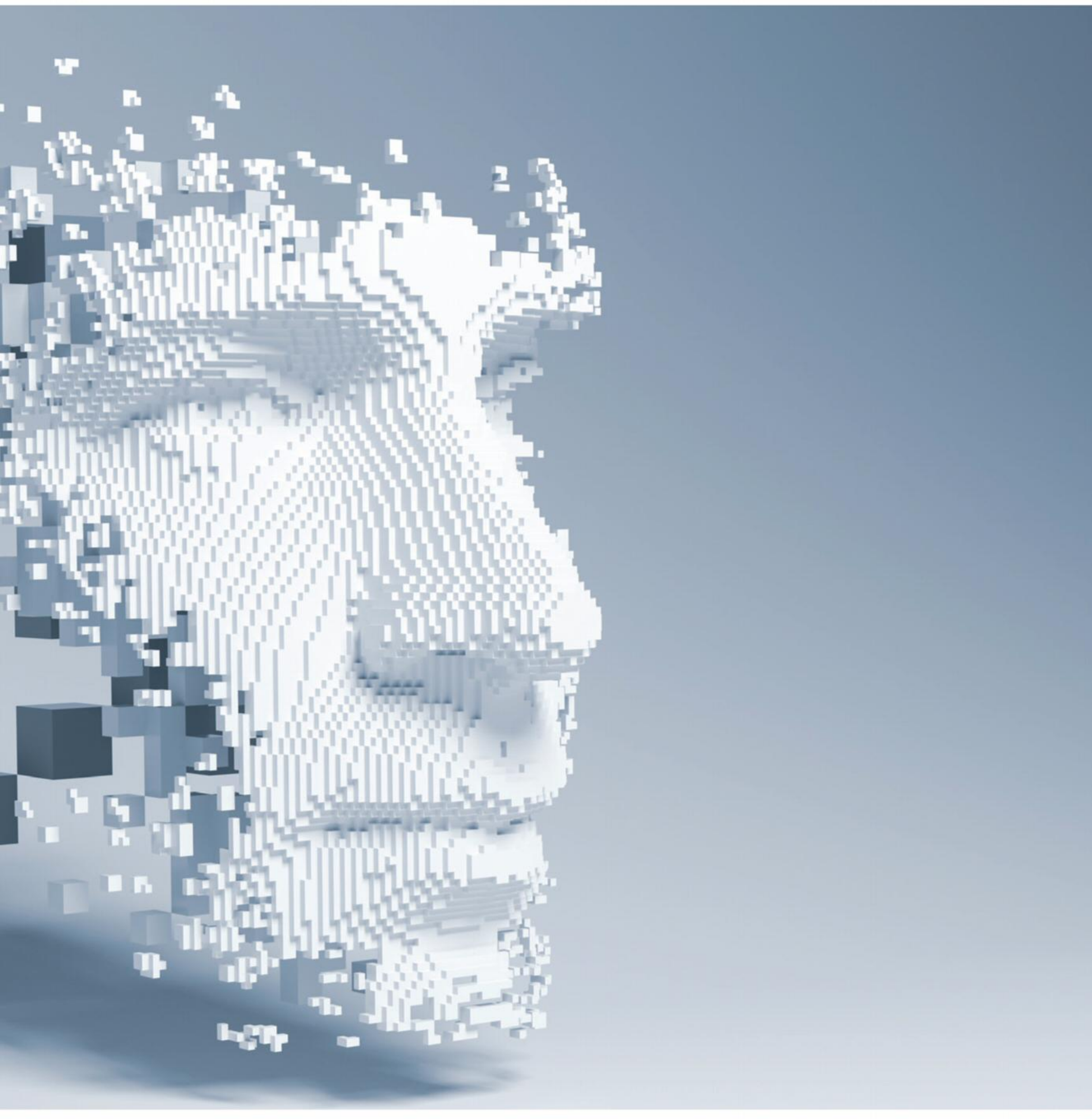
Titomic is the poster child of them all and provides an instructive example of a stock in a hot sector like this. The company listed on the ASX in September 2017 at an offer price of 20 cents per share. The chairman explained that the company "has exclusive rights to commercialise a proprietary and patented process for the application of cold-gas dynamic spraying of titanium or titanium alloy particles onto a scaffold to produce a load-bearing structure".

I don't really know what that means and I wonder how many of the company's shareholders truly did either. But Titomic's share price soared in the months after listing to strike a high of $3 in April 2018, so a float investor who was up 15-fold on their investment might have easily forgiven themselves for a lack of full due diligence.

At that peak, the company's valuation was around $350 million and the next month Titomic announced the "official opening of the world's largest and fastest metal 3D printer". In the following financial year (2019), the company produced plenty of "manufacturing agreements" with an impressive list of clients, including the world's largest aerospace manufacturer, Boeing.

In June 2019, Titomic projected that it would "receive revenue of between $3 million-$5 million during the period to December 31, 2019", citing "revenue opportunities" across the aerospace, defence and other industry sectors.

Those who valued Titomic at $350 million in 2018 might have been hoping for perhaps $10 million or more



in annual revenue and at least $1 million-$2 million in profit by this stage, especially given the figures the company set out in June 2019. So how did the actual results stack up?

Titomic booked only $145,287 in revenue from its customers in the entire year to June 30, 2020 and made a loss of more than $10 million. That's less revenue than my local corner store makes in a month, let alone a year, and far less profit.

At best we can say that things are taking longer than optimistic investors would have hoped. I don't know enough about the sector or the stock to pinpoint the disconnect between previous lofty hopes and ambitions and the slower pace at which reality seems to be unfolding, but this is the kind of situation that I avoid unless I have deep knowledge or unusually high confidence in the company or its management. In this case, Titomic has seen three different leaders since its float (a CEO, a managing director and an interim CEO). At the time of writing it was seeking a permanent CEO. Such executive turnover always sends up a "ping" on my risk radar.

I wish Titomic and its investors all the best and I'd love to see it become a great Aussie success story in a growing high-tech sector. But, personally, I feel zero attraction to it as an investment proposition.

> Things are taking longer than optimistic investors would have hoped

How the user sees it

Several companies are using, or looking to use, additive manufacturing processes in their existing operations. One of those is Gold Coast-based PWR Holdings, which designs and produces "cooling solutions for the high-performance automotive industry" (think radiators for Formula One, NASCAR and V8 Supercars).

PWR has an impressive track record in terms of product innovation and financial results. In December, it announced that it had "been awarded a Made in Queensland grant of $1.2 million for its leading-edge, state-of-the-art aluminium powder 3D printer".

This kind of situation appeals to me more – a company with serious revenue (more than $65 million in 2020), established operations and blue-chip customers adding new technology into its business in a gradual way.

Oventus may be in a similar camp, although it's not as well established as PWR. It manufactures oral devices (they look like fancy mouthguards) for those with sleep apnoea and is using additive manufacturing in the process. The idea is to "create a one-stop in-house process for making personalised mouth pieces that are individualised for each Oventus customer".

At just over 20c per share, the company's valuation is about $35 million but it recorded revenue of only $419,298 in the year to June 30, 2020. Oventus boasts the respected Thorney Group as its second-largest shareholder, so we shouldn't write it off out of hand.

But I'm a sufferer of sleep apnoea and I don't see myself switching from my trusty ResMed CPAP machine to one of Oventus's devices anytime soon. And neither do the other sleep apnoea sufferers I've asked. No matter how advanced the manufacturing process or the material it's made from, the end product must be a good fit for the problem it's addressing and I'm not yet convinced on this one.

In the 'too hard' basket

Billionaire investor Charlie Munger recently gave an interview that I found helpful in thinking about this sector. He described a technology business that he'd invested in decades ago. The company's invention was rendered valueless by the arrival of magnetic tape. "Technology is a killer as well as an opportunity," he said, "and my first experience, it damn near killed me."

Later in the speech he described how he puts much of his investing success down to his desire to avoid doing difficult things. "I put a lot in my 'too hard' pile," he said, "and I'm not trying to succeed in my 'too hard' pile."

If you happen to work in this area or have special knowledge of it, then there may be big opportunities for you to identify the potential winners and losers among the ASX-listed 3D printing stocks (please feel free to contact me via Twitter to let me know). But for me, they're simply in my "too hard" pile for 2021.

Greg Hoffman is an independent financial educator, commentator and investor. He is also a non-executive director of Forager Funds Management (not involved in Forager's investment process). Greg tweets via @GregHoffman15

Spend our way out of trouble

Thanks to the federal cash splash, the future looks much brighter for employment and growth

'You must spend money to make money." This quote is generally attributed to Roman playwright, poet and philosopher Titus Maccius Plautus (254-184BC) and in Keynesian economics it prescribes government intervention (that is, spending) to mitigate the drop in aggregate demand in times of recessions to stabilise economic output.

The proof of the pudding has been found in the Australian government's budget update, the Mid-Year Economic and Financial Outlook (MYEFO), with the upward revision in GDP growth forecasts and downward revisions in the outlook for the unemployment rate and future budget deficits.

And spend and intervene the federal government did. According to the budget papers 2020-21, this amounts to "$98 billion in response and recovery support, including $25 billion under the Covid-19 Response Package and $74 billion under the JobMaker plan" the Treasury is unleashing onto the economy "to responsibly deal with the greatest challenge of our time" and "rebuild our economy and secure Australia's future".

This expenditure, along with the Reserve Bank's policy response, brightened the outlook for the domestic economy. The treasury now sees GDP expanding by 0.75% in 2020-21 (MYEFO) instead of the 1.5% contraction foreseen in the October budget. However, the following fiscal year's growth rate was revised down to 3.5% from the 4.75% predicted in October.

But, hey, my back-of-the-envelope calculation shows that the adjustments mean the economy would be stronger overall over the next two years, 4.25% versus 3.25%.

"The unemployment rate, forecast in the 2020-21 budget to peak at 8% in the December quarter, is now forecast to peak at 7.5% in the March quarter 2021, with both employment and the participation rate higher than expected. The unemployment rate is expected to fall to 6.25% by the June quarter 2022, in line with the recovery in activity, reaching 5.25% by the June quarter 2024," according to the MYEFO.

This wonderful set of numbers could start a virtuous cycle in the domestic economy whereby rising employment boosts consumer optimism, stimulating spending, lifting company sales and profits, encouraging business spending in plant and machinery and staff, stimulating more hiring and lessening the need for more government spending.

The MYEFO budget revision rewrites Titus Maccius Plautus's quote to become "You must spend money to save (or spend less) money".

"The underlying cash balance is now expected to be a deficit of $197.7 billion (9.9% of GDP) in 2020-21 [down from 11% of GDP forecast in the October budget]. The change in the deficit since the 2020-21 budget has primarily been driven by improvements in the economic outlook, including higher-than-expected receipts and a lower-than-expected number of people receiving the JobKeeper payment. This has been partly offset by additional policy decisions to support the economic recovery and secure access to vaccines," the MYEFO says.

The next year will see the deficit reduced to 5.3% of GDP (less than the 5.6% ratio predicted in October) and the underlying cash balance is expected to improve over the forward estimates to a deficit of $66 billion (3% of GDP) in 2023-24 and to further improve over the medium term to a projected deficit of $45.7 billion (1.4% of GDP) in 2030-31.

But this optimistic outlook could be truncated by the simmering Sino-Aussie trade tensions. "Recent trade actions affecting Australia's exports have not yet had a material impact on the forecast economic recovery, despite significant impacts on specific firms and regions. However, ongoing global trade tensions present a key downside risk to the outlook," according to the MYEFO.

And Covid-19's re-emergence in NSW and Victoria prompted tightening of restrictions and renewed border closures. As well, there is the new variant afflicting Europe and Asia and the continued high rate of infections in the US.

Despite vaccine optimism, Covid-19 will likely remain the major uncertainty, as it was last year. Governments around the world will need to spend more money to save money and lives and livelihood.

Benjamin Ong is director of economics and investments at Rainmaker Information.

SECTOR **DISCRETIONARY RETAIL**

Disruptor has all the right stuff

Capitalising on the stay-at-home lifestyle, an online retailer shows what it takes to be a winner

When you're building a portfolio, it seems obvious to say "diversification matters". Obvious, and yet many investors are hugely over-concentrated in one or two sectors – usually banks and/or resources.

So, a look across different industries will, I hope, give readers some additional investment ideas and alternatives. Additionally, each sector of the ASX – and the economy – usually has different factors that determine success or failure and having an appreciation of the differences (and similarities) can be useful. Lastly, while you shouldn't necessarily aim for a "Noah's Ark" portfolio (two of everything) I think it's likely that aiming to identify the best in each category should go some way to delivering strong investment returns.

So, we begin our third annual series aimed at finding the companies that are Best in Breed in their industries. And, whether opportunistic or dangerous, we start our new year with a category that was, perhaps more than most, buffeted by the pandemic. It's a good time to remember, too, that this time last year we had little more than an inkling of what Covid-19 might mean for the Australian economy, let alone global GDP (and both much less important, we should always note, than the impact on the health and livelihoods of our fellow citizens).

There were some big retail winners last year. Those that were predominantly or entirely online – think Kogan, Temple & Webster and JB Hi-Fi among them – did very well. And businesses that could capitalise on our Covid-changed habits also performed very nicely. This latter group was very diverse.

Foolish takeaway

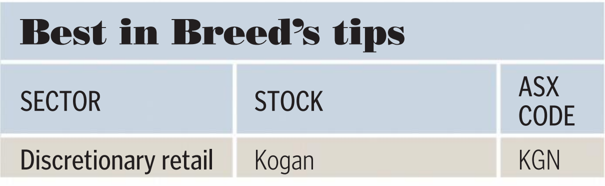
Best in Breed's recipe, and the uncertain economic conditions we face, lend themselves to investing in mostly or wholly online retail disruptors that can take market share, even if their category stagnates or falls. That makes Kogan our carry-over champion from the same time in 2020.

There were the retailers that benefited from the direct consequences (say, Officeworks, as most of us worked from home), those that sold products we used for new or rediscovered hobbies (I'm looking at you, Bunnings) and even businesses that let cashed-up consumers redeploy their international holiday budgets into household furnishings (Nick Scali, come on down).

Of course, we don't know what twists and turns 2021 will bring, with the potential for both further lockdowns and mass vaccination on the cards. Remember, too, that the share prices of many of the retailers I just mentioned dived precipitously in March and April last year, before sanity prevailed. And that's before we remember that even in good times retail tends to be a low-margin, cut-throat operation!

So, with all that uncertainty, how do we find our Best in Breed? Well, it's important to remember what we can and can't control, for starters, then look for some of those factors that tend to make for successful operations. In retail, as in most industries, scale matters. So does volume. If you have a lot of business from a lot of people, you tend to be less exposed than if you rely on a small number of high-margin sales that may or may not eventuate. And in that vein, you want to have a well-known brand that is top of mind for consumers and often a low-price proposition – but not so low that you run the risk of price deflation and/or margin compression. Did I mention retail is tough?

You also want growth. That sounds obvious, but retail is almost the very definition of "operating leverage": a small amount of sales growth can turbocharge profits, while slight declines can risk profit collapse ... or even bankruptcy.



Best in Breed's tips

SECTOR	STOCK	ASX CODE
Discretionary retail	Kogan	KGN

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).

Telstra's hidden riches

There's value in this battered old household name, but it has yet to be unlocked

STORY GAURAV SODHI

Here is what a rotting decline looks like: a decade back, Telstra generated revenues of just under $25 billion and operating profit of just over $10 billion. Nowadays revenues are about the same but operating profit has fallen 40% to $6 billion.

Telstra is a business in decay that continues to pay dividends it can't afford.

Over the past 10 years, when smartphones have displaced computers and data consumption has grown exponentially, the country's largest telecommunications business has gone backwards.

There is no mystery as to why. When a one-time monopolist enters a competitive world, margins and market share tend to fall. Telstra's business has also changed with the advent of fibre, the decline of copper and the introduction of 5G.

If pressed, most would agree that Telstra's best business is mobile. It boasts more than 18 million mobile customers – more than Optus and Vodafone combined – and it generates the best average revenue per user (ARPU) and the highest margins in the industry.

Yet despite the advantages of scale and network quality, mobile returns have withered. Operating margins have fallen from 45% to 35% and earnings are lower now than they were five years ago. All this from Telstra's crown jewel.

The rest of the business has fared worse. The broadband business has had its wholesale monopoly torn apart and replaced by NBN. Margins and profitability have been shredded to reflect the business's transition to a mere reseller. Telstra still accounts for one in two of every retail broadband connections but profitability has suffered and won't be restored.

Worse, efforts at filling the earnings hole have been mixed and desperate.

Beginnings of a turnaround

Telstra has bought a bewildering array of businesses, from cybersecurity firms and IT consultancies to Chinese internet portals and an American streaming service. Attempts at finding a new crown jewel have failed. Until now.

A savage restructure involved the usual cost cuts, job losses and corporate-speak, but also resulted in Telstra splitting its infrastructure assets into a separate business. Dubbed InfraCo, these assets remain within Telstra but won't stay there. Telstra has outlined plans to split into three distinct units with the aim of unlocking the value in its infrastructure.

The plan is more ambitious and far-reaching than we'd imagined and now we can see what was previously hidden: Telstra owns a ripper infrastructure business.

Originally consisting of Telstra's exchanges, ducts, data centres and sub-sea cables worth over $11 billion in asset value, the fibre backhaul that supports the mobile business and the network of 8000 towers and masts that host Telstra's networking gear will also be part of InfraCo.

Telstra's tower assets alone could be worth billions if they were free to pursue new revenue. That now appears more likely. Towers, backhaul and other parts of InfraCo currently generate revenue from servicing Telstra alone. If liberated, they could service new customers and, because they are largely fixed costs, extra revenue could translate to profits at an exceptional margin.

It's clear from Telstra's financials and from the profit of international network operators that mobile and broadband are no longer the lucrative businesses they used to be. Infrastructure, however, is coveted due to its stable cash flows and high yields that tower above pygmy interest rates. Telstra is doing the right thing splitting its infrastructure from its services businesses.

The split, which includes two separate infrastructure businesses, should create substantial value because the infrastructure segments should attract higher valuation multiples than mobile, broadband and services.

Telstra has outlined three segments: InfraCo Fixed, InfraCo Towers and ServeCo. Let's examine each in turn.

to host other networks or offered future locations, the value could be even higher.

ServeCo

The conventional Telstra services business will be housed in ServeCo. Freed of its dividend obligations, which should naturally move into InfraCo segments, it should grow quickly. Telstra won't just unlock hidden value from its assets, it may also become a more competitive business.

The plan outlined by management is more radical than even we expected. The mechanics and math of the split should create value, but they also send a signal to the market that has so far been ignored.

Welcome back, Telstra

Since the NBN was conceived, Telstra's broadband business and wholesale monopoly have been doomed. Telstra has long known that profits would fall and for a decade has been obsessed with plugging the gap in earnings the NBN has created.

More than $3 billion a year has been snatched from operating profits and Telstra has been flailing wildly trying to replace that figure. Paying stupidly high dividends hasn't been so much a reward for shareholders than an apology: compensation for lost value.

That mad scramble is now at an end. In splitting, Telstra has effectively accepted that its business has changed and that it must now adapt.

The new proposed structure should unlock the hidden value of Telstra's enormous asset base and increase the competitiveness of its core business. Hopefully, better use of the company's cash flows and a sensible dividend policy will follow.

That market hasn't yet accepted or priced Telstra's response accordingly. We think the business in its new, three-pillar form could ultimately be worth at least $4-$5 a share. We're raising our buy price from $3.20 to $3.50 and our sell price from $4.50 to $5, although the numbers may change as we learn more about the future of its towers. This is a rare opportunity to buy a household name at a misjudged price.

InfraCo Fixed

This will own and operate exchanges, ducts, fibre, subsea cables and data centres. These generate stable, high-margin cash flows and carry long-term leases to NBN and Telstra itself.

The largest portion of earnings will come from exchanges and ducts, which carry a net asset value of $7.2 billion. Fibre assets, which include linkages to data centres and mobile backhaul, carry net asset value of $2.6 billion. Subsea cables are worth $1.2 billion on the balance sheet.

We believe each of these assets is worth at least 20%-50% more than their accounting values imply.

InfraCo Towers

The towers business carries a modest value of $300 million on the balance sheet but is arguably the most attractive part of the business. This value has been heavily depreciated. Moreover, once towers are in place and connected to fibre backhaul, they are expensive to replicate.

Towers have been enormously successful overseas and create an infrastructure monopoly blessed with high recurring margins and limited competition.

American Tower, Crown Castle and SBA collectively own most of the mobile towers in the US and charge operators for using that infrastructure. Verizon and AT&T, for example, pay to use tower sites in targeted locations. Those sites include land and infrastructure on which operators place their own sourced networking gear.

This is an efficient way to deliver mobile services, allowing the best tower locations to be shared by many carriers and generating stellar returns for the owners. Mobile networks are a natural monopoly, so it makes little sense to duplicate a network once it has been constructed.

Telstra uses about 8000 mobile towers and proposes another 6000. Some of these assets are owned by third parties and leased, but many are company-owned. Telstra owns the land, the tower and the fibre and has established its own network gear to operate on-site.

Depending on how Telstra's tower contracts are structured, the business could be worth at least 10 times its current accounting value. If the towers are allowed

Towering returns

	Sites	Market cap	Revenue	EBITDA	EBITDA margin
American Tower	$US170,000bn	$US91bn	$US7.5bn	$US4.6bn	61%
Crown Castle	$US40,000bn	$US52bn	$US5.7bn	$US3.1bn	54%
SBA	$US39,000bn	$US26bn	$US1.3bn	$US1.3bn	68%
Telstra	$A14,000bn*	$A45bn	$A6bn	$A6bn	24%

Source: Intelligent Investor. *Actual and proposed sites. (At the time of writing $US1 = $A1.32

Gaurav Sodhi is the deputy head of research at Intelligent Investor (AFSL 282288), owned by InvestSMART Group.

Disclaimer: The writer and other InvestSMART staff own Telstra shares.

YOUR GUIDE TO MANAGED FUNDS DATA

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 Multi Sector funds by size

Name	APIR code	Mngmnt fee %pa	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Vanguard Balanced Index Fund	VAN0108AU	0.29%	20/11/2002	$5,502m	1.3%	21	6.0%	14
Vanguard Growth Index Fund	VAN0110AU	0.29%	20/11/2002	$5,480m	0.1%	31	6.6%	8
QIC Long Term Diversified Fund	QIC0002AU	0.60%	6/03/2002	$5,013m	-2.8%	76	5.0%	35
Vanguard High Growth Index Fund	VAN0111AU	0.29%	20/11/2002	$3,157m	-1.1%	52	7.1%	5
Vanguard Conservative Index Fund	VAN0109AU	0.29%	20/11/2002	$2,641m	2.1%	11	5.1%	29
AVERAGE*		0.72%		$512m	-1.7%	112	4.5%	98

Top 5 Australian Equities funds by size

Name	APIR code	Mngmnt fee %pa	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Vanguard Australian Shares Index Fund	VAN0002AU	0.16%	30/06/1997	$12,829m	-7.7%	67	6.9%	47
Fidelity Australian Equities Fund	FID0008AU	0.85%	30/06/2003	$4,919m	-5.4%	52	7.5%	39
Bennelong ex-20 Australian Equities Fund	BFL0004AU	0.95%	2/11/2009	$2,779m	19.6%	2	13.7%	7
Dimensional Australian Core Equity	DFA0003AU	0.28%	3/07/2006	$2,682m	-8.5%	75	7.5%	38
Investors Mutual Australian Share Fund	IML0002AU	0.99%	30/06/1998	$1,845m	-13.9%	99	3.9%	86
AVERAGE*		0.81%		$531m	-5.6%	116	7.2%	100

Top 5 International Equities funds by size

Name	APIR code	Mngmnt fee %pa	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Vanguard International Shares Index Fund	VAN0003AU	0.18%	30/06/1997	$15,681m	3.0%	59	8.8%	39
Magellan Global Fund	MGE0001AU	1.35%	1/07/2007	$12,055m	8.4%	36	10.9%	21
Platinum International Fund	PLA0002AU	1.35%	30/04/1995	$7,636m	-5.3%	105	4.6%	85
T. Rowe Price Global Equity Fund	ETL0071AU	0.94%	15/09/2006	$4,347m	28.8%	10	16.6%	3
Walter Scott Global Equity Fund	MAQ0410AU	1.28%	28/02/2005	$3,890m	5.7%	43	11.6%	14
AVERAGE*		0.94%		$673m	3.2%	143	8.0%	101

Top 5 Multi Sector funds by 5-year return %pa

Name	APIR code	Mngmnt fee %pa	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Fiducian Ultra Growth Fund	FPS0014AU	1.45%	1/09/2008	$206m	2.6%	8	7.7%	1
Macquarie Balanced Growth Fund	MAQ0048AU	0.70%	31/01/1994	$731m	5.4%	5	7.6%	2
IOOF MultiMix Growth Trust	IOF0097AU	0.96%	28/04/2008	$616m	0.7%	27	7.5%	3
Fiducian Growth Fund	FPS0004AU	0.99%	1/02/1997	$153m	0.7%	26	7.4%	4
Vanguard High Growth Index Fund	VAN0111AU	0.29%	20/11/2002	$3,157m	-1.1%	52	7.1%	5
AVERAGE*		0.72%		$512m	-1.7%	112	4.5%	98

Source: Rainmaker Information. Data sourced as at October 31, 2020. *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.

DATABANK

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

Top 5 Australian Equities funds by 5-year return %pa

Name	APIR code	Mngmnt fee %pa	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Bennelong Concentrated Aust Equities	BFL0002AU	0.85%	30/01/2009	$1,123m	14.5%	5	15.8%	1
Selector Australian Equities Fund	DDH0002AU	1.41%	7/12/2004	$71m	-0.7%	24	15.3%	2
Fidelity Future Leaders Fund	FID0026AU	1.20%	22/07/2013	$891m	7.7%	7	15.0%	3
Hyperion Australian Growth Companies Fund	BNT0003AU	0.95%	31/01/1994	$1,674m	27.4%	1	14.8%	4
Bennelong Australian Equities Fund	BFL0001AU	0.95%	30/01/2009	$685m	17.7%	4	14.5%	5
AVERAGE*		0.81%		$531m	-5.6%	116	7.2%	100

Top 5 International Equities funds by 5-year return %pa

Name	APIR code	Mngmnt fee %pa	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year Rank
Hyperion Global Growth Companies Fund	WHT8435AU	0.70%	1/06/2014	$709m	46.2%	2	21.2%	1
Fiducian Technology Fund	FPS0010AU	1.36%	1/05/2000	$160m	34.8%	5	18.7%	2
T. Rowe Price Global Equity Fund	ETL0071AU	0.94%	15/09/2006	$4,347m	28.8%	10	16.6%	3
Franklin Global Growth Fund	FRT0009AU	0.90%	1/10/2008	$383m	32.5%	8	16.2%	4
Zurich Concentrated Global Growth	ZUR0617AU	1.11%	19/10/2015	$45m	19.2%	17	15.5%	5
AVERAGE*		0.94%		$673m	3.2%	143	8.0%	101

Top 5 funds by 1-year performance

Name	APIR code	Mngmnt fee %pa	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Hyperion Global Growth Companies Fund	WHT8435AU	0.70%	1/06/2014	$709m	46.2%	1	21.2%	1
Loftus Peak Global Disruption Fund	MMC0110AU	1.20%	15/11/2016	$130m	43.1%	2		
Lakehouse Global Growth Fund	OMF1140AU	1.30%	1/12/2017	$232m	39.4%	3		
Fiducian Technology Fund	FPS0010AU	1.36%	1/05/2000	$160m	34.8%	4	18.7%	2
CC Marsico Global Fund - Institutional	CHN0001AU	1.03%	10/12/2015	$37m	34.4%	5		
AVERAGE*		0.82%		$620m	-0.9%	326	6.8%	274

Bottom 5 funds by 1-year performance

Name	APIR code	Mngmnt fee %pa	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
RARE Emerging Markets Fund	TGP0015AU	1.23%	15/08/2008	$112m	-24.6%	373	-1.7%	301
Schroder Global Recovery Fund	SCH0095AU	0.98%	18/08/2017	$1m	-23.7%	372		
Lazard Select Australian Equity Fund	LAZ0005AU	0.92%	7/06/2002	$140m	-23.0%	371	3.2%	273
Allan Gray Australia Equity Fund	ETL0060AU	0.75%	4/05/2006	$1,402m	-21.0%	370	7.8%	86
Nikko AM Australian Share Fund	TYN0028AU	0.80%	28/02/1995	$633m	-20.0%	369	3.1%	275
AVERAGE*		0.84%		$578m	-1.1%	373	6.6%	301

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 on this page contains data and information to help you compare superannuation funds. It showcases MySuper investment options offered by some of Australia's biggest super funds.

MySuper options are default superannuation products that employees choose or are allocated by their employers.

The performance results displayed are the annualised investment returns each MySuper option has delivered after taking account of all taxes and fees. Past performance is no indicator of future performance.

The table also lists each fund's SelectingSuper Fund Quality Rating. Funds that achieve these quality standards are designated AAA. Research was prepared by Rainmaker Information, which publishes *Money* magazine. For more info, see **www.selectingsuper.com.au**.

Best Super Funds: Top 20 MySuper – October 31, 2020

RANKED BY 3-YEAR RETURN

FUND & INVESTMENT OPTION NAME	Fund type	Strategy	1-year return	1-year rank	3-year return (%pa)	3-year rank	5-year return (%pa)	5-year rank	Quality rating
Australian Ethical Super Employer – Balanced (accumulation)	Retail	S	2.4%	2	6.7%	1	6.5%	10	AAA
AustralianSuper – Balanced	Industry	S	0.9%	8	6.0%	2	7.3%	1	AAA
TASPLAN – OnTrack Build	Industry	LC	-1.3%	28	5.8%	3			AAA
Cbus Industry Super – Growth (Cbus MySuper)	Industry	S	1.2%	7	5.6%	4	7.2%	3	AAA
Aware Super Employer – Growth	Industry	LC	1.4%	4	5.6%	5	6.8%	4	AAA
Virgin Money SED – LifeStage Tracker 1979-1983	Retail	LC	-1.8%	36	5.6%	6			AAA
Vision Super Saver – Balanced Growth	Industry	S	1.7%	3	5.5%	7	6.6%	7	AAA
Media Super – Balanced	Industry	S	-0.6%	17	5.3%	8	6.6%	9	AAA
VicSuper FutureSaver – Growth (MySuper)	Industry	S	1.3%	5	5.3%	9	6.3%	16	AAA
QSuper Accumulation – Lifetime Aspire 1	Government	LC	-1.9%	37	5.3%	10	6.6%	8	AAA
HESTA – Balanced Growth	Industry	S	-0.2%	15	5.2%	11	6.4%	13	AAA
BUSS(Q) MySuper – Balanced Growth	Industry	S	2.7%	1	5.2%	12	6.4%	14	AAA
IOOF ESE – IOOF Balanced Investor Trust	Retail	S	-0.8%	20	5.2%	13	6.0%	25	AAA
NGS Super – Diversified (MySuper)	Industry	S	-0.1%	14	5.1%	14	6.2%	17	AAA
WA Super – My WA Super	Industry	S	1.3%	6	5.1%	15	5.2%	35	AAA
HOSTPLUS – Balanced	Industry	S	-1.2%	25	5.1%	16	7.2%	2	AAA
CareSuper – Balanced	Industry	S	0.6%	12	4.9%	17	6.5%	11	AAA
Equip MyFuture – Equip MySuper	Industry	S	0.7%	10	4.9%	18	6.1%	21	AAA
LGS Accumulation Scheme – High Growth	Industry	LC	-1.4%	30	4.9%	19	6.7%	5	AAA
Sunsuper Super Savings – Lifecycle Balanced Pool	Industry	LC	-1.6%	32	4.8%	20	6.6%	6	AAA
SelectingSuper MySuper/Default Option Index			-1.1%		4.5%		5.8%		

Rankings are made on returns to multiple decimal points.

SelectingSuper Benchmark Indices – Workplace Super

INDEX NAME	Performance to October 31, 2020		
	1-year	3-years pa	5-years pa
SelectingSuper MySuper/Default Option	-1%	4%	6%
SelectingSuper Growth	-3%	4%	6%
SelectingSuper Balanced	-1%	4%	5%
SelectingSuper Capital Stable	0%	3%	4%
SelectingSuper Australian Equities	-7%	4%	6%
SelectingSuper International Equities	2%	6%	7%

Source: www.selectingsuper.com.au and Rainmaker Information

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.

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

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SYDNEY NSW
Australia 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.

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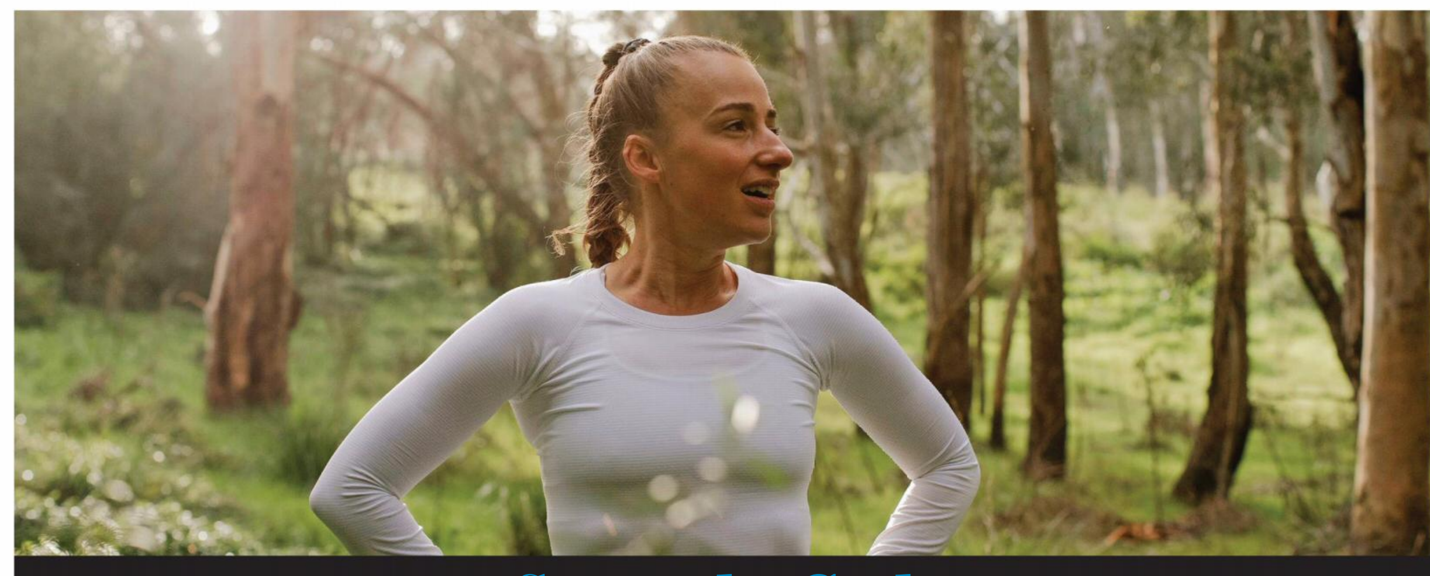
"I felt like a square peg in a round hole (but) walking away from security and stability was difficult"

What was your first job?
I worked in the kitchen at McDonald's. When I got the job, I presumed I'd be a "cashier chick" as there were no other women in the kitchen. Although surprised, I took it as a compliment and I was able to learn a new skill and pave a unique path.

What's the best money advice you've received?
My parents strongly advocated that my sister and I spend within our means and not go into debt. They also encouraged us to work from the legal age of 14 years and nine months. We ended up using the money we earnt from our jobs in high school and university to pay for our university fees, taking advantage of the 10% upfront discount. Still to this day it impacts my mindset when it comes to spending and going into the red.

What's the best investment decision you've made?
It was to leave full-time employment and start working for myself. Initially, I didn't know where it would lead me, but I ended up being able to use running and adventure as a vehicle for social change through storytelling – a career path that didn't really exist until I created it.

What's the worst investment decision you've made?
Recently I made an impulsive decision to invest in some shares based on a friend's recommendation. I am usually conservative with my investments and do plenty of research beforehand, but this time I made a quick decision with little information. It may turn out to be a good decision, but that isn't my usual approach.



Samantha Gash
Samantha is a Melbourne-based endurance athlete, social impact entrepreneur, corporate speaker and host of the Sam Gash Podcast. She has run ultra-marathons and completed expeditions across some of the most extreme and harsh locations on the planet, from the deserts in Chile, China, Egypt and Antarctica to the mountains of Nepal, India and New Zealand. She has raised over $1.3 million for charities, supporting access to education for underprivileged children and for bushfire relief. She is an ambassador for World Vision and the Royal Flying Doctor Service and was a competitor on the TV show *Survivor* (2017), where she met her husband.

What is your favourite thing to splurge on?
My husband and I like to live simply at home. We rarely go out to dinner and our interests revolve around the outdoors. Yet we do take regular holidays in rural settings. At the time of writing we are on the south-west coast of Western Australia at a farm stay.

If you had $10,000 where would you invest it?
I would put half on my mortgage and half into a project I'm working on. I'm a big believer in financially backing your own projects and ideas. Not only does it embed your personal commitment, but why should anyone else back your ideas if you are not willing to put skin in the game.

What would you do if you had only $50 left in the bank?
I would put in a Facebook ad, "Who is looking for a run coach?", turn off my Netflix direct debit, and stop buying takeaway coffees.

Do you intend to leave an inheritance?
Yes, I will leave an inheritance but I will balance that with also ensuring I fully live my life.

What's been your best money-making career move?
Realising the value in sharing my story, and not merely the highlights – rather the struggles, the chosen sacrifices and the steps in between.

What lessons have you learnt from being an endurance athlete?
Perseverance and knowing things are not always going to turn out the way you plan.

How did going from a law career to running across continents change your views on money?
Initially I used running as a means to push my boundaries outside the legal profession, but it quickly taught me that I value experiences over material objects. Through running I have travelled all over the world, well off the beaten track. It has given me a global perspective, which has taught me to be grateful for the fundamentals, such as having shelter, food and the opportunity to be educated.

Finish this sentence: money makes ...
... opportunities and increases options.

Australia's Best of the Best - 12 years in a row^

Award-winning investment solutions:

CLASSIC NOTICE ACCOUNT	90 DAY NOTICE ACCOUNT	12 MONTH TERM ACCOUNT	HIGH YIELD CREDIT ACCOUNT	SELECT INVESTMENT ACCOUNT
0.85% p.a.*#	2.25% p.a.*#	4.35% p.a.*	5.50% p.a.*	from 5.50% p.a.
After fees. Current **variable** rate reviewed monthly	After fees. Current **variable** rate reviewed monthly	After fees. Current **variable** rate reviewed monthly	After fees. Current **variable** rate reviewed monthly	Peer-to-Peer

13 80 10 | latrobefinancial.com

La Trobe financial

***The rates of return on your investment are current at 1 January 2021. The rates of return are reviewed and determined monthly and may increase or decrease each month. The rate of return applicable for any given month is paid at the start of the following month. The rates of return are not guaranteed and are determined by the future revenue of the Credit Fund and may be lower than expected.**

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#We will make **every endeavour** to release your funds 2 business days for the Classic Notice Account, and 90 days for the 90 Day Notice Account, after receiving your redemption request. We however have 12 months under the Fund's Constitution to honour that request. In determining whether to honour your redemption request within 2 business days for the Classic Notice Account or 90 days for the 90 Day Notice Account, we have to have regard to the Fund's cash position and the best interests of all investors. **There is a risk that a redemption request will not be honoured within 2 business days or 90 days.** However, there has never been a case in the history of the Fund when we have not honoured a redemption request on time due to a lack of liquidity.

^La Trobe Financial's 12 Month Term Account was judged the Best Credit Fund – Mortgages for 2021 by *Money* magazine.