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P46

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THE UPSIDE OF DOWNSIZING

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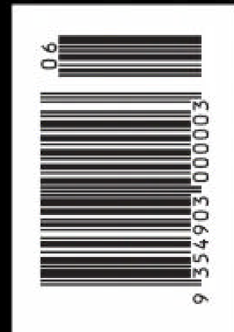
SIX STOCKS SET FOR GROWTH

ANNETTE SAMPSON
WHAT LOW INFLATION MEANS FOR YOU



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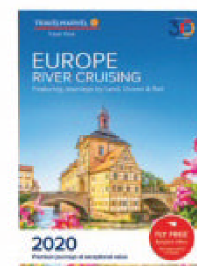

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Big decisions made easier

We are rockin' and rollin'! This edition is jam-packed with handy finance know-how you can use to swing the odds in your favour. From investing in shares versus starting a side business to tax strategies for all seasons, this issue will give you the tools to make informed financial decisions.

We make choices relentlessly. The average adult makes about 35,000 conscious decisions in a day. After the decision to dismiss or snooze your alarm clock, to have bacon and eggs or avo on toast, to wear the green tie or the blue tie, it's not surprising if you're mentally exhausted at lunch time. No wonder many of us stall on big financial decisions. Simple, everyday choices stretch us to the limit.

We take away that tightrope feeling with this edition. We are immensely proud of our featured finance experts, who have taken the trouble to cut through the investment labyrinth brought to you by low inflation and ultra-low interest rates. John Addis looks at the case for buying, holding or selling bank stocks. Marcus Padley writes a column about the conventional (and, in this case, misguided) reasons for long-term investing.

In a world where most people skim-read or prefer the three-minute audio download of an entire book, we urge you to take this magazine to your favourite nook, with a cup of coffee or tea in hand, and clear your headspace from the thousands of decisions you have made – or are about to make – today. They can wait. On the other hand, invest-

Contact us

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Feedback

Letter of the month

It's important to track your super's progress

I just want to tell you that the article "These are the numbers that can predict your future" (April issue, pages 74-75) is one of the best articles I have read.

Marcus Padley explains how to do some simple calculations to track one's super balance progress year by year. I have been doing this myself and Marcus' article has confirmed that my simple spreadsheet calculations are all I need to keep track of how my super is progressing and how long it will last.

Thank you, Marcus, for your article.

Martha

First home buyers can see some light at last

Thank you so much for producing a fantastic magazine. I've been reading it for about four years now and as a 26-year-old I'm finally ready to think about entering the property market.

My family ran a construction company when I was younger so we've always keenly discussed the property market since I could understand the basics. I've long been worried about my ability to enter the property market with continuing price increases. Something had to give eventually and now it finally has – prices are dropping.

Reading the short article "Sellers forced to cut prices" (April issue, page 17) made my eyes roll back into my head and continue the full 360 degrees. Unfortunately for sellers and realtors now, gone are the days when you deliberately advertised property for less than the expected sale price.

After 25-odd years of inflation, a recession is much needed to correct the market, which has gone a bit insane. Thankfully, I'm in a position to make the most of it and so will many other young people who will begin to see the light at the end of this long, bleak tunnel.

The above is a generalisation, but it does work in the favour of some. It would be great to see a bit more balanced reporting in your magazine to recognise those of us entering the market, not just those who had the advantage of much better wage-to-property-price ratios.

Nina

Depreciation claims for rental property

In the article "Negative implications" by Pam Walkley (May issue, page 62) there is an inaccuracy.

The statement that you can only claim depreciation on plant and equipment in brand new buildings is not a technically correct statement of the law.

ment decisions are high stakes and need your undivided attention.

Speaking of high-stakes choices, the nation has spoken. As we go to press, banks and listed private insurers enjoyed a $30 billion boost to their shares on the Coalition win.

No more water cooler talk on negative gearing and franking credits. For now.

PS. A big thank you to those who sent us well wishes and great feedback on our May issue. Let us know what you'd like to see in our upcoming issues and I promise to respond.

Michelle Baltazar, Editor in Chief, *Money* magazine

Michelle

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Depreciation can be claimed for any new asset in any residential rental property whether the property is new or second-hand.

The restriction is that existing assets in any residential rental property purchased after 7.30pm on budget day 2017 cannot, generally, be depreciated unless the vendor can declare that the property has not been lived in.

Depreciation can be claimed for any asset in any other rental property, whether the property is new or second-hand.

Given that there are now very different rules for residential and other rental properties, all the articles should make it abundantly clear what type of real estate is being discussed.

Tony

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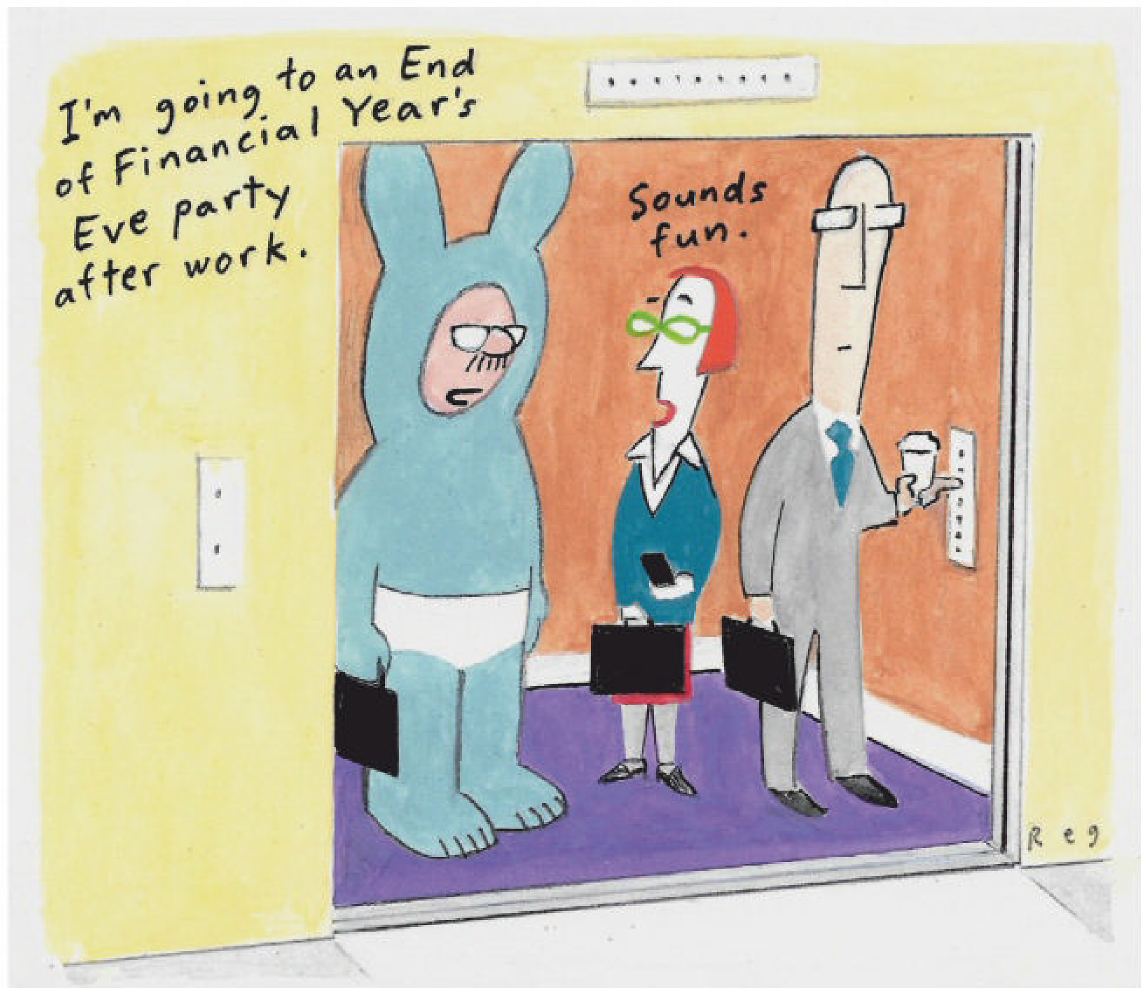

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What is your new financial year resolution?

PETER BEMBRICK
Peter is a tax partner at HLB Mann Judd. Peter says: “Set out your short-, medium- and long-term savings goals and stick to them. For example, send a pre-determined dollar amount into a savings account or investment portfolio each month and resist at all costs the temptation to ‘borrow’ from the funds, even temporarily.”

ADRIAN RAFTERY
Adrian is an author and associate professor at Deakin University. Adrian says: “Rather than setting new goals, it’s about ensuring a culture of keeping my short-, medium-and long-term financial objectives on track. July 1 is merely an opportunity for a quick assessment of my overall tax, retirement and estate planning.”

REBECCA PRITCHARD
Rebecca is a financial coach at Wealth Enhancers. Rebecca says: “To sustain a $25 per week cut in my personal spending so that I can have more ‘slush money’ available for self-care (hello regular microdermabrasions and fabulous skin!)”

PAM WALKLEY
Pam was founding editor of *Money* and is now a senior staff writer. Pam says: “I’m going to install a solar power system to slash my electricity bills. It’ll take me several years to recoup the cost but I’ll also be helping save the planet by using Armidale’s abundant sun to reduce my carbon footprint.”

TERRY RYDER
Terry is the founder of hotspotting.com.au and author of four real estate books. Terry says: “I’m focusing on eradicating annoying debts – unhelpful credit cards, lingering small business loans, etc – and eliminating non-essential spending. I plan to tighten up the bottom line and look as sexy as possible to lenders for my future investment plans.”

DARREN SNYDER
Darren is managing editor of *Money*. Darren says: “To work on a solution to pay off the mortgage faster and to reassess whether some savings would be better invested in the sharemarket.”

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We must all benefit from a society where the vast majority live a good life

Well, that was a surprise. I was all set to write about a rather changed world for investors with our new Labor federal government. But quite obviously, that didn't happen.

Clearly I need to ignore polls in the future, but let me start by stating the fiscally obvious. It is not easy for either Liberal or Labor to have a dramatic impact on our lives or our economy.

The reality is that despite our large Federal budget, which is in excess of $440 billion, a government can only make changes at the edges.

The vast majority of our tax is already committed. Health, education, aged pensions, unemployment benefits, defence, public utilities and infrastructure take up pretty much all the money. Politicians can bang on about a few percent more into key areas, but they can hardly say no to hospitals, schools or roads. So our politicians play on the fringes with the money we raise as taxes. They tilt a little here and there trying to appeal to voters, but the difference is small.

But in this election we were given, most unusually, quite an important say in the balance in our society.

Here I am talking about negative gearing, franking credits and a 30% tax on trust distributions. For Money readers, this topic will be about as popular as a distant relative who moves in and won't leave, but bear with me.

Like you, I have used negative gearing and I love the cash return of excess franking credits, in my case, in my super fund. Labor changes to these would have made me, and probably you, a little poorer.

But if we lift our heads out of our personal desire to get ahead and live a good life just for a moment, let me tell you what worries me most. Wealth creates wealth. That is ridiculously obvious and why I bang on about compound interest and saving so much. But if laws overly favour those with wealth, the wealthy get too wealthy. If everyone in our community gets richer, that is great, but it is not the truth.

I love this country. My family moved here from England when I was eight. Apart from the natural beauty of our country, generally nice people, security, good coffee and so on, we have also somehow managed to keep a reasonable balance between the rich and poor. Is this perfect? Of course not, perfection and humans will never happen. But it is pretty good and the evidence is clear. The average wealth of an Australian is important. It says a lot about how we are doing and how we live.

Here, on average, we are right at the top of the world as some of the richest people on the planet. But what I love is that we also have better wealth distribution. This is measured by the median person, not the average. If 5% of us are filthy rich and 95% dirt poor, our average wealth can be high. But if we look at how well off the median person is we get a real picture. The median person is the person right in the middle. So for us, with a population of 25 million that is about person number 12.5 million. Global research shows that median Australian is worth about $264,000. Let's compare that with the US. Their average wealth is not much lower than ours. But in the US that median person is about citizen number 170 million. That person is worth about $87,000. It means that 170 million Americans are worth less than that. In the US the rich are really rich, but far too many are poor and tens of millions survive pay to pay.

Will we have a better society, a better, safer, place to live if wealth is reasonably spread? That is a community decision, but my personal view is yes. But whether and you and I like it or not, we did have a choice a few weeks ago to support a small lowering of tax breaks to mainly higher income earners, with the prospects in return of a higher "living wage" and other broad-based wealth spreading ideas, such as more support for childcare.

The result is the result. But could I ask you to stay away from the shrill, vested-interest screaming in the media and in particular on social media and do some independent thinking. One political party's views on how to share wealth a little more evenly may be the wrong way to do it. My unpopular view is that a higher GST that taxes those, who like me, spend more, is a better option.

But surely, what independent thinkers must conclude is that while perfection cannot exist with humans, we must all benefit from a society where the vast majority live a good life. Small numbers of filthy rich and large numbers doing it tough is not my vision for Australia. We need to be careful that government policy does not overly penalise wealth creators and independent retirees, but equally we need to ensure that policy is not overly biased with too much being held by too few.

I'll be long gone, but if we see the median Aussie getting poorer as the average Aussie gets richer, meaning wealth is moving to a smaller part of the population, this cannot be a good thing.

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

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NEWS & VIEWS

THE BUZZ

Make protecting your super a priority

Inactive, low-balance accounts will soon be handled by the ATO

June 30 is an important date on the financial calendar and this year it's especially significant if you want to sort out your superannuation. On July 1 the federal government's Protecting Your Super package begins, meaning if you have an account (or multiple accounts) that's been inactive for 16 months and has a balance of less than $6000 its ownership will be transferred to the ATO.

However, time is on your side. While super funds are obliged to identify and report their inactive low-balance accounts to the ATO from July 1, the transfer can occur up to October 31.

What this means, though, is the longer you ignore your inactive account the greater chance it has of being moved to the ATO. After October 31, the tax office will then attempt to consolidate the unclaimed super money into your active account.

But you don't have to wait for the tax office to do something. You can now link your myGov account to the ATO, see all your super details and amalgamate your savings.

An alternative is to contact the fund you want to move your entire super to and ask it to consolidate your accounts. Generally super funds provide a service where they will do this on your behalf.

If you don't have an active account, the ATO will still manage your inactive super. It won't charge fees and the inactive account will earn interest based on the consumer price index. However, this is likely to be less than the average super fund returns, meaning you would be better off consolidating.

There's more to the Protecting Your Super package than account consolidation. Inactive, low-balance accounts will also have life insurance switched off, so it's important to check whether you have (or want) a life policy once you transfer funds into the active account.

Further to this, if you have an active balance and it's less than $6000, investment and administration fees will be capped at 3% each year. Exit fees have also been wiped.

Darren Snyder

ON MY MIND

Give young people a fair go

The royal commission into banking didn't set out to target the nation's youth, but the consequences flowing from it mean they're getting the short end of the stick. The most obvious example is how large institutions have tightened up on credit, with young people the most likely to suffer when they apply for a loan. They are far less likely to have the asset backing that institution's demand as security, whether it be for business, personal or home loans.

My greater concern is for business debt. We hear ad nauseam about how the labour market is changing, about how young people are shunning the traditional nine-to-five jobs to be self-employed, yet still find it difficult to get debt funding.

The federal government has recognised this with its $2 billion initiative to boost the funds available to smaller lenders via the new Australian Business Securitisation Fund. But this is no panacea.

What is needed is a changing mindset among lenders that takes a far more enterprising attitude towards debt for small businesses, especially start-ups by the young. I am not expecting this to happen with the established financial institutions, but hopefully the new fintechs will not see this form of credit as little better than a poisoned chalice.

George Lucas, chief executive, Raiz Invest

CALENDAR OF EVENTS

Friday, June 7
Balance of trade

Wednesday, June 12
NAB business confidence

Thursday, June 13
Westpac consumer confidence

Friday, June 14
Unemployment rate

Tuesday, July 2
RBA interest rate decision

NEWS BITES

Mortgage comparison website HashChing has brought back the no-deposit home loan for tertiary-educated individuals earning $150,000 a year ($180,000 combined income for couples) who can prove income stability in a professional field such as medical, legal, finance, IT and engineering.

HashChing chief operating officer Siobhan Hayden says there's a gap in the market and by enabling no-deposit home loans "we are letting eligible Australians start on this journey sooner, at a competitive rate".

Industry superannuation funds Equip and Catholic Super are entering a $26 billion joint venture as the industry moves towards more consolidation. A third of the joint venture's directors will be independent, a third from members and a third from employers. It will manage the savings of about 150,000 members.

TAL will provide life insurance to Rest superannuation members from December 1. Rest, an industry fund with more than 1.9 million members, appointed TAL after a review of its insurance, which has been provided by AIA Australia since 2004.

Lesson in active investing

A few years back, 15-year-old Natalie Clarke got up at the annual general meeting of Bank of America in the US. Her question was simple and pointed: "What is the bank doing to raise the share price?" Natalie had a vested interest – the 5000 shares she was given as a baby. At the next AGM she was more specific, wondering whether she should use her shares to pay for her college education and asking the chief executive what the bank was doing to improve its cost structure.

All investors would do well to take a leaf out of Natalie's book (or phone or iPad). Being an active investor means taking a keen interest in the company's business model. It is only in that way that investing becomes less of a roulette wheel and more of an intelligent allocation of capital.

Unfortunately, many investors have moved in the opposite direction – they have taken up index funds. With so much capital now tied up in backward-looking index funds and liquidity so relatively small because of it, it becomes even more important for human investors to take an active role. Just like a 15-year-old.

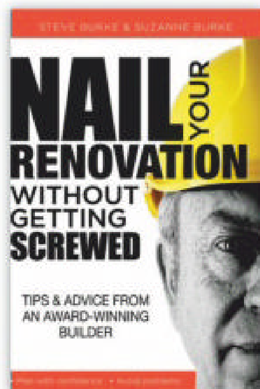
James Walker, head of marketing, PM Capital

67%

of Australians are currently working on a side project as they look to turn their passion into a reality, according to research from the AMP Foundation. Men are more likely than women to pursue their passion, with 73% of males versus 61% of females currently working on a side project. Arts and culture (21%) and sports and leisure (19%) were the most popular categories.

NEWS & VIEWS

BOOK OF THE MONTH



NAIL YOUR RENOVATION WITHOUT GETTING SCREWED
Steve Burke and Suzanne Burke
Woodslane Press, $34.99

The award-winning builder and renovation specialist Steve Burke draws on more than 20 years' experience to provide a practical guide on the dos and don'ts of home renovations.

Sharing insider tips, tricks and traps to watch out for, Burke provides invaluable advice on renovation topics such as environmentally sensitive options as well as checklists for kitchens, bathrooms and home extension projects.

Suzanne Burke joined forces with Steve as a business partner in 2010 and in the book they provide advice on how to avoid becoming a building horror story.

Ten readers can win a copy.
In 25 words or less, tell us your best renovation tip. Enter online at moneymag.com.au/win or send entries to Money, Level 7, 55 Clarence Street, Sydney, NSW, 2000. Entries open June 3, 2019 and close July 1, 2019.

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COST: FREE (IN-APP PURCHASES ARE AVAILABLE)
OS: IOS 9.0 OR LATER, ANDROID 4.1 AND UP

Each year close to 50,000 couples call it quits on their marriage, and 47% of these divorces involve children. Changes to family law encourage separated parents to share the care of their children across time and households, but co-parenting can be a juggling act, often leading to squabbles about who has paid for what.

Fortunately, there's an app for that. 2Houses allows separated parents to stay on top of the costs that go hand in hand with raising kids. Along with a calendar to navigate visiting days and overnight stays, 2Houses provides a financial management system that lets separated parents manage expenses relating to their children.

It won't necessarily make dealing with your ex any easier, but 2Houses can help to eliminate common sources of tension over issues such as who paid for school uniforms, ballet classes or medical expenses.

TAX TIP

Beware the EOFY sales trap

As I walked across to the coffee shop on a recent morning, I noticed that the gym next door had an end of financial year sale. That set me wondering: why on earth would a gym have an EOFY sale? The whole point of EOFY promotions surely is that they spruik items to taxpayers who might then be able to claim a deduction. But, as a tax adviser, I can report that it is almost impossible to claim a deduction for a gym membership.

So consumers need to be wary of EOFY deals. The golden rule is that you (or your business) can only claim a tax deduction if the expense relates to your job or business. So a retailer selling stationery, office equipment or technology items might have a reasonable call on your tax-deductible dollars; a retailer flogging swimming pools, home furniture or babywear probably does not. If you can't see the link to your work, don't fall for the EOFY patter.

Even if you're eligible for a tax deduction, don't buy something you don't need. You have to spend a dollar to get the tax element back so you still end up out of pocket. If your business really does need a new laptop, head out and buy it, bank the discount that the retailer is hopefully offering and claim the tax deduction. But if you're only buying the laptop to take advantage of the good deal and to lock in a tax break, walk away now because the end result may be an unused computer and a depleted bank balance.

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

SNAPSHOT Scams are big business

Source: ACCC, 2018 report

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GIFT GIVING

We're a sentimental mob

Australians individually spend more than $1000 on gifts and celebrations each year yet there's room to save when it comes to buying presents for our nearest and dearest.

A Suncorp survey of 1581 Australians showed 90% prefer to receive presents of sentimental worth, confirming you don't always need to spend big to show someone you care.

Suncorp behavioural economist Phil Slade says it's important to take the time to think about the person you're buying for.

"People value different qualities so investing thought into what the person you're buying for likes may not only reduce the cost but make it more meaningful," he says.

The research also shows Australians are divided when it comes to determining what an appropriate gift is. A third believe regifting is appropriate and 45% believe cash is a suitable gift.

"It's clear more people prefer the meaning behind a present over the monetary value. Gift giving, which reflects thought and consideration, can reinforce that primal sense of belonging that may not be as reflective through cash or a gift card," says Slade.

A third of survey participants always budget for celebration spending, another third sometimes do and the remaining third never do. Females are more likely to budget for celebration spending (33%) than males (27%).

Australians spend the most on Christmas ($470), followed by birthdays ($360), engagements and weddings ($204), anniversaries ($169), Valentine's Day ($100), Mother's Day and Father's Day ($99), baby showers and bridal showers ($80), and lastly Easter ($67).

40% of people agree that a card is a good gift.

56% would prefer something personal or sentimental over an expensive gift.

Approximately **90%** of Australians prefer a personal/meaningful gift or a useful/practical gift over an expensive gift or a prestigious brand. The preference is equally split between useful/practical and personal/meaningful.

33% of us believe regifting is appropriate. 36% believe regifting is never appropriate (40% males v 32% females).

Top money-saving tips

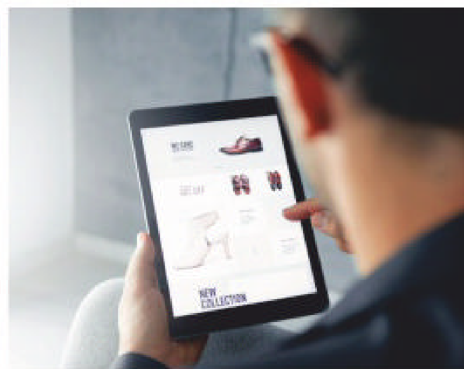
- Second-hand gifts are not always second-rate, especially for larger items such as a musical instrument.
- Consider organising a group gift where you can get away with spending less money.
- Use your downtime to actively think about presents you are going to give, as leaving it until the last minute means you are more likely to make irrational decisions and spend more out of guilt.

▶ MORE MONEY STORIES ON P44-59

Shoppers look online but buy offline

Online retailers have a lot of room for improvement when it comes to offering a seamless purchasing experience for consumers, the latest research from Boston Consulting Group shows.

The group's 2019 Digital Consumer Report, which surveyed 2500 Australians across the sectors of telecommunications and media, financial services and insurance, and retail and energy, found 20%-30% of consumers continue to research online but purchase offline.



Amitabh Mall, the group's Asia Pacific consumer practice lead, says there has been an uplift in the use of digital devices across "the purchasing journey" for all age groups.

"Currently, 65% of baby boomers and 58% of silver generations use digital devices to complete an online purchase journey. This has more than doubled since 2016," he says.

The group has seen a 13% rise in consumers manually changing their privacy settings, but at the same time if they share their data they want it to be used in a personalised way.

"One of the consumer's pain points is resubmitting the same information when they move from one channel to another. There is an opportunity for Australian businesses to ensure their consumers have a consistent experience across all channels," says Mall.

"To tap into this opportunity, they need to explicitly share why and how they're using their data."

COMPILED BY DARREN SNYDER

OBSESSIONS

House hunters get a good workout

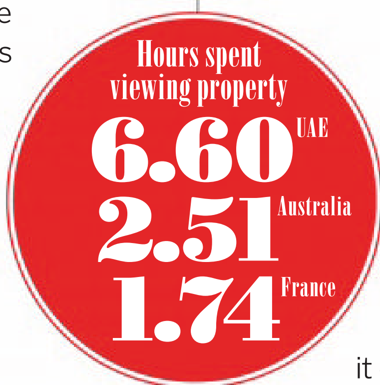
Australians spend an average of 2.5 hours each week studying property markets, more than twice the time they spend at the gym, latest HSBC research reveals.

The global study of 12,000 people aged 21 and over found, on average, Australians spend 65 minutes at the gym and 53 minutes speaking to their parents each week. However, they spend 2.5 hours window shopping for homes, reading property magazines and trawling online listings – even when they aren't in the market for a new house.

The UAE and US are the most property obsessed countries in the world, spending an average of 6.6 and 4.95 hours respectively on property each week.

HSBC Australia head of mortgages Alice Del Vecchio says softening property prices and low interest rates were encouraging factors for many Australians looking to enter the property market.

"Buying a property is often the most significant purchase Aussies make, but it seems that some home buyers are taking their passion for the perfect home to the extreme," she says.



"An industry of property magazines, TV programmes and websites is making it harder than ever to have realistic expectations about what you can afford – with many Aussies putting off important life stages, like having children, in the quest to afford the perfect property.

"Buying a property should be a positive experience, and with some careful planning, it can be an exciting one too."

Property deal breakers

LOCATION	BIGGEST RESPONSE
UAE	Rumours of it being haunted 28%
US	Someone died there 29%
TAIWAN	Bad feng shui 50%
MEXICO	Someone died there 31%
SINGAPORE	Door number or street name is unlucky 16%
UK	Difficult neighbours 43%
AUSTRALIA	Difficult neighbours 46%
CANADA	Rumours of it being haunted 21%
FRANCE	Difficult neighbours 43%

Source: HSBC, December 2018

Hobart prices feel an autumn chill

CoreLogic figures show a 0.9% slide of dwelling prices in Hobart during April. Houses fell 1.2%, while unit growth was only 0.3%.

RiskWise Property Research chief executive Doron Peleg says in July last year the firm flagged Tasmania's booming housing market was heading for a slow deceleration and now this "slowdown has finally come to fruition".

The Real Estate Institute of Tasmania's March 2019 Quarterly Report showed sales numbers had decreased for the third consecutive quarter and median prices retracted for the first time in several years, with 8.6% fewer property transactions than in 2018, and an 18% in the number of properties advertised for sale.

Peleg says significant improvement to employment conditions, low supply of dwellings, low median prices, a tighter rental market and strong rental returns saw Hobart deliver solid capital growth over the past two years, particularly for houses with good access to the CBD. However, the state remained less affordable than five of the states and territories (in price-to-income ratio).

"Of course, less affordability means less demand, which affects price growth. Price growth is projected to significantly decelerate in 2019 and further into 2020, with some areas likely to deliver very low or negative capital growth," he says.

▶ MORE PROPERTY STORIES ON P60-64

COMPILED BY DARREN SNYDER

INVESTING

▶MORE INVESTING STORIES ON P66-77

RETURNS

Get real to build wealth

Michael O'Dea, head of multi-asset, Perpetual Investments

There are fund managers that believe achieving a higher return against a market benchmark is the ultimate measure of investment success. However, what is often overlooked is that even if the fund manager outperforms against a benchmark, investors may still experience deep losses.

In contrast, real-return or objective-based investing puts the investor's objective, rather than a market benchmark, at the heart of every decision. Every underlying position in the portfolio has a role to play in achieving the investor's goal to protect and grow their wealth.

Real-return funds often have greater flexibility than traditional model portfolios to dramatically shift the fund's investment exposures to capture the best opportunities – wherever they are found.

Meanwhile, the biggest risk of any investment is often the price you pay for the investment, known as valuation risk. This is often overlooked by investors using long-term return assumptions in the setting of strategic asset allocations. Unlike a set-and-forget portfolio, there are real-return funds that can completely exit an asset class if the level of risk does not align with the fund's objective.

Investing in one or more real-return funds allows investors to take carefully considered risks alongside other potentially higher-return and higher-risk investments. This "shock-absorbing" core is crucial to building your wealth consistently and protecting it against extreme market events. It is important to talk to your adviser about real-return funds and how to balance your exposure to suit your personal investment goals.

Super changes are still on the way

Labor's list of proposed economic reforms around negative gearing and capital gains tax, franking credits, superannuation and discretionary trusts have all been pushed aside following the Coalition's win in May's federal election.

However, this doesn't mean reforms are completely off the table in each of these areas.

For example, the Coalition has promised that from July 1, 2020 Australians aged 65 and 66 will be able to make voluntary contributions, both concessional and non-concessional, to their superannuation, without meeting the work test. Currently work test rules require individuals to work a minimum of 40 hours over a 30-day period.

As planned before the election, the Coalition also intends to extend the maximum size of self-managed super funds (SMSFs) from four to six members. SMSFs will also be able to continue to borrow on a non-recourse basis to help maximise returns.

On July 1, 2019 the pension loans scheme will be expanded, allowing more Australians to boost their income by drawing down on more of the equity in their home.

Elsewhere, the Coalition government will be able to push forward its plans from the 2019 budget, including to more than double the low and middle income tax offset from this financial year.

For Australians with a taxable income of $37,000 or less, the offset will now provide a reduction in tax of up to $255. For those earning between $37,000 and $48,000, the offset will increase at a rate of 7.5¢ per dollar to the maximum offset of $1080.

Taxable incomes between $48,000 and $90,000 will be eligible for the maximum offset of $1080. People earning between $90,000 and $126,000 will have their tax offset phase out at a rate of 3¢ per dollar.

The government also plans to lower the 32.5% tax rate to 30% from July 1, 2024, among several other economic policies.

COMPILED BY DARREN SNYDER

DOWNGRADE

NAB faces strong headwinds

NAB has updated how much it owes wronged clients for its financial planning and banking misconduct to a new figure of $1.18 billion. Of this amount, 91% goes to clients of financial advisers and 9% to bank customers.

Jonathan Mott and Minh Pham, banking analysts at UBS, believe NAB will probably need to pay a further $500 million for customer refunds to aligned financial advisers.

"NAB has the highest number of aligned advisers across all the major banks at 1000 planners, and we believe there are material risks for significant provisions as the review progresses. We have factored in an incremental $500 million in one-off remediation costs for the second half of 2019," says Mott.

This is putting pressure on the bank's capital.

As well, NAB potentially faces a $NZ5.9 billion ($5.6 billion) capital shortfall in New Zealand if the Reserve Bank of New Zealand's proposals are adopted. The RBNZ announcement is due in September.

NAB's dividend was cut by 16% from 99¢, which it has held every half since 2014. The new dividend is 83¢ per share and implies a payout ratio of 80% in estimates for the 2020 financial year.

"We believe NAB's decisions to strengthen its balance sheet were prudent given the highly uncertain environment," says Mott.

As a result UBS has downgraded NAB's financial year earnings per share by 10% to take into account these additional provisions.

"While we are encouraged by NAB's announcements, we await the appointment of its new CEO which is often associated with further restructuring and or rebasing."

"We do not believe it is cheap given its share price bounce on 1.4x book, 13 times price earnings ratio and a 6.5 % dividend yield," says Mott.

UBS's valuation price target is $23.

▶MORE SHARES STORIES ON P78-86

Australia's largest IVF provider, Virtus Health, has sold its niche artificial intelligence software for embryo selection, known as Ivy, to the Swedish company Vitrolife for $US6 million ($8.5 million).

As part of the deal, Virtus and Vitrolife – a maker of time-lapse incubation systems used in IVF – also signed a three-year collaboration agreement to ensure continued development of the technology, and Virtus will be entitled to a further $US2 million if certain developmental milestones are reached.

Ivy helps fertility specialists predict the most viable embryos before implantation, which reduces the time to pregnancy, though it's still at an early stage of development and we don't consider the sale to be material to Virtus's valuation.

BUY Virtus Health (VRT)

The Intelligent Investor Graham Witcomb

RECOMMENDATION

BUY	HOLD	SELL
below $4.00	up to $6.00	above $6.00

BUY at $3.36

Source: Intelligent Investor; price as at 11 April-19 close of business

Virtus's share price has fallen 5% since it released its interim result in February. It continues to face volatile IVF cycle growth but remains the market leader, with economies of scale and excellent free cash flow. Its budget clinics are now ticking along nicely after a few rocky years, while the a valuable network of day hospitals adds an interesting property element to the stock. Virtus sports a forward PE ratio of 12 based on consensus estimates for 2019 and a fully franked dividend yield of 6.1%. With the stock below our recommended buy price, we're upgrading to BUY.

Graham Witcomb is a senior analyst at InvestSMART who owns shares in Virtus Health.

COMPILED BY SUSAN HELY

STORY ALAN DEANS

Bound for success

Few can lay claim to seeing off global retail behemoth Amazon with barely a scar to show. Tony Nash, co-founder of online bookstore Booktopia, is someone who has. At first the challenge seemed daunting. Nash had been working on a $40 million sharemarket raising and float. A prospectus was ready to go and investor roadshows were scheduled when, late in 2016, a week before setting the share price, Amazon announced that it was opening an Australian website to sell a cornucopia of goods. The float was scrapped.

"The fund managers said, 'We aren't going to invest in you. You are going to be annihilated,' " recalls Nash. But nothing happened. "There was no challenge from Amazon. It was really helpful because people can now see that they are no threat at all. They are focusing on other product lines." To prove his point, Booktopia's annual sales have soared since then from $80 million to an estimated $130 million in the past financial year as Nash invested feverishly to expand into a new warehouse and stock more titles. He now has reset his sales goal to hit $500 million and is mulling over a launch into Asia.

"One door closed and another 10 opened," he explains. "When you are in business, things come out of left field that you don't expect. If you ride the emotional rollercoaster, you keep going up and down. I keep my temperament flat. If you do that, the longevity in business is protected. The thing about the book industry is that it's not for the faint-hearted. It's an industry where there's 27 million books or products. The size of the databases is massive. Holding the stock is huge. Publishers are non-digital. It really appeals to me."

Nash has scoped out the opportunity, and says he is excited about the prospect of tackling Amazon at its own game. "Amazon is the biggest book retailer in the world. They do about $US11 billion [$16 billion] in book sales, which is only about 5% of their revenue. Their total revenue last year went from $US178 billion to $US233 billion, and books stayed the same. They have no growth in books. They are the incumbent, yet they take out incumbents. There is a tremendous opportunity for anyone who is a book retailer, like us, in an Amazon-mature environment."

Booktopia is a family affair. It is owned 85% by Nash, his brother Simon, who is also a director and who works on purchasing and stock management, and his brother-in-law Steve Traurig, the chief commercial manager. The rest is owned by staff. The business kicked off on the same day that Facebook launched in 2004, which seems auspicious in hindsight. Nash was working with the family team running an internet marketing business when they spotted the opportunity.

"We started with a budget of $10 per day, and worked on it from 9pm to 2am every night," he recalls. "It took me three days to sell my first book, and by the end of the month I had taken about 60 orders worth a couple of thousand dollars. By the end of that first year I was doing 100,000 per month.

"A company was managing our site and doing our fulfilment. We got a commission cheque at the end of the month on what we sold. After three years, the balance of what we were making in commission, based on what we were paying Google, was $10,000 per month profit. We decided to build our own site and do our own fulfilment because we thought we could do it better. We had to write software, hire more people, hold more stock, invest in automation. We kept doing that over 15 years. We have paid ourselves salaries, but we have not taken any money off the table. It has all been reinvested."

Now that ownership model is undergoing change. Nash is pioneering a crowd-funded share offer to open the business to customers and small investors. At the same time, he is talking to high-net-worth investors to contribute larger sums of money to

Fact file

Tony Nash

CEO of online book retailer Booktopia; age 55; lives on Sydney's lower north shore.

Professes to not read too often but is fond of audio books; favourite book is To Kill A Mockingbird. *Became interested in investing after winning a share-tipping competition at school; first job was collecting trolleys from a supermarket car park. Became a professional public speaker to share his experiences in running a business.*

GEORGE FETTING

finance Booktopia's expansion plans. Equitise is being used as the crowdfunding platform to raise between $3 million and $10 million. The big end of town is being asked for $20 million to $30 million.

Nash says that Booktopia doesn't really need the capital. "If we can get to $130 million in sales, with nothing [to start with], we can get to $200 million or $300 million. But no one in my family married anyone in the financial markets. Therefore bringing a partner on board who is adept in that area is important. We can build a nine-digit business, but we don't have any capital markets experience, so we can get there faster by bringing in someone with some cash. The conversations you have with banks and investors change when you have that amount of cash in the business. If not, no problem. We will just keep doing it by ourselves. We will just keep getting bigger and bigger.

"The crowdfunding equity capital raising is new. I can see that it takes time and education for people, and we haven't yet hit the minimum of $3 million. But we probably will. We have some tactics over the next few months that should get us there. [Wholesale investors] all say that crowdfunding is brilliant, because it's good to have a spread of shareholders already who are passionate customers and who will be proud of owning shares."

Nash says that one disturbing element of crowdfunding is that retail investors are not allowed, legally, to receive as much information about the company as sophisticated investors. They can't see, for instance, financial projections for the business. "Why should a retail investor be disadvantaged and someone with more money can see more? I understand that is done because there are too many snake oil salesmen out there. But, on the other side, sophisticated investors see all those dodgy snake oil salesmen forecasts as well. That approach does not resonate with us."

The big opportunities that beckon for Booktopia are in Australia and Asia. About 40% of books sold in this country are written locally, so the company works hard to service this core market. It does that partly by ensuring they are in stock. Experience shows it can sell four times the number when the books are in the warehouse than when they aren't. Booktopia also works closely with publishers to generate demand. It has its own studio, tucked in one corner of its cavernous warehouse. There it interviews authors, hosts book signings and records videos, podcasts and other activities to support sales. It also sells books that don't yet exist. This is done by developing pre-order campaigns for those yet to be published and also for debut authors. The promos are featured on Booktopia's app, website and newsletter.

Work in progress ... Tony Nash sees big new opportunities in Asia.

GEORGE FETTING

"I had three debut authors last year who became bestsellers because of Booktopia," recalls Nash. "We did very big, long-planned pre-order campaigns. One was an award winner, Trent Dalton's *Boy Swallows Universe*, and on the day of its release, after our pre-orders had been accumulating, we shipped them straightaway. When Nielsen BookScan ran its bestseller list that week, that book was in the top 10. Our team had received advance reading copies, and they thought it was amazing. Customers who subscribe to our newsletters heard genuine and authentic reviews about this book. We were able to influence sales."

> **"I had three debut authors last year who became bestsellers because of Booktopia"**

In Asia, Nash foresees the need to support local authors and also to make best use from the rights it already holds. When it buys Australian rights for a book, most often the Asian ones are included simply because we are in the same region. He believes the best opportunities are in Singapore, Malaysia and Indonesia. There are large English-speaking markets in these countries (in Indonesia alone an estimated 26 million people) but it would be important to sell books written by local authors.

Nash says the biggest investments he has made are in Booktopia and himself. He backs his own abilities to create wealth. He has been mindful of building the business so it could pay a dividend and operate independently, based on advice he took from business educator Robert Kiyosaki. "He always said to us: 'If you are building a business, build it to sell it. If you choose to hold on, no problem. So long as it's paying a dividend and you don't have to be there."

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Tree change hits a snag

The falling property market has complicated a city dweller's plans to move to the country

GEORGE FETTING

NAME: Elena Antonis
STATUS: A retiree who wants a tree change.
QUESTIONS: Should my daughter and I accept a lower price for our Sydney apartment or should we wait until prices rise? What are the stamp duty and conveyancing costs if I buy a property for around $250,000-$300,000 in Tamworth? If I don't sell and rent out the apartment, will the rental income affect my age pension?
ANSWERS: Encourage your daughter to buy you out, get a proper valuation, relist your property and accept the price the market offers. Your proceeds from the sale are exempt from the age pension for 12 months. This allows you to rent in Tamworth to try out the town before purchasing. Don't borrow any further money. Look into the most suitable accommodation for retirees, including an apartment in a retirement community. One of the reasons for doing this is that there are several government subsidies for retiree accommodation.

Self-employed people such as Elena Antonis typically pour their resources into their business throughout their working life, leaving them with lower super balances than an employee would typically have.

The former cafe and deli owner, who often worked 16-hour days, seven days a week for many years, has around $15,000 in an ANZ OnePath superannuation fund. "I was self-employed. I was looking after everyone else and my life was all about sacrifice. You have to make decisions in life with what you have at hand for the best outcomes," she explains.

Her age pension isn't easy to live on in Sydney despite her frugality. She wants to move to Tamworth, in north-eastern NSW, where she has friends. Elena has visited Tamworth several times and sees it as a thriving place with lots going on.

She put her recently renovated apartment, which she co-owns with her eldest daughter Alexia, on the market and is storing her furniture in Tamworth. But in a falling property market the offers were below their expectations. After 10 months they have taken it off the market.

Elena still has a mortgage on the property so if she doesn't sell it, but rents it out and moves to Tamworth, she would be paying off the debt as well as rent. It will be hard to do this on the age pension. She estimates that the apartment will bring in $600-$650. Would this affect her pension?

She is tossing up whether to sell the apartment at a lower price and buy in Tamworth or rent out her apartment. What costs can she expect to pay from selling her apartment? She has already paid the agent fees.

While she has looked at some lovely homes in Tamworth for $400,000-$450,000, she feels she will only be able to afford $250,000 and may need to spend more to make the place comfortable for the cold winters and hot summers.

COMPILED BY SUSAN HELY

Avoid debt in retirement

TODD STANFORD

Todd is an accountant and financial planner with Stanford Brown. He has two decades of experience, specialising in SMSFs, tax and philanthropy.

Elena, your daughter is very fortunate to still be living with you. She will no doubt miss you around the home, especially as you would also be sharing the bills.

Moving out and selling the home will provide you more freedom and it is important you can continue to fund your new lifestyle. We assume you would like to own your new home; however, it might be worthwhile renting in Tamworth initially to try out the town before committing to purchasing a home (and incurring the associated costs such as stamp duty and legals).

When purchasing, price is critical as it is unlikely you could borrow further funds, especially with banks tightening their lending criteria. Rather it would be prudent to pay off your mortgage in full if possible with funds released from your share of the unit sale. This will reduce the stress of servicing debt in retirement, which is a drain on cash flow and not tax effective.

By reducing your mortgage, you receive a guaranteed tax-free rate of return equal to the loan interest rate (compared with an uncertain after-tax return from investing the funds elsewhere).

Another key consideration is the impact of the move on your age pension entitlements. If we assume that you are asset-test sensitive, you can continue to receive a full age pension if your assessable assets (excluding your home) are currently worth less than $258,500, or a part pension if you have up to $567,250 in assessable assets.

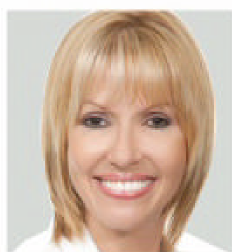
When selling your unit, the proceeds should be exempt for up to 12 months, provided you plan to use the money to buy another home. However, the proceeds will be deemed to earn interest under the income test in the interim. Hence the purchase in Tamworth would need to be settled within 12 months to not significantly impact your age pension.

Other planning considerations to address are: how is your apartment legally owned at present; do you have a record of the amount of your savings you contributed towards the renovations; and does it make sense for Alexia to buy you out at a market valuation?

Any gain realised on the sale of your share of the unit should be free from capital gains tax as it is your main residence. If you have surplus cash available after finding your new home, you could invest in your own name, or you may also be eligible to make a downsizer contribution to superannuation of up to $300,000. The expected tax payable on investment earnings is the deciding factor in this decision, along with what happens to your investments on your death.

Lastly, you should consider reviewing your estate planning objectives, particularly if you wish to recognise the financial support you have already provided to Alexia in your will.

We recommend seeking personal financial advice, tailored to you, from a trusted adviser before taking any actions to ensure you maximise your financial and lifestyle outcomes.



Urge daughter to buy unit

MARGARET LOMAS

Margaret is the founder of Destiny Financial Solutions as well as author of nine property investment books, including titles such as 20 Must Ask Questions for Every Property Investor *and host of the web TV show* Property Investing Matters.

Sadly for Elena, her issue highlights the very serious and oft-overlooked importance of thinking long term before you get into any kind of financial arrangement with a family member or a friend.

When the planning is being done to implement such an arrangement, everyone is agreeable and excited, and they all vow to make it work.

Unfortunately, the reality is hardly ever that simple, and it doesn't take long for the deal to get messy or for the parties to have different views on the future of the arrangement.

In Elena's case, the situation is complicated by the fact that she is retired with no borrowing capacity of her own. This means that she is prevented from buying out her daughter or from moving on and buying her own place.

The first thing Elena must do is make sure that the costs are shared equally. This can be tricky when you are talking about a relative, but as unpalatable as it may seem it must be done.

When this is resolved, there are only two options for Elena. The first one is for her to strongly encourage her daughter to buy her out. Depending on the value of the apartment, Alexia may well have the borrowing capacity to do this.

Elena is not specific about how much Alexia brought into the arrangement, but she should now establish a fair division of the property, and what its true value is today. This value can only be fairly ascertained by a qualified valuer.

Once these two facts are established, Elena can offer to sell her share (whether that be part or all, depending on whether Alexia owns any of it), at whatever that value is, to her daughter.

Her daughter would pay stamp duty on this transfer as if it were a normal sale, but with property quite soft right now the value is likely to be lower than they would want to achieve for a sale, and so the amount of stamp duty is equally likely to be limited.

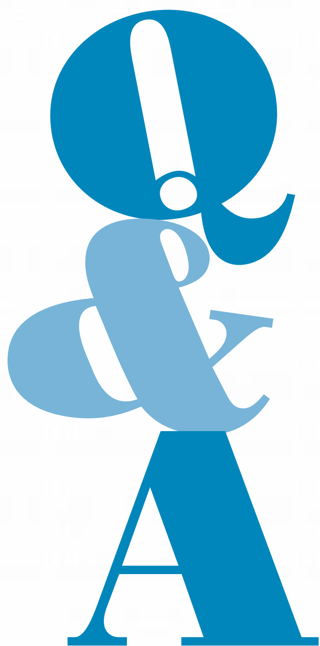
Once Elena has the sale finalised, she should then seek financial advice on how best to make her newly acquired nest egg last the distance, alongside what pension she receives.

The second option is for Elena to now get a proper valuation undertaken and then list the property at a realistic price. There is only one reason a well-presented property won't sell, and that is because the sellers want too much for it. Get a new agent and relist at a price that the market will meet, and the property will sell.

With either of these scenarios in play, Elena could then look into the options available for retirees in terms of accommodation, whether it's rentals for seniors or buying a small apartment of her own in a retirement community. There are several government subsidies available for various kinds of retiree accommodation.

As a general rule for anyone considering any kind of property purchase with relatives or friends, be sure to have a document drawn up at the commencement of the arrangement to outline every possible future contingency and how the parties intend to manage them.

This way you have a point of reference to deal with any issue, an agreement from all parties to stick to the strategy and a signed and witnessed document to prevent any party from reneging on the deal.



As she plans how to build her wealth, Joanna should …

Compare the returns from a side business vs sharemarket

Q I'm 28 and have recently purchased my first investment property interstate with a loan of $246,000. The property is rented out and the costs of this loan are mostly covered by rental income. My living costs, including rent, are low and I earn about $65,000pa plus super as an engineer. I have a small business on the side, which has generated about $20,000pa in profit for the past two years. I do not have any other debt.

I have decided to start contributing 5.5% of my pre-tax salary to super so the total is 15%. My aim now is to start investing further savings in the sharemarket and I am considering index funds, (exchange traded funds (ETFs), as an option, as I like the idea of low fees and diversification. I am thinking of selling my business to gain capital for investing.

I am hoping that you could provide some advice on how to best invest future savings and the money from a potential business sale (pay down the mortgage, ETFs, bonds, etc?).

This is interesting, Joanna. As an engineer you will have terrific numeracy skills and you are also trained in logic. Let's look at money through that lens.

Investment in shares, ETFs, super or property is passive investing, unless you are a property developer. This is just fine, but I want to contrast that with your own business, which has been generating around $20,000 a year. If you sell it, what capital would you get? The investments you describe are exactly what I hold. My expected returns are around 7%-8% a year.

The reason I have money to invest is that I started and, with my partners, built our business ipac into a substantial company. When we sold it, I started to invest passively. The returns from a business can be very high. But it may be that your business does not have the potential to expand or it is too labour intensive. There's a host of other possible reasons you are thinking of selling. You may wish to focus on your career, grow your salary and build wealth through investing. This is perfectly logical.

I'll leave the personal planning to you, but owning a business is one way to create wealth. In terms of investing, I would not pay down the loan on your investment property. Any losses are tax deductible and historically you would earn more investing in low-cost ETFs. Topping up your super makes sense, remembering you can't access it for over three decades.

The planning and thinking you are doing now will pay big dividends for the future and I wish you all the best with your career, with the business if you go that way and with your money. Money may not make you happy, but it gives you choices. When you get to my age (63) you will find that working hard at building up some money is really worthwhile. Choice about how we live is a wonderful thing.

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*.

With a big inheritance coming, Jessica's priority is to ...

Keep dad's money safe

Q Soon I will receive an inheritance of between $100,000 and $200,000 from my late father's estate. I would like to invest the money, although I'm uncertain what my best options would be. I'm 26 and I have no debt and no savings. All I have is $25,000 in superannuation.

My commiserations on losing your dad, Jessica. But he would be pleased you have emailed me. He will have worked hard for that money and would be delighted that you realise what a huge start to your young life it can be.

I have strong views about this money for someone of your age. I would put it into a super-secure term deposit with any of our banks for three or six months. Go with the best rate – this should be around 2.5%. Amounts up to $25,000 are guaranteed by the federal government, so the money could not be safer.

Then take your time. Don't hesitate to roll it over for another three or six months and do this for as long as you like. With money locked in a term deposit, it removes impulse spending or investing. I suspect you will have family and friends with well-meaning advice. Listen to it but don't act without time, thought and, if necessary, professional advice.

Personally, I think at some stage this money is destined to allow you to buy your own home. So until then, do your dad proud and don't allow it to be frittered away. Keep it safe and secure until, in your own time, which could be years, you have a sound plan for the money. I do hope that this might be, at the right time, a deposit towards your own home.

Val is shocked by the property valuation so it could be time to ...

Cut losses and try again

Q I am 32, married and want to start a family. When I was younger and still single I bought a studio student apartment, which I purchased off the plan in 2010 for $221,000.

I paid for it with some help from family and a mortgage, which at the moment is around $50,000.

It has been rented since 2012 with a major student accommodation provider and I earn $13,370pa and expenses are around $5800pa.

I recently spoke to a real estate agent from the same company that manages my property regarding selling it and I was shocked to hear that similar-sized apartments have been selling for around $130,000-$150,000 and that it takes time for them to sell.

I also mentioned this to my accountant, who suggested that I should keep it since it's always been rented and I don't pay anything out of my own pocket.

My question is, what should I do? Sell it and cut my losses, since I doubt it will ever go up to what I bought it for, or keep it for a few more years and just try to pay it off ASAP?

Crikey, Val, that either highlights the state of the current property market or that you bought the studio from attending a property seminar. These seminars have been flogging overpriced properties for decades and must be avoided.

Anyway, I am really disappointed for you. Nearly a decade ago you made the decision to plan for your future and bought the apartment with realistic expectations of it growing in value over the long period of time you have held it. But that is past history and we can only deal with the current set of facts.

Let's take the mid-point in the agent's valuation and assume $140,000. Your rent after expenses is around $7500. Earning 5% on $140,000 is not a great return. It also sounds as if your hopes for capital growth are low. This does not surprise me, given the performance of the property over nearly 10 years, and it is hard to think it will suddenly do well.

You will need to draw your own conclusions about population growth in the area where you bought and other desirable characteristics, such as new infrastructure and so on. But based on what you have told me, in your shoes I think I would cut my losses and put the money to better use elsewhere.

Celia's daughter faces a common problem as ...

Retirement savings are eaten up by fees

Q I am big fan of *Money* magazine's advice regarding superannuation and "what to invest in for only $100". I am a low-income worker and sole parent of two children with disabilities and your articles are extremely helpful.

One child is still in school. The other one is 20 years old (with a slight intellectual impairment). She has recently changed her super to Hostplus. She has no insurance plan with the new fund.

Previously her other small amount of super in another fund was eaten up by fees. Due to her learning disability she has only been able to find on-and-off casual cleaning jobs and may only earn about $200 a week if there is work. She finds herself unemployed again at the moment and gets a Centrelink payment.

My question is what would you recommend a very low-income-work or unemployed 20-year-old should put fortnightly into super to cover the fee and keep increasing the investment over a year? (I think the annual fee for Hostplus is about $78).

This is not an easy question to answer, Celia. Superannuation is a terrific wealth-creation vehicle for millions of Australians, but where it is not great is for young people or anyone on a low wage. Like your daughter, many thousands of young people have had a job where money goes into their fund only to be eaten up by fees and insurance charges.

Super really favours those earning over $18,200pa. That is where we first start to pay tax. The problem is that money that goes from our employer into super is taxed at 15%. So if we earn under $18,200, we would be better off not contributing to super. That is why our super system has rules, such as having to earn more than $450 a month before an employer makes contributions.

So if your daughter has casual work and is earning above this, super contributions will be made for her. It was a good move to ensure she has only one fund. You may find that Hostplus has a very-low-fee option for someone who gets super occasionally but not at other times. A good fund such as Hostplus has historically averaged over 7% a year, so if she had $1000 in super then the earnings in the fund would compensate for the fee. (From July 1, the fee for accounts with less than $6000 will be capped at 3%.)

My advice, though, is to give the fund a call and explain your daughter's circumstances. Hostplus will be well used to this type of situation and I am sure it has information on how to minimise fees for your daughter.

Although a mortgage might cost the same, Mario should ...

Bite the bullet and just pay rent

Q I am a 48-year-old man who's recently become single. I do not have any domestic responsibilities or any kids to raise.

I own two investment properties. One is in Melbourne (rented out at $390 a week) and the other is in a beach area overseas. It has occasional Airbnb guests but is vacant 90% of the time. Both apartments have been fully paid for. The market value of the Melbourne property is $750,000 while the one-bedroom overseas apartment is worth about $200,000.

I am comfortably earning a six-figure annual salary and have about $250,000 in my bank account. For all intents and purposes, this sounds very comfortable.

I have moved to far north Queensland to start a new job. Rental here could be very dear. The properties I am looking for would fetch about $400-$450 a week. I thought that the rental amount would be enough to pay for a mortgage.

My question is, should I buy a property to live in now or should I just rent and use my saved money for investment? If investing, what would be the stable options for this year?

Good question, Mario. Many Australians move for work and personal purposes these days and rent versus buy is a big issue. My advice, though, is really black and white. Rent sounds expensive, but buying involves stamp duty and really significant costs. If you make a bad decision, these costs explode.

You have a really good asset base and you earn a high salary. So I'd forget the concern about rent being more than a mortgage. Bite the bullet and rent for at least six months as you get to understand your new area, property values and how long you will be there for.

Rent is pretty much always the best option for anyone moving to a new area.

Maree needs good advice on the ...

Big issue for aged couples

Q My parents-in-law, aged 80-plus, face the issue of what to do next. They own their home and get a small pension, but time is catching up with them, so what to do?

If they move to a retirement home, do they sell their house to pay entrance fees or rent it out to cover the costs. What is the best way forward, as we don't want to get it wrong?

I got lots of information but it just adds to my confusion. Some clear directions and consequences would be appreciated.

Hi, Maree. This is a really hard one. My wife Vicki and I, along with most of our friends, have had to deal with this situation. And it is really complex.

First, there are quite a number of "aged" advisers in the marketplace. Some, I fret, are flogging solutions, but quite a few of the fee-charging ones are there to answer the questions you have.

So I cannot answer your question as an expert. I can only give you my personal experiences. We, and most of our friends, have tried to keep our parents at home, barring debilitating illness. As part pensioners, yours will qualify for the government's reverse mortgage scheme if a little more week-to-week money would help. The overarching solution to age is to assist people stay at home for as long as possible. So check out all the packages that will assist your parents to do this.

As I am keeping this personal, I am happy to share Vicki's and my plans with you. We will stay at home as long as possible and will use our assets to bring in extra assistance as needed. Community services are available to help you do this, if needed. When the time comes – and it will probably be our kids having to do this – we hope not to leave until we are assessed for high care, which can be covered with a government-guaranteed and refundable bond.

At that stage the house may need to be sold, or used as security to cover the bond. Others may disagree; we respect that. But this is what we and many of our friends did to help our parents live the best life possible. There is no perfect plan for age, except not getting old!

2.35% pa

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SMART SPENDING

Destination Arctic cruise

Northern exposure ... clockwise, from above, a cruise ship is dwarfed by the rugged coastline; the traditional village of Ittoqqortoormiit; polar bears relax in the grass; Atlantic puffins.

ABERCROMBIE & KENT / GETTY

Six things to do

1. Admire: the huge array of wildlife in the Svalbard Islands. Reindeer wander around Ny-Alesund. Arctic foxes are very hard to spot as they scamper along the rocky black beach of Bjornsundet or Bear Sound. Polar bears with their cubs were wonderful to see. In Alkefjellet there is a 100m cliff face that serves as a breeding colony for Brunnich's guillemots – it is estimated there are 1 million birds swirling above the sea. There is also the colourful Atlantic puffin. While visiting the Hinlopen Strait we discovered a walrus haulout. Walrus are easily startled so you have to be silent so they don't swim away.

2. Cruise: the Svalbard Islands, which are part of Norway. You fly into Longyearbyen on the island of Spitsbergen. The cruise ships tend to be small with around 180 guests as you need to get into narrow fjords and channels to experience the area. Cruising around Svalbard features contrasting scenery, from glaciers and icebergs to mountains with mossy vegetation. Whales, including humpbacks and belugas, are frequently spotted.

3. Visit: the most northerly permanent settlement on the planet, Ny-Alesund. It supports researchers from more than 10 countries. It was a starting point for explorers including Roald Amundsen, the Norwegian who led the first expedition to the North Pole. A museum details its whaling past. There is one main street and once you leave the immediate vicinity you need a guide with a rifle in case a polar bear appears!

4. Buy: a postcard from Ittoqqortoormiit, a traditional Inuit village of 500 in Greenland. This tiny village has one shop and a post office and a museum. The villagers survive by hunting seals, reindeer and muskox.

5. Catch: a zodiac to the edge of the sea ice near Denmark Island in Scoresby Sound in Greenland. Get up close to calving icebergs and seals lying on floating ice.

6. Capture: Amazing scenery of mountains, fjords, ice, glaciers and polar bears as well as a surprising abundance of wildflowers. A truly fabulous experience!

CHRISTOPHER AND HELEN PAGE

DRIVING PASSION

Small cars ticking all the boxes

Small cars have lost the mantle of Australia's favourite passenger vehicle to medium SUVs, with the segment dropping by 19.6% compared with the first four months of 2018. That's more than double the 8.1% drop in total vehicle sales.

However, this hasn't stopped the Mazda 3, Toyota Corolla and Hyundai i30 from being the three biggest sellers among cars and SUVs, while the Kia Cerato has defied the downward trend to join them in the top 10.

Apart from their relatively low price and running costs, small cars provide plenty of versatility in the form of body styles, while offering everything from cheap and cheerful first cars to hot hatches with sports car performance and premium trim levels.

And there's plenty of new metal to choose from, with the latest-generation Mazda 3, Corolla, Cerato, Ford Focus and electrified Hyundai Ioniq all appearing within the past 12 months.

DAVID BONNICI, WHICHCAR.COM.AU

$24,990-$36,990

Mazda 3

It became the top-selling passenger vehicle just as the third-generation version reached the end of its model life. Its striking successor (pictured) is expected to replicate that success with a leap in refinement, ride comfort, cabin quality and style. The range will soon be joined by the ultra-efficient Skyactiv X, bringing more power with less fuel.

Pros: Standard features; safety tech.

Cons: Interior space; hatchback's boot space.

mazda.com.au

$20,990-$32,990

Kia Cerato

Kia introduced the new Cerato sedan in June last year, but the addition of the hatch in the new year saw sales jump. The 2019 Cerato features a stylish cabin and strong infotainment suite, all backed by a seven-year warranty. There's also a new GT version with a punchy turbocharged petrol engine.

Pros: Comfortable; pleasant to drive.

Cons: Lacklustre engine in non-GT versions; worse fuel economy than previous model.

kia.com/au

$25,990-$34,490

Ford Focus

The new Focus is powered by a gutsy three-cylinder 1.5-litre turbocharged petrol engine. Excellent accelerator response, combined with responsive steering, make it one of the most rewarding small cars to drive. Hatch and wagon versions are available, including a sporty ST-Line and an SUV-inspired Active wagon.

Pros: Loads of features; excellent safety and tech.

Cons: Bland interior; harder ride than big-wheeled Titanium.

ford.com.au

EXTRAVAGANCE

Flight of fancy

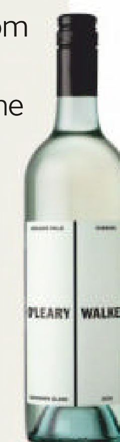
Watching your garden grow? Give your feathered friends a thrill with the Diamond Bird Feeder. The acrylic glass "diamond" is filled with bird seed, which travels through the matt brass ring to the bottom, where birds can feast in style.

How much: $331

Where to buy: amara.com/au

WINE SPOTLIGHT

2018 O'Leary Walker Sauvignon Blanc $20



This is sourced from a single vineyard near Oakbank in the Adelaide Hills. It is cool and vibrant with intense green bean and fresh garden herb aromatics, is tight and racy on the mid-palate before finishing crisp, clean and long. Delicious.

SPLURGE

2012 Champagne Thiénot x Penfolds Chardonnay Pinot Noir Cuvée $280

This is the first of three champagnes produced from an innovative partnership between the family Champagne producer Thiénot and Penfolds. Launched with a sublime vintage for Champagne and sourced from some of the region's finest villages, this is a bright, ageworthy bubbly that is intense and potent with sea salt minerality that entices. Expect it to zip and zing even with time in the bottle, gentle persisting on a crisp, ultra-dry finish that is pure and fine.

PETER FORRESTAL

SMART SPENDING

SMART TECH

Get your mind working again

Almost all of us spend too much time looking at screens. For many, a smartphone is the first thing we check in the morning and the last thing we glimpse before turning in at night. In between, lots of us spend our days glued to computers, taking breaks to check Facebook and browsing news on the commute to work.

Once we get home, it's so easy to keep mindlessly staring, with innovations such as Netflix providing a cornucopia of endless streaming.

It's technology that enables all this digital consumption, but it also offers a host of more interactive and rewarding alternatives, if only we let it.

We can escape into a world of rich imagination with audio books, play challenging games or indulge our creativity with a huge range of apps, ranging from simple colouring in to almost anything else.

PETER DOCKRILL

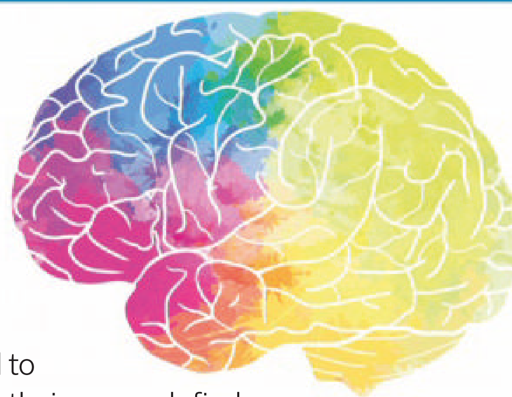
What is it? PlayStation Classic.
How much? From $89 online.
Pros: Playing video games won't get you away from screens, but it's a fun, interactive diversion designed to actually challenge you at least. Modelled on the runaway success of Nintendo's Mini consoles, the PlayStation Classic is a shrunk-down version of the original – it's 45% smaller than the 1994 console. Twenty vintage games are included; just BYO TV.
Cons: Not quite as well received as Nintendo's retro offerings, but if you're an old-school PlayStation fan it's hard to beat.
playstation.com

What is it? Lake.
How much? Free with in-app purchases.
Pros: In the past few years, something strange has happened. Thousands (possibly millions) of adults around the world realised they'd forgotten about a fun, relaxing and meaningful hobby from their childhood: colouring in. Sales of colouring-in books took off and now a huge number of apps cater to this demand in digital form. One of the classiest and most stylish is Lake.
Cons: A bit pricey and iOS only. Check out the colouring-in competition too.
lakecoloring.com

What is it? Audible.
How much? Free trial, $16.45 monthly.
Pros: Thanks to podcasts, it's not as if there's a shortage of free audio content out there, but the nature of the medium means most of it is brief and episodic. Audible lets you sink your ears into a world of lush, longer-form storytelling, with some 300,000 professionally narrated books.
Cons: The subscription fee entitles you to only one free book a month. If you're not picky, look into what free audio book services your local library offers.
audible.com.au

GIVE IT UP

Brain Foundation



What is it? The Brain Foundation is Australia's largest independent funder of brain and spinal injury research.
Where your money goes: The human brain is a remarkable organ. Without it we can't breathe, work, play or remember. It's the most complex of all known living structures, and one in six Australians will be affected by brain disease and disorders in their lifetime – anything from stroke or dementia to brain and spinal cord injuries. The foundation funds research Australia-wide into neurological disorders, brain disease and brain injuries. It receives no government funding. Applicants, typically neurologists, neurosurgeons, and neuroscientists, apply for a grant, and are expected to report on their research findings within a year. Past Brain Foundation grants have helped to discover a new treatment for migraine and pioneered procedures that enable brain tumours to be more readily identified.
How to donate: Make a tax-deductible donation or join the foundation's fundraising Zombie Walks held in several cities and towns around Australia. For more details head to brainfoundation.org.au or call 1300 886 660.

NICOLA FIELD

WEBFIND

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Black Box is an in-home sampling service. Just sign up to Black Box (it's free) and when a campaign comes up that matches your profile you're in a draw to receive a Black Box filled with full-sized products to try. In return for the freebies, you provide feedback on the products. NICOLA FIELD

CASE STUDY

It seems likes a personal GFC ... Andrew and Judy.

Vacant block of land is a real pain

In 2007, my partner and I purchased a 2000sqm block of land in York, a country town in Western Australia. The cost was $139,000. The area showed signs of growth as city families wanting the country life were buying and building and commuting to Perth's outer suburbs for work.

Then the GFC come along.

The land is now worth about $80,000 if we are lucky. We still owe $66,000 on the land mortgage. We have our home mortgage of $420,000 (home worth $550,000) and feel like this land is a financial thorn in our side. Our combined after-tax income for now is $100,000, with two young children. In the future, when my wife returns to work full time, we will have extra income of $2000 a month.

Repayments for the land are $380 a month, which is about 5% of our income. The home loan costs $2348 a month, almost 30% of income. We have no other debt. We are both 35 years old with combined super of $230,000.

We also have $10,000 sitting in the land mortgage account. We have an ING account for coffee and savings, which has about $2500, and about $7500 in shares that are having mixed results. We are not struggling from week to week, but I want to see the savings/safety net grow. I also need to buy a new car soon, for which I will pay about $4000 and borrow the other $10,000.

I feel that if we sell the land at this point it will all be for nothing. York's property market doesn't inspire me with confidence. Like many young families adjusting to work, life and children, I feel we are passing through our own homemade GFC.

Andrew

My first thought, Andrew, is "what a bugger!". It must feel like your own personal GFC but I think the decision here is pretty simple.

I tend to find that good investments keep getting better and bad investments keep getting worse. So unless you have strong evidence of a coming boom in the population of York in the short to medium term, if I was in your shoes I would not be throwing good money after bad.

As a vacant block produces no income, you get no deductions on costs or interest. Talk to your tax adviser about it, but this is one of the reasons I dislike vacant land unless the plan is to build in the short term.

We all hate taking a loss, but that loss will be preserved to offset against any future capital gains, and I think it is time to end this little adventure and move on with your life and your money. We all do these things. Many moons ago I also had a crack at a regional property. With some uni mates, we bought a knockdown near Mt Beauty in Victoria. We paid $17,000 and were going to build a modest ski chalet. About 10 years later, after paying for rates, blackberry slashing and so on, and no progress with the build, we sold it for $10,500.

We also had your view on population growth, but we were thinking ski tourism. That grew all right, but not in the towns 45 minutes from the ski fields. Most people wanted to stay at the ski resort. As they say, it seemed like a good idea at the time.

So my view is to cut your losses and move on. You are young and building wealth in super, paying down your home as well as holding a few shares. You have also built up some savings in your land mortgage account.

You were absolutely right to back population growth as the key driver in property values. Australia's population is growing rapidly. Conservative estimates project some 35 million living here in under 30 years. But where will they live? Some will clearly want a smaller community lifestyle, but most will cluster in our capitals and bigger regional cities.

I've learnt my lesson. Apart from a beach place, which fits into the "lifestyle" part of our portfolio, meaning it will be a lot of fun and a dog of an investment, I'd stick to owning property where you have a solid population mass, job growth, schools, universities, hospitals, entertainment, public transport and so on.

Paul's verdict: I tend to find that bad investments keep getting worse

Cut your losses so you can move on with your life and your money

Incidentally, we were right about the beach place. It has been a truly awful investment. I reckon it is worth what we paid for it 15 years ago and it is only 90 minutes from Sydney. It is a lot of fun, but it does not sit in our investment portfolio – it is, however, a terrific lifestyle asset.

This may sound a bit frivolous, but we are nearly 30 years older than you and your wife and I am sure that, in decades to come, once you have established financial security, lifestyle assets will be fine. For now, though, stick to the proven ways of wealth creation.

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.

TAX TIME 2019

The race to tax time doesn't need to be a sprint and there are plenty of ways to keep your tax on track year to year

READY, SET, GO

OVERVIEW
DARREN SNYDER
MANAGING EDITOR, MONEY MAGAZINE

New year's resolutions are often viewed as meaningless, bar the exceptional few people who have enough discipline to stick to personal goals and achieve them.

What's always curious to me is the percentage of the population that makes new year's resolutions related to finance and then fails to fulfil these self-made promises. I've been guilty in this regard too and it's disappointing, because who wouldn't want more money in the bank, more super saved, a new home purchased or some extra money invested?

The good news is there are multiple chances every year to fix your finances or reset your financial goals. And if you feel as if you're racing towards tax time, now is one of those chances.

Look at the bigger picture

The Australian Taxation Office says in its most recent taxation statistics report that 16.5 million tax returns were filed for the 2016-17 financial year. This included returns from 13.9 million individuals and 970,000 companies, as well as super funds, partnerships and trusts.

At an individual level, here are 13.9 million opportunities for Australians to review their financial position. Tax doesn't always relate to our day-to-day money issues, but many elements in a tax return could encourage us to think about how to better approach our daily spending, saving and investing.

According to the ATO's 2016-17 report, the nation's tax liabilities were $375.2 billion. Individual income tax liabilities accounted for 51.2% ($192.1 billion) and companies 20.2% ($75.7 billion).

The average taxable income for individuals was $59,014 and the median (middle number) was $44,382. The average tax deduction was $2631 and the median was $700.

The profession with the highest income was surgeons, with a national average taxable income of $394,866. Anaesthetists filled the second spot with an average income of $367,343 and internal medicine specialists came in third with an average income of $299,378.

The Sydney postcode of 2108, which includes Currawong Beach and Palm Beach, had the highest average taxable income of $230,330. Melbourne's 3142 postcode, covering Toorak and Hawksburn, was the second

highest nationally with an average taxable income of $193,904.

NSW was also home to the lowest-earning area. Postcode 2308, covering Newcastle University and Callaghan, had an average taxable income of $20,589. Queensland had five of the bottom 10 postcodes with 4611 recording the second lowest average income nationally of $23,225.

Little effort goes a long way

There's limited time to improve your tax return this financial year but there are some actions that can be taken that will still make a difference, including bringing forward and maximising tax-deductible expenses, making sure you've made the most of new superannuation rules and seeing whether there's any opportunity to take advantage of income splitting and negative gearing, among others.

And if all this is in the too-hard basket for the 2018-19 financial year, there's a range of small day-to-day and week-to-week tasks you can start from July 1 this year that will help with both your tax and overall financial position.

For example, transferring $20 a week into your super will add more than $1000 by year end and the compound interest on this in the long term will be significant – plus, if you earn under $38,564, the government will acknowledge the $1000 post-tax contribution with a co-contribution of $500.

Even spending two minutes each day keeping a logbook for work-related car travel can potentially save you $5000 in tax.

Once you've put your tax affairs on the right track and are maintaining momentum, there are also several ways to make your tax refund do some of the hard work for you – no matter your money lifestyle.

ASIC's MoneySmart website also has an entire section dedicated to establishing new year money goals in 2019 – and whether it's paying off debt, contributing to super or boosting your investments, July 1 is not too late to start your race to a better financial future.

Even spending two minutes each day can potentially save you $5000 in tax

SNAPSHOT

Out of 1100 occupations recorded in 2016-17, there were 72 where females had an average taxable income higher than males. They included authors, futures traders, magistrates, professional surfers and illustrators.

Two years ago the average super balance among taxpayers was $128,194. The median was $41,731.

The average income for companies in the 2016-17 financial year was about $3 million and the median was $121,943.

In 2016-17, Australians reported donating $3.5 billion, with an average gift size, for those who did donate, of $770. The most generous state was WA, with 30% of residents claiming an average deduction of $1190.

TAX TIME 2019

Running up to tax time

Although June 30 is nearly upon us, there is still time to review your financial situation and see if there are any actions you can take that will make a difference to your tax position. The most important areas to look at before the end of the financial year include bringing forward and maximising tax-deductible expenses, adhering to new superannuation rules and, if there is the opportunity, taking advantage of income splitting and negative gearing.

PETER BEMBRICK
TAX PARTNER, HLB MANN JUDD

Bring forward and maximise deductions

It's usually best to pay any tax-deductible expenses (such as donations, subscriptions and income protection insurance premiums) now, so the deductions can be made this year to reduce taxable income, and put off non-deductible costs until after June 30 where possible. It's the same for super contributions (discussed later), where it is also important to make payments well before year end.

For example, a donation to a charity is recorded on the date it is received, not the date it is sent, so any cheques or payment forms should ideally be sent a week or two before June 30 to make sure they count in this financial year, not next.

Individuals not carrying on a business should also be aware that they can pre-pay deductible expenses at June 30 for up to 12 months in advance for items such as association membership fees or investment management charges.

New super rules

Changes to the superannuation rules, effective from July 1, 2017, mean that PAYG earners can now claim a tax deduction for their personal contributions. Because it was new, this opportunity was commonly overlooked in the 2018 tax year but should become standard practice for PAYG earners in future.

For those with income levels above $90,000 who therefore have a marginal tax rate of 39% (including Medicare levy), the net tax benefit of the contribution is 24%, but the individual personally receives a 39% tax saving, with their super fund paying a 15% contributions tax.

People with funds in a mortgage offset account would still be well ahead by, say, taking $10,000 from the offset account and putting it into super and claiming the tax deduction (assuming a 5% interest rate). The limit on how much can be contributed to super personally is $25,000 less the superannuation guarantee contribution, which is currently 9.5% of your salary.

It is important to make sure contributions are sent to the super fund well before June 30, as the contribution is dated from when the fund receives it, not when it is sent.

Another case for topping up your super is that negatively geared loans are not providing as much of a loss with lower interest rates, and with a question mark over the viability of other strategies such as agricultural tax schemes it is difficult to claim large tax deductions elsewhere.

Income splitting and negative gearing

Other strategies that should be canvassed are income splitting and negative gearing.

Couples should consider making investments in the name of the lower-earning spouse to minimise the tax payable on income distributions and capital gains. The exception to this is negatively geared investments, which work best when the higher-earning spouse holds ownership.

Another option is to hold investments in a family trust, with adult children as beneficiaries. Children aged 18 or over are entitled to the full adult tax thresholds, which can be handy during the years when they are in full-time study.

Investments in discretionary family trusts offer maximum flexibility and this strategy can allow the trust to distribute income from its investments in a way that can provide significant tax savings. Investors should, however, be wary of using trusts for negatively geared investments, as gearing generates tax losses that can be trapped in a trust.

Review deductible versus non-deductible debt

From a tax point of view it is generally recommended you pay down non-deductible debt wherever possible. A common approach is to take out an interest-only loan for all income-producing investments while making principal repayments on a home loan and other non-deductible debt. This is a sensible strategy and perfectly acceptable to the tax office when set up properly.

However, beware of debt restructuring that appears tax-driven as the ATO could apply anti-avoidance legislation.

For future planning, wherever possible, investors should consider tax-advantaged investments, as long as they suit the long-term investment strategy. No investment should be taken out purely because it receives favourable tax treatment, but by the same token it is important to be aware of the tax implications of the investment structure.

> The ATO is concerned that taxpayers are claiming more work-related expenses than they should

For example, selecting an investment that returns discount capital gains or fully franked dividend income can be a better option than choosing one that may offer the same return but doesn't have the same tax advantages.

Be prepared to substantiate claims

The ATO has upped the ante on its usual focus on the type and amount of expenses claimed as tax deductible.

First, under legislation applying from July 1, 2017 it is not permitted to claim travel expenses for inspecting a residential rental property unless you are carrying on a business of property investing. Many people are still unaware of this change.

More generally, the ATO is still concerned that taxpayers are claiming more work-related expenses than they are entitled to, and this remains a key focus.

An area that continues to be misunderstood is the $300 limit for claiming work-related expenses without receipts. This does not mean everyone gets an "automatic" deduction of $300 – people still need to have spent the money and be able to detail the amounts and nature of the expenses; it just means that all the receipts aren't required.

Another major area where errors are made is car expenses, especially claiming home-to-work travel as a business trip. If you drive from home to a meeting and then go on to the office, both legs of the journey qualify as business travel. However, simply driving from home to work is regarded as private travel.

If the cents-per-kilometre method is used, an accurate record of all business trips during the year must be kept. If the logbook method is used then it must be a current logbook (no more than five years old and reflecting current circumstances) and be a reasonable reflection of the actual car usage.

Health insurance surcharge

The Medicare levy surcharge applies an extra 1% tax for singles who earn over $90,000pa and couples who earn over $180,000. This rises to 1.25% at higher income levels, and up to 1.5% for singles earning over $140,000 and couples earning over $280,000.

As with investment decisions, each person's approach to private health insurance should be to consider the likely financial, and in this case medical, impact of making choices, and not be ruled entirely by tax considerations.

Sooner the better

Finally, it's good to get organised early. Regardless of your tax position and what you plan to claim and deduct, don't forget to lodge the tax return early if a refund is expected. Not only do you get the refund sooner, but this may help reduce your ongoing quarterly tax instalment payments.

TAX TIME 2019

Start the new year right

As the new financial year dawns it comes with the annual obligation to submit your income tax return by October 31. Some of you are probably in a mad panic trying to scrape together your receipts in a futile attempt to boost your refund (or, worse, reduce your tax payable) with some last-minute claims. For others, July 1 brings around a new sense of hope with a whole year to get your tax planning right in 2019-20.

It always surprises me when people think that tax planning occurs only in June. If you want to save as much as legitimately possible on your largest expense (tax), it is best to start as early as possible. Tax planning should be a 365-day-a-year exercise, not one merely carried out in the few days before June 30.

Here are seven strategies that are more applicable for action at the start of the year (July 1) than at the end of the year (June 30).

ADRIAN RAFTERY
AUTHOR OF *101 WAYS TO SAVE MONEY ON YOUR TAX – LEGALLY!* 2019-20 EDITION

1. Put $20 a week into superannuation

For years I was surprised by how few people took advantage of getting free money from the federal government in the form of the super co-contribution. This is available to those who earn under $38,564 and contribute $1000 post-tax into super, with the government matching it with an extra $500. But then I realised that someone who is a low-income earner would find it really tough to miraculously come up with $1000 on the last day of June and whack it into super. In reality, they would probably have other, more pressing priorities on where to best utilise the lump sum.

That is why the beginning of the financial year is the best time to start this co-contribution strategy. It is a lot more manageable if you start taking $20 from your weekly pay and putting it into super, rather than trying to find $1000 at the end of the year.

2. Build your nest egg quicker by salary sacrificing

In a similar vein, for those who earn more than $37,000 salary sacrificing into super is one of the best ways to minimise your income tax bill (and it's legitimate). Although the concessional cap was lowered on July 1, 2017 you can still contribute up to $25,000 a year, which is taxed at only 15% instead of your marginal rate (potentially 47%). As with the super co-contribution, few have maximised this strategy as it is often too late in June to top up compulsory super contributions to the threshold. If you can put an extra $1 million over a lifetime into retirement savings, then you are potentially saving $320,000 in tax (plus any returns on top of that). Could that $320,000 mean you retire a few years earlier or perhaps enjoy a more comfortable retirement? I'm sure it would, so start putting extra super away through your pay packet when July 1 arrives.

3. Do a logbook

Work-related car travel is generally the biggest tax deduction (in the thousands) for individuals, yet so many people fail to maximise it. If you use your car for work-related purposes, the logbook method is best, but again this is something that you can't just do on June 30 – it takes 12 weeks of diligence in keeping accurate records.

I know from personal experience that logbooks are annoying creatures to complete but it's just a minute in the morning, a minute in the evening for potentially an extra $5000 in tax savings. It's important to keep your receipts for all costs associated with the running of your car (such as petrol, insurance, registration, servicing and lease payments), not just the logbook period. If you change your job role, get a new car or your logbook is more than five years old, then you need to start a new one.

4. Keep your receipts with myDeductions

Poor record-keeping is often associated with low refunds. Tax agents cannot wave a magic wand if you don't do the basics and keep your receipts throughout the year for your work- or business-related expenses. The ATO's rule in most

SET >>>>

circumstances is that no receipt results in no deduction, so if you take work-related car travel as an example you could be costing yourself money by not keeping those petrol dockets. Get into a habit early in the year. The tax office has a great app called myDeductions that is an easy way to diligently record your receipts for the year end by simply taking a pic with your mobile device at the time you incur the expense.

5. Buying tax-deductible assets

Unless you are a small business (and can immediately write off the purchase of new business assets that cost less than $30,000), it is pointless buying a tax-deductible asset that costs more than $300 at the end of the financial year. This is because depreciation of these assets is pro-rated for the number of days that you own them during the financial year (resulting in a $1000 outlay on June 29 producing a measly $1 deduction at tax time). If you are going to get that new computer or car for work purposes, it is better buying in July as depreciation has much more impact when spread over a whole year rather than just a few days.

6. Negative-gear upfront

One of the major downsides to negative gearing is cash flow. My preference is that you wait until the end of the year to get your refund as it is a form of forced saving. But if cash flow is tight you may want to complete a PAYG withholding variation application, which reduces the tax from your monthly pay. The form is virtually a mini tax return that estimates your taxable income. You still need to lodge an annual tax return. Conversely, for those who don't have a property, if you struggle to put money aside, a great forced saving is to ask your employer to take out extra tax from each pay.

7. Get a great accountant

Just as most people can change a tyre, most of us can do our tax ourselves, but it usually pays to get an expert to look at our affairs. The last thing you need is a knock on the door from the tax office because you claimed too much. A registered tax agent knows where the boundaries are in terms of what you can and, more importantly, can't claim. And their fee is tax deductible.

Maximise your accountant's knowledge by communicating with them often about your financial affairs. Aside from pre-year-end tax planning, contact them before any major transaction that you are about to undertake. A phone call may produce a simple strategy – such as setting up a company – that could save you hundreds of thousands of dollars over a lifetime. It is far easier structuring a transaction before the event occurs rather than months after.

You now have a whole new year to implement some great tax tips, so it's time to act. Times are tough so every dollar saved counts. Start your tax planning today.

TAX TIME 2019

Refund & reset

We've all been there. The notification comes through your myGov account or your accountant: you've got a tax refund coming your way. Yes! You had a feeling it was the case, perhaps it is every year, but you're not 100% sure until you see that notification. And you've been impatient to know how big it is.

You've now got money coming your way and the cogs in your head start turning on what to do with it. ATO figures show that the average tax refund for Australians is between $2500 and $3000. It's big enough for us to pay attention.

But a tax refund is not a bonus. This is a big reframe that needs to occur in our financial mindsets. You're receiving a refund because too much of your money has been withheld through the year. This might be due to payroll systems, uneven income or, most likely, expenses that you've been funding yourself and are now being included in your tax calculations.

This means it's not the government's money that you're getting, it's your own. When you're assessing options, treat this money less like a windfall and more like a pay rise. That's closer to the mark.

REBECCA PRITCHARD
FINANCIAL COACH, WEALTH ENHANCERS

Assessing our options

Off the cuff, we can all think of things to do with $3000. Shopping, doing odd jobs around the house, going on a holiday, clearing debt, fixing the car, investing for the future? This list can be overwhelming.

To make the most of your tax return, let's start by looking at where you are. At Wealth Enhancers, we regard standard of living as a North Star for making decisions and giving a clear understanding of the role that money plays in our lives.

We express lifestyle stages in a pyramid shape, with "basic" (your own property, cash, etc) at the bottom, "comfortable" (shares and investment property, etc) in the middle and "aspirational" (highly leveraged property, private equity, start-ups, etc) at the apex.

This becomes a useful framework for assessing any opportunities that come your way.

Basic lifestyle

If you are not currently secure in your basic standard of living, characterised by living week to week or high levels of stress about money, then your tax return can be a game-changer for you.

You want to think on the defensive side, because if your basics aren't sorted there's no value in thinking higher up the pyramid. It's like focusing energy on self-actualisation when you've got no certainty of paying your rent next week.

Key concepts:
Pay off debt.
Boost your emergency money.
Pay for insurances.

If you're holding bad or toxic debt (credit cards, personal loans, short-term loans, consumer finance), these need to go before you can even think about your future needs. If you've got a number of debts, pay off the most expensive (highest interest rate) first. If you owe money on your credit card, your return on this investment could be 20% a year.

If your cash savings are low or non-existent, you definitely want to consider giving these a boost. Ideally, you would have three months of expenses stashed away as a financial security blanket.

Lastly, the least exciting but potentially the most critical: if you are living from week to week, then you're going to be in serious trouble if you're unable to work. Consider using a portion of your return to buy a quality insurance policy to protect against the unforeseen and your most important asset – your ability to earn an income.

Comfortable lifestyle

When you're confident with your basics, you can direct your energy to your comfortable standard of living. For most people, this is probably the starting point: enjoying the key elements of your current lifestyle and being able to maintain them into the future.

This means having cash flow for short-term goals and investing to have cash flow in the future.

A tax return can be a real boost for your comfortable lifestyle.

Key concepts:
Contribute to a lifestyle goal.
Invest in yourself.
Boost your medium-term options.
Invest for the long term.

If your time frame is the next three years, keeping your tax

GO >>>>

return in cash and using it to boost a dedicated goal, or to split across several goals, is a winner.

But if you're already using savings plans and a cash flow structure to secure those goals (good on you!), you can do bigger and better things with that money.

Perhaps you can invest it in yourself, to improve your health or wellbeing. Or maybe upskill, so you're able to command a higher income (and therefore boost other goals in the coming years).

If you're thinking medium to long term, then a tax return can give your investments a great jump-start.

Investing for the long term isn't necessarily about retirement or "being sensible"; it's about creating options. Even if you have no idea right now what that future will look like, you can create flexibility by providing options for your future self.

The average tax return isn't going to buy you a property, so let's look at two other long-term options. First, consider investing in an insurance bond: say, a $3000 initial amount, with no further contributions (but you could add more with a savings plan or future tax returns), invested over 10 years with an average net return of 8%pa. In 10 years your money would double and be worth about $6659, which you can enjoy free of capital gains tax. That sounds good.

What if you're thinking even further down the track? This is where superannuation could be useful.

Think of a $3000 contribution (which you can also then claim as a tax deduction next year) invested over 30 years with an average net return of 7.5%pa. If you're 30 now, when you're 60 that $3000 will have turned into about $33,000. That's definitely going to provide more options for you in the future.

Aspirational lifestyle

Do you feel as if your comfortable standard of living is in the bag? Great! You can consider using your tax return to boost your aspirational lifestyle. These are the goals and intentions we have for something bigger and bolder. If we don't get there, we'll still be very happy, but it's one of life's great joys to seek to go above and beyond.

Financially, this is where you take risks and invest in areas that you wouldn't otherwise consider (for our comfortable and basic standards). An average tax return isn't likely to make a huge dent here, but it might be the stepping stone you need to consider the options available to make a start.

> Investing for the long term is about creating options for yourself

Your money, your call

When we reframe tax returns in our mind, they are an opportunity to accelerate our intentions and add meaningful value to our lives. Let's be active, not passive. Let's shake off any bad calls in the past and focus on the future.

Using a framework for our standards of living can make our decisions easier. And we can check ourselves by asking three questions to guarantee our success:

- **Am I being intentional?**
- **Will this create more freedom?**
- **Will this make me happier?** *M*

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STORY NICOLA FIELD

Turn up the heat

Compare the best deals to see how you could save up to $594 on an annual power bill

Gone are the days when a decent set of thermal underwear was your best bet to save on winter power bills. These days it's all about hunting down a better deal, and switching to a different energy provider or plan can knock hundreds of dollars off your annual electricity bill.

It's no secret that power bills have skyrocketed. The Australian Energy Regulator (AER) found energy prices rose a whopping 22% in 2017-18. With winter being a peak period for electricity consumption, now is the time to flex your consumer power.

Know what's available

If you live in NSW, South-East Queensland, Victoria or SA, you're free to shop around among power providers. The trouble is, plenty of people don't, and it can be an expensive mistake. (In the Northern Territory and the ACT, prices are regulated; WA has several energy networks with contestable and non-contestable customers; and Tasmania has two retailers with capped prices.)

If you have never actively chosen your electricity plan, or if you've been with the same provider or lived at the same address for several years, it's likely you're on a default plan known as a "standing offer". These plans do have some positives. You'll pay no exit fees, and providers face limitations around hiking tariffs.

The downside is that, in an increasingly competitive market, plenty of newcomers are arriving on the scene and offering much cheaper deals. And that's forcing the big power companies to lift their game. According to the ACCC, the consumer watchdog, the bill for a standing offer can be up to $500 higher than the same provider's market offer. That's money coming straight out of your pocket for no extra benefit.

On the plus side, in early 2019 energy retailers agreed to lower their standing offer tariffs. In NSW and Queensland, for instance, Energy Australia cut the standing tariff by 15%. So you should start to get some relief from over-the-top bills. But chances are you can do even better.

Simon Downes, editor-in-chief at Canstar Blue, agrees: "The energy industry is going through a significant period of change. But one thing will remain certain – you will only get the cheapest deals by shopping around and comparing your options."

How much can you save?

The potential savings made by switching providers or plans vary widely depending on where you live, the appliances you use and the size of your household.

For an idea of how much you can save, Canstar Blue uncovered the three cheapest power deals for a three-person household – we'll say mum, dad and a youngster – across several states. We've assumed the family don't have a swimming pool, underfloor heating or air-conditioning (all big energy guzzlers). We've also assumed no controlled load (electricity supplied to specific appliances like a hot water system, which is separately metered).

South-East Queensland

In the Sunshine State our family of three could face an average yearly power bill of $1646. It's a cost they can slash by up to $250 just by switching to the ReAmped Energy Residential Anytime plan. ReAmped Energy is one of the new kids on the block, and it's an online-only company so you'll need to sign up online and receive all your bills electronically.

NSW

Our hypothetical family is likely to fork out an average of $1779 a year in power bills. They can cut this by $327 by moving to Energy Australia's No Frills plan. Launched late in 2018, the plan features no price rises for 12 months, no exit fees and no lock-in contract.

Victoria

Here our family would face an average yearly power cost of $1400. By switching to Simply Energy's Simply RACV Plus plan they could pocket savings of $361 annually. This plan is exclusive to RACV members, and the membership fee of $36 also entitles members to discounts on a range of other products and services.

South Australia

South Australians have the unfortunate distinction of paying the nation's highest electricity costs, and our family of three faces a big average annual power bill of $2574. That's a good incentive to shop around for a better deal. According to Canstar Blue, an annual saving of $594 is possible with Origin Energy's One Low Rate plan. Or if you're an RAA member, save $591 annually by heading over to Simply Energy's Simply RAA Extra plan.

Make it easy

Finding the cheapest power deal for your household is easy. Along with comparison sites, the EnergyMadeEasy website, which applies Australia-wide, also lets you shop around for gas prices.

If you're in NSW, the EnergySwitch site is definitely worth a look. You'll need an e-bill to see the best offers in your patch, so if you don't have one, phone your provider and ask for an invoice to be emailed.

Alternatively, check out the Transformer service from the consumer group Choice. Your latest power bill will be analysed to see if you could save with a new provider. See transformer.choice.com.au. *M*

WHERE TO SAVE: SOUTH-EAST QUEENSLAND

Energy retailer	Plan	Estimated annual cost	Saving on average annual aost of $1646
ReAmped Energy	Residential Anytime	$1396	$250
Alinta Energy	Home Saver Plus	$1412	$234
Powershop	Auto Pay with Mega Pack	$1412	$234

Source: Canstar Blue. Figures calculated from 53 energy plans shown on the Canstar Blue database as of May 1, 2019 based on a three-person household connected to the Energex electricity network in Brisbane on a single rate tariff. Prices will vary for those living on a different electricity network.

WHERE TO SAVE: VICTORIA

Energy retailer	Plan	Estimated annual cost	Saving on average annual cost of $1400
Simply Energy	Simply RACV Plus	$1039	$361
Alinta Energy	Fair Deal 43	$1094	$306
Simply Energy	Simply Plus	$1097	$303

Source: Canstar Blue. Figures calculated from 81 energy plans shown on the Canstar Blue database as of May 1, 2019 based on a three-person household connected to the Citipower electricity network in Melbourne on a single rate tariff. Prices will vary for those living on a different electricity network.

WHERE TO SAVE: NSW

Energy retailer	Plan	Estimated annual cost	Saving on average annual cost of $1779
Energy Australia	No Frills	$1452	$327
Simply Energy	Simply NRMA Plus	$1452	$327
Alinta Energy	Fair Deal 30	$1466	$313

Source: Canstar Blue. Figures calculated from 59 energy plans shown on Canstar Blue database as of May 1, 2019 based on a three-person household connected to the Ausgrid electricity network in Sydney on a single rate tariff. Prices will vary for those living on a different electricity network.

WHERE TO SAVE: SOUTH AUSTRALIA

Energy retailer	Plan	Estimated annual cost	Saving on average annual cost of $2574
Origin Energy	One Low Rate	$1980	$594
Simply Energy	Simply RAA Extra	$1983	$591
Energy Locals	Simple Saver	$2041	$533

Source: Canstar Blue. Figures calculated from 59 energy plans shown on the Canstar Blue database as of May 1, 2019. Costs based on a three-person household connected to the SA Power electricity network in Adelaide on a single rate tariff. Prices will vary for those living on a different electricity network.

STORY WARREN OTTER

The astute owner will take steps to maximise the reward from years of hard work

When it's time to cash in

Three years ago, Don, the 65-year-old owner of a clothing wholesale importing business in Melbourne's south-western suburbs, decided to sell it and retire to Queensland's Sunshine Coast. He had worked hard for three decades building up the business – $12 million in annual revenue and consistent profits of $800,000 a year. Don was not greedy but, given the work he had put into his business, he was hoping to get more than $4 million from the sale, representing five times annual earnings.

However, he got a shock when, after a long sales campaign, the best offer was $1.6 million (two times annual earnings). Don was disappointed and rejected it. He continued to run the business, reasoning that he would put it back on the market two years later when conditions may have improved and buyers may be prepared to offer more.

Two years later, the best offer he got was $1.2 million, representing one-and-a-half times earnings.

A seismic shift is happening in the private business sector, as baby boomer business owners look to cash in and retire on the proceeds. But many are getting shocks when it comes to doing deals. Either buyers are not there or they are offering far less than the owners expect.

In many cases owners have spent decades building up their operation. They believe they have a clear idea of what it is worth, possibly lured by the historic PE ratios paid on the Australian Securities Exchange – 15 times annual earnings. Many expect to get at least six or seven times annual earnings for their businesses, but buyers have other ideas. They know that they can pick up private businesses for a lot less.

Many business owners take umbrage at what they see as paltry offerings and refuse to sell, preferring to continue to work and put off retirement for a few years. A decision based on incorrect information is a poor decision. This can often be a bad thing and businesses can suffer as a result. The owner's passion for the business gradually erodes over time and often they cut back on investment, hoping to swell the bottom line before a sale.

Hoping the situation will change is not a strategy. One option is to remember the business dictum "sell reluctantly, but sell". With the business sold, retirement and making the most of latter years is possible. If the plan is to sell and retire in the future, the best advice is to ensure the sale proceeds are cream on your retirement fund and not the base.

Of course, the value of a business is only that which someone is prepared to pay for it, not what a seller expects. But why, when it comes to the sale of private businesses in Australia, is there such a gap between the owners' expectations and reality?

There are several reasons:

1 Imbalance of buyers and sellers and disinterested children. As the population ages, more businesses are coming onto the market so supply is increasing well beyond the demand. The basic rules of supply and demand apply: when supply is greater than demand, prices fall. Many in the baby boomer generation hoped their children would take over or buy the family business, but they are finding the appetite isn't there. Modern children have greater opportunities to complete tertiary education, which opens their eyes to alternative employment opportunities. Some children rebel at the pressure they feel parents put on them to take over the family business and prefer to follow their own path.

2 Yesterday's businesses. Many baby boomer businesses are older-style/traditional types that are simply not attractive to modern buyers. Businesses that centre on manufacturing, importing and distribution of products, or services such as accounting and retail are seen as declining sectors with few real growth

prospects. Few baby boomer businesses fit the mould of "modern" businesses, such as those in the communications, high-technology or information-technology sectors.

3 Tired and ageing businesses. Many baby boomer businesses have been run the same way, by the same person or team, for many years. Many owners with good intentions save cash by not investing in plant or equipment or in training employees. However, when investment dries up, companies can appear tired and rundown. Buyers prefer businesses with clear and dynamic growth paths.

4 Owner means too much to the business. Many older business owners play too big a role, invariably hands-on, in their businesses. While this can be a laudable trait – saving money and allowing them to better direct the business – it can be a major disincentive to buyers. In these cases, when an owner steps away the business can suffer. Potential buyers very quickly recognise when owners make all the decisions in the business.

5 Better financial results elsewhere with less risk. Strong returns from the stockmarket in recent years mean that many investors prefer to keep their money tied up in shares rather than investing in a business with risky returns. Many investors have spread their investing to overseas stockmarkets or property, both of which have until recently had stellar runs. Buying a tired and underperforming private business can have a higher level of uncertainty for an individual investor and hence be seen as risky.

Private business owners can gain more value by positioning themselves to sell to a competitor or another business looking to diversify and reduce duplicated costs. That is, not take on two sites or two accounts departments. Value is gained by being prepared for synergistic buyers who recognise the whole can equal more than the sum of the parts.

Don, and others like him, can consider an alternative approach, often disregarded by those who see themselves as needing to sell a business to retire. They can implement the same strategies that can be used to increase its value for a sale (see breakout) but hold onto it and make it work for them. In effect they become investors in their own business, developing systems and team leaders that allow them – and future generations – to still enjoy its financial success. ***M***

Warren Otter is managing director of Otter & Associates, specialists in business transactions, growth and lifestyle ownership.

How to increase the value

- **Break away from the day-to-day operations.** Owners must remove themselves from their executive roles and become directors only, so buyers will then see the business is not dependent on the owner's presence. After a sale, the intellectual property needs to be seen to be remaining with the business.
- **Develop a strong and capable team.** A good team will always make a business more valuable. Owners need to learn to develop and trust their teams. In addition, banks want to see a strong team before lending money to a business.
- **Increase the spread of clients and limit reliance on any core supplier.** A large percentage of revenue coming from a small group of clients represents a significant risk for a potential buyer. Businesses with one core supplier are also risky, particularly if the supply agreement was done over a handshake 20 years ago.
- **Identify a key, sustainable point of difference for the business.** Uniqueness creates value. A business that does the same thing as its 10 key competitors is not very attractive. Buyers will not pay a premium for ordinary. A major point of difference will lead to a higher premium in a sale.
- **Continue to invest in the business, to modify it.** An owner who stops investing in a business will eventually pay for it with a reduced sale price. Be strategic by investing in current equipment, systems and training for key staff that will leverage the sale price. Even things like modernising the premises make a difference.
- **Create recurring income.** Lots of businesses, such as retail stores, live on one-off income, but buyers of businesses increasingly want to see loyal returning customers. Businesses need sticky customers, or must develop sales models like those of modern software companies, which charge monthly fees. Similarly, modern equipment suppliers build in agreements to regularly service and upgrade equipment.

Where the Aussie dollar goes further

STORY TANIA GOMEZ

Don't let our weaker currency deter you from booking a getaway – there are still some great spots where it holds up

Planning a holiday in the face of a declining Australian dollar can often mean that your funds don't stretch as far, forcing you to trim your itinerary or rethink certain activities.

Even if you go ahead with the trip and do everything you intended, you can risk coming home to severe bill shock, especially once your credit card bill arrives and you realise that holiday may be your last for a while.

Luckily there are still a few spots around the world where the Aussie dollar remains strong, allowing you to enjoy yourself without having to worry about your funds. Here are five destinations to consider that won't blow the budget.

TURKEY

The Turkish lira has "weakened a fair bit in the last year, by about 33% against the Australian dollar," says Justin Rampono, director of the Currency Shop. So Turkey is one spot that will leave you with a third more cash in your pocket.

"They have also opened up a major airport in Turkey so the flights coming in the next year may be cheaper as well," adds Rampono.

With its rich history, vibrant culture and delicious cuisine, Turkey can fulfill every traveller's wish list. Enjoy the bustling city of Istanbul with its iconic Blue Mosque and Grand Bazaar or make your way to Cappadocia and take in its scenic vista via hot air balloon. A bonus of visiting Turkey is that it's an easy hop over to Greece, should you wish to add a few days of basking in the sun on a picturesque beach to your travels.

Istanbul, Turkey

Samba dancers, Brazil

BRAZIL

If the host nation of the 2016 Olympics and last year's FIFA World Cup is high on your list of places to see, there's no better time to visit than now. With the current exchange rate up 4.2% at the time of writing, you can expect to pocket a little more Brazilian real.

This is key because when travelling to Brazil and other South American countries "cash is king", says Kelly D'Aucourt, Travelmarvel's product manager for South America and Africa.

She says travel money cards generally aren't commonly used so you'll need to carry around some local currency at all times.

Another upside is that your budget will stretch far in Brazil, even in a major city like Rio de Janeiro, where D'Aucourt says you can often find a tasty bite to eat from a local street vendor that will only set you back about $3. If you're planning to snap up a souvenir, she says that while Brazil is not known for high-end shopping you can find lots of beach-inspired trinkets, such as a pair of Havaianas thongs from their place of origin at a much cheaper price than you would find in Australia.

SOUTH AFRICA

If you've always dreamed of hiking up Table Mountain or going on safari, then it's a great time to visit South Africa. At the time of writing, the Australian dollar was up about 7.3% against the rand.

D'Aucourt says that while travel money cards are accepted in South Africa, carrying cash is important. She says ATMs are readily available so you don't have to take out huge sums of money, but some machines will charge a fee when you withdraw funds. South Africa also has a tipping culture, so expect to tip restaurant and bar staff, housekeeping staff and hotel porters (about 10% is standard). If you travel around in a taxi, D'Aucourt says the custom is to let the driver keep the change.

ARGENTINA

For a holiday that ticks all the boxes – delicious food, impressive architecture and beautiful scenery – you might want to add Argentina to your list of destinations.

While the Australian dollar is generally faring well in South America, you can expect a little more bang for your buck in Argentina. When buying the Argentine peso, you can (at the time of writing) expect to be about $473 better off in your pocket for every $1000 Australian dollars exchanged.

D'Aucourt says that while it's a good idea to carry local currency, US dollars are also accepted in certain locations, and can often be used when tipping. You should, however, leave your American Express card at home as most places in Argentina will only accept Visa and Mastercard. Given you'll be carrying a lot of cash with you, D'Aucourt also says that, for security's sake, when sightseeing take with you only as much money as you'll need for a day and leave the rest in the safe back at your accommodation.

> **Buy in person, rather than online, as you may be able to negotiate a better rate**

HUNGARY

There are some pockets of Europe that are still quite affordable when you're carrying the Australian dollar. Whether you come for the history, the stunning architecture or its famous thermal baths, Hungary is one destination that has something for everyone.

There are several all-inclusive package tours that take in various locations in Europe, which can make it a little cheaper as you pay a one-off cost. But if you're doing it on your own, Hungary is one place where you'll end up with a little more in your wallet. At the time of writing the forint is up about 2.2% against the Australian dollar. *M*

This report was sponsored by APT Travel Group but was independently researched and written.

Boost your spending power

The Currency Shop director Justin Rampono recommends that you avoid exchanging currency at the airport before you leave.

"Even the worst cards in Australia only charge [a fee] of about 5%-6% whereas airports start at about 14% and end at about 30%," he says.

Ritesh Singh , regional head of Unimoni (formerly UAE Exchange), says you should buy currency in person. This can allow you to negotiate a better rate, which you wouldn't be able to do online.

As a general rule, exchange a weaker currency against the Australian dollar (such as the Indonesian rupiah) at your destination and a strong currency (such as the euro and pound) before you leave.

If you use a credit card or travel money card and you're asked which currency you'd like it to be charged in – whether US dollars, the local currency or Australian dollars – always use the local currency, says Singh. "That's called a dynamic currency conversion and that's probably the worst form of currency conversion. You should always use a local currency."

Try to exchange currency in a big lump sum. Often the more money you change the bigger the discount you'll receive.

Not sure when to do it? Foreign exchange house Travelex has a rate tracker that will notify you when your chosen currency's rate improves.

If you think you'll have some cash left on your travel money card that you will want to exchange when you get back, be sure to get a buyback guarantee. For a small fee, Singh says this "ensures that your currency fluctuations are taken care of once you're back from your destination".

Don't get mad, get even

Starting next year, banks could face harsher penalties if they try to dodge customer complaints

There has never been a better time to file a complaint. Thanks to regulatory reforms, an industry keen to make amends and the power of social media, dissatisfied banking customers no longer have to suffer in silence. Help is on the way.

The redemption journey started three years ago. In 2017, the Australian Securities and Investments Commission (ASIC) paid the independent market researcher Nature to find out how well banks handle customer complaints. The answer was grim and the corporate watchdog gathered enough horror stories to take action.

In one of the cases Nature unearthed, an elderly couple missed their chance to buy a retirement home after a staff error was left unchecked. One banking customer had to wait more than 80 days to get a hearing on a home loan approval gone wrong and another customer was passed around to more than half a dozen staff before getting an answer.

According to the Australian Financial Complaints Authority (AFCA), the country's external dispute ombudsman for banks, insurers and super funds, it received 29,783 complaints in the five months to March. A third of them were against banks.

Just rewards

Many of us couldn't be bothered. It's a waste of time. It's a sign of our collective experience of putting up with bad service because we suspect the phone call goes nowhere. According to the report, only 8% of people who have every right to complain ever do so.

Besides the wasted time and effort, there's the emotional toll, too. Some were either too embarrassed to raise a complaint over a few dollars or hated the confrontations with the staff receiving the complaint. It's a lose-lose.

But following Nature's research, ASIC is proposing improved guidelines under Regulatory Guide 165 that will shift the power in favour of the banking customer. When they are finalised, banks will no longer be able to dodge customer complaints without serious consequences.

More accountability

By year's end, the corporate watchdog wants a paper trail like no other. Each complaint will have a unique identifying number even if it's resolved with the first contact. This means banks can't massage their dispute resolution figures simply by fixing it straightaway. ASIC wants to see patterns, right from the start, and identify systemic issues earlier. Second, banks can no longer hide under the terms "feedback", "comment" or "suggestion". ASIC wants to tighten rules around what a "complaint" means, and banks are legally bound to follow them or face penalties.

Third, complaints made through social media will be treated the same way as complaints received by phone, email or face-to-face. This would have been unheard of a few years ago. But the legitimacy of social media as another channel for internal disputes resolution (IDR) is another way the corporate watchdog is saying banks must lift their standards across the board.

It's a scary world. Cybercriminals are more sophisticated at hacking bank accounts without setting off alarm bells. More people are transacting online, leaving themselves vulnerable to automated charges without their consent. The royal commission on financial services also found that systemic issues have allowed unethical practices to thrive.

All these issues have prompted ASIC to raise the stakes. In a separate round of consultation, it wants to introduce a "mandatory data reporting" scheme that shows how banks handle customer complaints. In the past, only banking staff and the complaining customers were privy to this information. Starting next year, the data could become publicly available, allowing consumers to name-and-shame banks that have a poor track record. To do this, ASIC will be working with AFCA to corroborate customer statements with the dataset from the banks.

Not just the banks

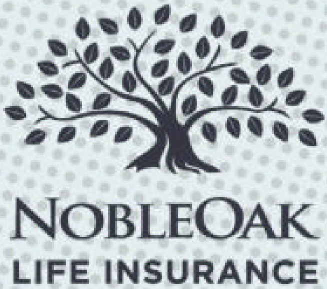
The new guidelines weren't specifically targeting the banks. They will also apply to credit licensees, general insurers, life insurers and super funds.

And Nature's findings weren't all negative. Some respondents thought their bank fixed the issue straightaway. Three in 10 respondents said banking staff explained the internal dispute resolution and external dispute resolution processes well enough.

ASIC's draft consultation report released last month didn't reveal any new financial penalties other than what's already in place. But the reputational risk, and the associated financial impact, will shoot up once complaints data becomes publicly available.

The reforms are designed so consumers are treated better across all areas of their finances – with their bank, their credit card provider, their insurers and their super fund. These are four areas where they are vulnerable to a loss. ASIC and AFCA want to give them a better shield.

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.*



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THE EXPERTS

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founder and chief executive, Stockspot

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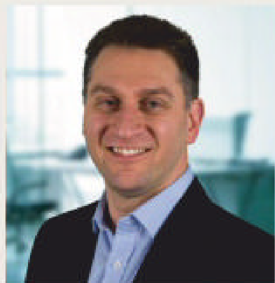
co-founder and chief executive, Six Park



Greg Einfeld
co-founder and chief financial planner, Plenty Wealth

Manish Prasad
global chief executive, Ignition Advice

High-tech touch

Digital advisers take out the high costs and hassles of investing and wealth management

Q What is a robo adviser?

A robo adviser (also called a digital adviser) provides automated, instantaneous financial advice based on a set of rules. It is typically the same as advice you might receive from a human adviser, with a more convenient user experience. Many people believe that the scope of robo advice is limited to investments only. But there are robo advisers that also provide advice on superannuation, insurance, debt and cash flow management.

GREG EINFELD

Q Why should I invest with a robo adviser?

Many investors are turning to robo advice because they've previously been unable to afford professional investment advice or haven't felt confident with the advice they've received, especially at a time when trust in the financial services industry is very low. Others are looking for alternatives to cash in the bank that will give a better return over time. You might also consider using a robo adviser because you don't want the anxiety and time commitment of choosing and monitoring your investments. Clients are investing for many different reasons: retirement, home deposits, to help children or grandchildren. More and more people are embracing robo advice as research shows that focusing on investment diversification and low costs trumps timing the market and picking stocks.

PAT GARRETT

Q Can a robo adviser manage investment risk?

Yes, but there's a caveat. Unfortunately robo advice is a catch-all term for different types of online investing. There are micro-investing apps that are great for people starting out with small amounts, but they don't provide personalised advice.

A robo adviser will ensure your portfolio stays consistent with your changing life situation and goals. We do this by reviewing your personal financial situation each year and making adjustments to your portfolio when needed. If you're young but plan to buy a house soon we might dial down the risk from a growth portfolio to balanced. Or if you're retired and drawing income from your portfolio we might migrate you from a balanced strategy to a more conservative one. Your portfolio is rebalanced over time by selling investments that have grown faster than others and adding to investments that have fallen behind. Rebalancing in this way helps to smooth your portfolio returns.

CHRIS BRYCKI

Q Why do robo advisers generally focus on exchange traded funds?

Early robo advisers focused on ETFs as they are an efficient way to offer customers with lower balances a means to invest with broad diversification. Major financial institutions are now partnering with technology providers, such as robo advisers, to provide digital guidance platforms for their customers. The institutions are then able to offer customers access to their full set of financial product offerings, moving from investments to superannuation and even insurance.

MANISH PRASAD

Q What separates one robo adviser from the next?

There can be some pretty significant differences between robo advisers, so it's worth doing some research to find the one that will work best for you. Some questions you might want to consider: Are the investment philosophy and asset allocation well articulated? Who is involved in the asset allocation decisions and what sort of track record do they have in investment management? How have the portfolios performed over time? Do you know how much you'll pay for your investment management and what those fees include?

You might also want to assess how support is provided. Although robo advice is web-based, you should still feel confident that you can talk to a real person if you need help.

PAT GARRETT

Q Is robo advice expensive?

The reason I started a robo adviser is because I believed the cost of investing

was too high for most people. Technology and automation mean automated investment services are able to keep fees very low while doing the investing and portfolio management for you. A lot of robo advisers don't charge brokerage, which can really eat into fees when you do it yourself or use a traditional fund manager.

People often forget about the costs involved when they DIY and use an online broker to invest directly in ETFs. Doing it yourself involves brokerage costs every time you buy, and this eats into your returns. Our fees range from 0.66%pa to 0.396%pa, which is a fraction of what you'd pay for a traditional adviser, investment platform and managed fund.

CHRIS BRYCKI

Q Is my money safe?

With all investments, it's very important to consider that markets will go both up and down and to make sure that you thoroughly assess the level of risk that is appropriate for your circumstances.

If the investments are in ETFs and you have your own HIN (a share trading account) then your assets are held in your name. Even if something happened to the robo adviser you would still have control over your assets.

Most robo advisers are reputable, using the products and services from larger companies. More of these large companies are offering robo advice directly with the help of robo advisers. That said, it always pays to do your homework and be careful of offers that come out of the blue or seem too good to be true.

MANISH PRASAD and GREG EINFELD

Q Are there any tax considerations?

ETFs are generally considered to be very tax-efficient, which is part of the reason for their popularity. However, your personal circumstances and the way a robo adviser invests can influence your tax position. Before investing you should find out what tax information the robo adviser will provide each year, as this can differ. Six Park provides a consolidated tax statement to assist clients and their accountants at tax time, and underlying ETF issuers also issue individual tax statements that list the various components of income and capital gains relating to clients' investments.

PAT GARRETT

Q Do I still need a human adviser?

It depends on the scope of the advice being offered by the digital adviser. At Plenty Wealth we provide holistic advice and the ability to speak to one of our advisers by video conference, so there is no need to have an additional adviser. If the digital adviser only offers investment advice then you may want a human to assist you with other aspects of your financial situation.

GREG EINFELD

Q What are the main pros and cons of robo advice?

The pros: Robo-advice is highly accessible for people who've previously been unable to access or afford investment management.

The cons: Robo-advice only uses a select number of ETFs so you can't select specific shares or products. Robo-advisers also make evidence-based decisions so they may never be the absolute best performer on offer.

Despite the advances in artificial intelligence (AI), traditional advice still holds weight when very specialist expertise is required or when complex emotions are at play. The robos are getting smarter and able to solve more complex problems every day but sometimes it is nice to sit down and speak to someone face to face. A robo-adviser isn't going to take you out for lunch.

PAT GARRETT and MANISH PRASAD

Support for a troubled heir

Extra care should be taken to provide for a beneficiary with substance abuse

When you have a child or grandchild with special needs, estate planning requires particular attention. Typically you want to protect them and often this means you can't leave them a lump sum of money in a will because they are vulnerable.

If you have a child or grandchild who is addicted to alcohol, drugs or gambling, giving them access to a lot of money probably isn't a smart move. If you have a child with a disability, they are vulnerable to being manipulated by an outsider who could rip them off.

Anna Hacker, national manager of estate planning with Australian Unity Trustees, says that this is a common concern for parents. One strategy that provides a level of protection after you die is to set up a testamentary trust in your will.

Such a trust can protect the capital and distribute an income to support them, she says. This means that the money you leave your heir can't disappear quickly and leave them destitute for the rest of their lives.

Parents typically set up a testamentary trust to protect their money from their child's partner.

Perhaps the most important decision when setting up a trust is who to appoint as the trustee or trustees. One of the trustee's main roles is to act with unfettered discretion in the beneficiary's best interests, says Hacker. An obvious choice is a family member who you trust and who knows, understands and cares for the beneficiary. But it isn't an easy role for the trustee of someone with substance abuse, says Hacker. Are they too involved to be able to say no when they are asked for money? How will they deal with hostility and anger?

"Think of the impact of a son or daughter constantly asking for money," says Hacker.

It could be better to appoint an independent trustee who is not a family member. Could they be better qualified to fulfil the role? Will they look after the beneficiary's mental and physical needs as well as manage the money and the investments?

Hacker recommends that parents or grandparents have a conversation with their heir, signalling their intention not to leave a lump sum but to set up a trust to pay an income. The beneficiary may have an expectation about receiving an inheritance, so it is worth pointing out that they are not being cut out of the will but because of their addiction their share will be channelled through a trust to protect them.

Hacker says outlining why you are taking this strategy prepares them. If it isn't foreshadowed and their siblings are given lump sums, says Hacker, they will most likely feel that they are being cut out of the will and probably contest the structure of the inheritance.

Most likely parents and grandparents will have instructions for the trustee about how the beneficiary is to be dealt with, particularly as they go through the various stages of addiction. Rather than focusing on punishing a relapse, the instructions could instead outline resources that could help support the child. For example, you may like to provide incentives if they go to rehab or continuously attend meetings of Alcoholics Anonymous or Narcotics Anonymous. Or you could offer therapy or vocational training to help them.

If you put instructions in the trust deed, says Hacker, this can potentially make the trustee's role more onerous. She recommends that you set down instructions in a separate document to guide the trustee with your wishes.

Hacker says you don't want the trust deed to be too rigid, as the instructions should be a guide for the trustee. Rules and restrictions can be challenged in court and often beneficiaries get a sympathetic hearing, she says.

Certainly there are plenty of considerations for parents to weigh up and advice from experts can help. Most likely the beneficiary is eligible for government help such as disability support or unemployment benefits. But what happens when they start receiving income from a trust? This is where an expert can provide advice.

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

Jump into a global market

Clothes, jewellery and antiques are among the items that can be sold

If you're into arts and crafts and creating one-off items, the Etsy e-commerce site can be the gateway to a global marketplace. Etsy gives artisans an opportunity to sell handcrafted goods, vintage items (at least 20 years old) and craft supplies around the world.

But be warned. A couple of hand-knitted booties won't cut the mustard. The merchandise is typically high quality – anything from jewellery laden with precious gems to extravagant bridal gowns – and it's all competitively priced.

This explains the stratospheric rise of Etsy from a three-person business in 2005 to a Nasdaq-listed company with a current market value of around $US7.8 billion ($11 billion).

Where to start

It costs nothing to start a shop on Etsy but there are some issues to consider at an early stage.

Setting up is easy enough. The website provides step-by-step instructions with a helpful set of FAQs. To get started, head to etsy.com/au, click the "Sell on Etsy" button and follow the instructions.

You are free to select the language of your shop, something that can be helpful if your wares are pitched at non-English-speakers.

You'll also need to nominate the currency for payments. As your goods are available to consumers worldwide, it can be tempting to select US dollars. The downside is that your own bank may charge conversion fees.

Next choose a shop name. It pays to aim for something catchy that helps your brand stand out from the crowd. Just be sure it's unique. Etsy will let you know if another trader is already using it.

However, it's up to you to check whether an existing Australian business is already using your idea – the last thing you need is to get slugged with a trademark infringement. That makes it worth visiting the Australian Securities and Investments Commission website to check if a business name is available.

Etsy may also ask for details of a credit card, though this is for ID verification. In addition, you'll be asked whether you are selling your products as a full-time or part-time role – details that are for Etsy's data collection purposes only.

Once these formalities have been completed, you'll need to select your preferred customer payment method. The main choices are Etsy Payments (more on this later), PayPal, cheque or money order.

Prices and run costs

Starting a shop on Etsy is free but when it comes to opening your store and trading you're looking at three main costs.

First, a fee applies to listing stock for sale. With the basic package, a 28¢ fee is charged for each listing on the Etsy marketplace. Listings last four months or until the item is sold. Etsy charges 5% commission on the sale price.

A third fee applies if you use Etsy Payments – the site's secure payment system. The fee works out at 3%-4% of the sale price plus 25¢. The Etsy system lets you accept payments via credit and debit cards, PayPal, Google Wallet, Apple Pay and Etsy Gift Cards. According to Etsy, shops that allow multiple payment options enjoy 49% higher sales than shops with just one option. Proceeds are deposited in your bank account in your chosen currency.

A second package, Etsy Plus, costs $14 a month. For that you get a range of customisable options including banner templates and featured listing options.

A third tier, Etsy Premium, will be launched later this year.

Etsy traders also have the benefit of Seller Protection, a dispute resolution program.

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

AT A GLANCE

- Etsy lets you sell high-quality handmade crafts, vintage items and craft supplies to a global market.
- You can set whatever price you choose, bearing in mind the need to be competitive.
- The site is free to join though a range of fees apply when you list and sell a product and if you use Etsy's secure payment system.
- Competing websites include eBay, Gumtree, ArtFire and Zibbet or the true-blue Aussie site madeit.com.au.

Attack of the killer sales

If you're aware of the tricks our brains play, you'll enjoy saving rather than spending

We've all done it – arrived home from the shops with an unplanned purchase on sale and proclaimed, "Look at what I saved today!", and then wonder why our partner doesn't share the same enthusiasm. Why does it feel so good to bag a bargain, even if the item has little or no direct value for us? It's because our brain is using a range of mental short cuts to reach our decision to purchase, and our brain loves mental short cuts.

Mental short cuts save time and cognitive energy, so every time our brain uses one it gives us a little hit of feelgood brain chemical dopamine, which is the drug of choice for marketers. When retailers trigger our mental short cuts, we are likely to feel good about a purchase, regardless of how rational it is. So how can we better prepare and be better aware of these short cuts?

To explore these tricks, let's look at a choice experiment I often use in workshops. Imagine you want to buy a T-shirt. You see a great one for $50 with the option of either $5 cashback or a 5% discount – what do you do? Most people (around 70%) choose the discount over the cashback. Financially this doesn't make sense because the 5% discount is only $2.50 off, but instinctively most of us want to take the discount. This is because there are primarily three mental short cuts at work here.

The first short cut is the illusion of raw numbers. We don't look at the relative value of the $5 off and the 5% discount; our brain just reads "5" and "5" and assumes they are the same value. They look the same (the illusion), but a discount sounds easier than $5 cashback so we opt for the discount. "30% off store wide" can feel as much as $30 off, but on low-cost items, of course, it's not.

The second mental short cut is the availability heuristic. Almost no one in this experiment thinks of Option C, which is to do nothing. We tend to judge the value of the deal based solely on the information presented, and we fail to identify any missing information. There is always an option to simply walk away.

The third mental short cut is anchoring. I "anchored" you to the original value of the shirt being $50 so you didn't assign its worth. For all you know the price increased by $10 before it went on "sale". The discount only feels good because I anchored your perception of value. Think of a price tag that reads "was $70, now only $50". You've just been anchored.

Each of these mental short cuts is used by marketers to trick us into focusing on savings rather than on "spendings". If you are like me and find yourself loving a bargain a little too much, arm yourself against the attack of the EOFY sales with some simple mental frameworks:

- Focus on what you are spending rather than what you are saving.
- Be mindful of the impact of anchoring and the illusion of raw numbers.
- Try to lower the emotion of the moment so you can explore the difference between perceived value and actual value.

Next time you are about to buy something, think about bursting through the doors at home and proclaiming, "I spent $X today on this [insert object that you don't actually need]," and see how you feel about the purchase then. More often than not, you'll put the bag/shirt/another useless kitchen gadget back on the shelf and feel good about it.

The sales are coming. Make sure you're appropriately armed.

With more than 15 years' industry experience, Phil Slade, behavioural economist and psychologist for Suncorp, works across digital innovation, strategy, cognitive bias and human-centred design, with a key focus on delivering new and improved customer experiences.

Resist the temptations

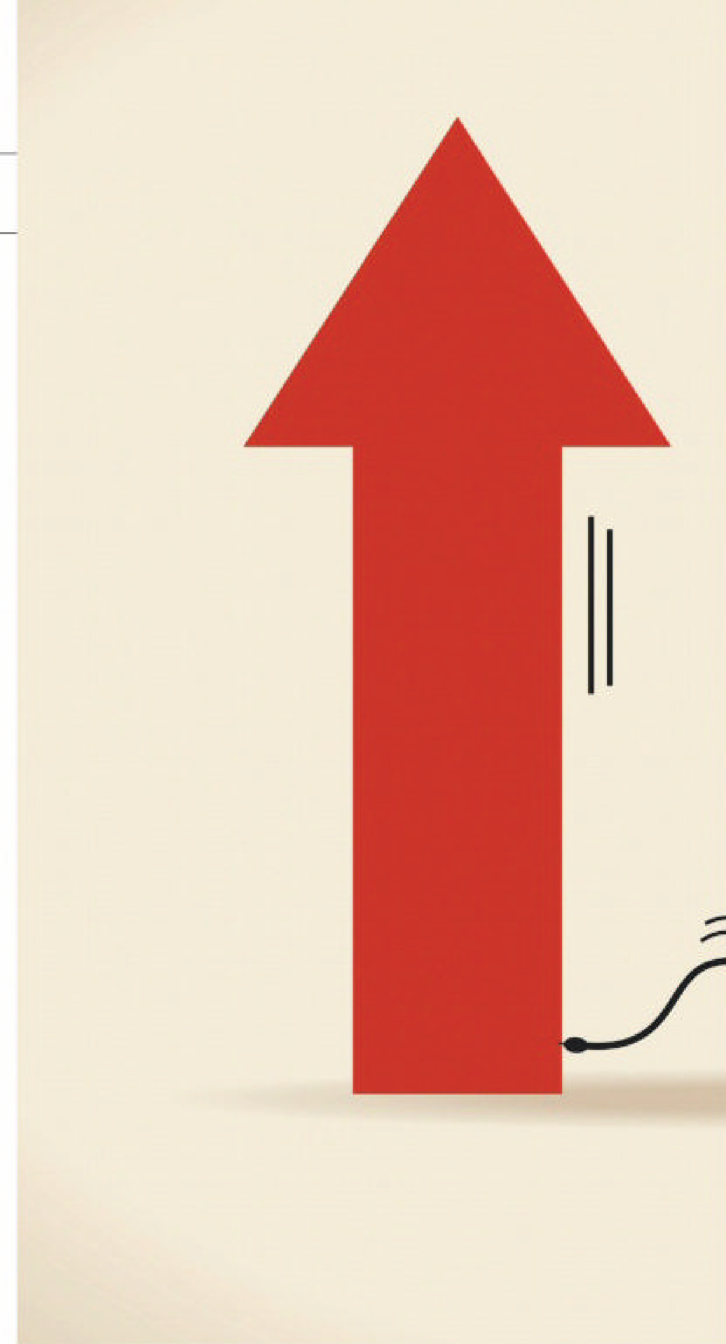
Arm yourself against the attack of the EOFY sales:

1. Set up sub-accounts that aren't linked to your "spending" card. Give them specific titles like "utility bills" or "Christmas holiday fund", and transfer everything you don't want to spend into those accounts (specific titles help you stop and think before transferring money back in the heat of the moment). This primes you to focus on your spending rather than being blinded by discounts.

2. Do the sums. When you see a percentage-off scenario, work out exactly how much you are spending, then ask yourself what you would advise your partner/child/friend to do.

3. Practise walking away. If you still want the item 30 minutes later, it will still be there for you. If walking away is the right choice, mentally note it and celebrate it with someone later. Train your brain to feel good about a good decision.

WHAT IF? Annette Sampson



Inflation stays below the Reserve Bank's target

The all-important number is struggling to hit the sweet spot but there's no reason to panic just yet

ISN'T LOW INFLATION GOOD?

Up to a point. Anyone who has lived through a period of high inflation will know it can be chaotic. Rapid price rises encourage people to speculate rather than making long-term decisions as there are so many question marks over future prices.

Economists and central banks see low inflation as more virtuous. It steadies the ship and allows people and businesses to plan for the longer term.

But if inflation is too low or becomes negative, it can slow or even stop economic growth, especially if prices start falling and we enter a period of deflation.

Consumers and businesses have no incentive to spend or invest as goods and services will be worth less in the future. This, in turn, slows the economy, which then triggers further deflation.

THE SWEET SPOT

Like most Western central banks, Australia's Reserve Bank reckons between 2% and 3% is the ideal range for inflation. It uses interest rate movements to curb inflation if it looks like getting too high and to boost it if there is a danger inflation will be too low.

When inflation didn't increase at all in the March quarter, it dragged our annual inflation rate down to just 1.3%, triggering speculation that, mid-election campaign or not, the Reserve Bank would cut interest rates immediately.

In fact, it chose to hold interest rates steady at 1.5% though most economists still predict at least one cut this year.

Philip Lowe, the Reserve Bank governor, said the bank expected inflation to pick up gradually, though this also depended on the labour market continuing to improve. He said the bank would pay close attention to what happened with the jobs market at its upcoming meetings, leaving it open for future rate cuts.

WHAT'S AHEAD

Shane Oliver, chief economist at AMP Capital, says the problem for the Reserve Bank is that inflation has undershot its target for several years now.

"The longer this persists the more the RBA will lose credibility," he says. If low

THE CHALLENGE Darren Snyder

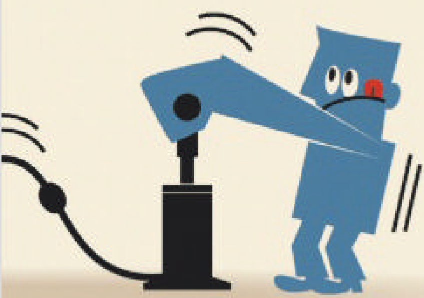
Refinance your home loan

An interest rate cut of just 0.25% can save you more than $20,000

Before the Reserve Bank decided to leave the cash rate unchanged at its May meeting, researchers at RateCity suggested home loan interest rates could reach as low as 3.19% in coming months. This was based on the lowest lender in the market passing on any rate cut in full.

RateCity research director Sally Tindall says banks have been hiking rates since 2017, due to the high cost of funding, but this pressure has dissipated "so the next RBA cut should, in theory, be passed on in full".

If the theory is correct, a 3.19% home loan rate is an attractive offer and might well present the right opportunity for people to consider



inflation expectations become entrenched, he argues, it will be harder to get inflation back to target and could make Australia vulnerable to deflation in the next economic downturn.

However, he says the bank still has scope to cut rates and could even follow the lead of the US, European and Japanese central banks in using quantitative easing (economist speak for introducing new money into the economy) if needed.

"It's a long way from being out of ammo," he says. His view is that there will be two further rate cuts this year but more dramatic measures shouldn't be needed.

WHAT IT MEANS FOR YOU

The upshot for consumers is that while the cost of some items may be rising (Oliver says items such as food, health and education rose by 2% or 3% over the past year), the increase in their overall cost of living should be tempered by weaker prices in other areas such as clothing, rent, household equipment and communications.

Many economists predict a fall in the $A if the RBA does cut interest rates. Apart from making overseas holidays and imports more expensive, this could be a good thing as it would be likely to boost inflation and provide better returns for exporters, giving the economy a further nudge along. In theory, any pick-up in inflation would also increase the pressure on employers to boost wages, which would help with both consumption and mortgage debt reduction.

Any cut in interest rates, says Oliver, could also shorten the duration of the housing market downturn.

For investors, he says, low inflation and low interest rates mean returns from deposit products and bonds will continue to be low, though low inflation is generally good for shares and income-producing investments such as infrastructure and commercial property.

However, Oliver warns that deflation, if it were to raise its ugly head, would lead to poor growth and profits and lower returns from these investments.

DID YOU KNOW?

Venezuela's inflation rate is more than a staggering 1.6 million percent. No wonder they're rioting. Burundi, on the other hand, has an inflation rate of -2.9%. In Australia, inflation peaked at 23.9% at the end of 1951 during the Korean War boom and reached a historic low of -1.3% in June 1962.

BEST-CASE SCENARIO

The Reserve Bank says it now expects underlying inflation (which strips out more volatile items) to be 1.75% this year and 2% next year. It reckons the official rate will be 2% this year, boosted by the recent increase in petrol prices. It still has scope to cut interest rates to give the economy a boost.

WORST-CASE SCENARIO

If a downturn pushed Australia into a deflationary cycle, this could mean a long period of little to no economic growth (or a recession). Witness Japan's experience over the past 20 or so years.

THE WILD CARD

International influences, such as further measures in the US-China trade war, could slow economic growth and increase the risks of deflation.

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

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refinancing. Reducing your monthly rate from 4% to 3.75% on a $400,000 loan over 30 years can save you more than $20,000.

Securing a better interest rate is regarded as one of the top reasons to refinance a mortgage, as is greater access to home equity (possibly to renovate or invest), consolidating debt or securing better terms and features.

A good starting point for refinancing is to play with some numbers on ASIC's online mortgage switching calculator. Here you can set some realistic expectations about what interest rates and repayments would be workable over a certain time period.

It's also a good idea to extend this online research by accessing any of the numerous comparison websites to guide you on some of the best loans in the market. Finally, you might also consider meeting with your mortgage broker or financial adviser to discuss your options.

When conducting your research there are several points to keep in mind, including: upfront costs, ongoing fees, whether the lower interest rate will increase after an initial period, whether bonus features will be useful and whether you can make additional repayments or factor in interest rate rises.

Once you have decided refinancing is the right option, it's best to then be prepared for the application process, which can take more than a week. Whether you're choosing a new lender or staying with the current one, the application will most likely need the same collection of documents you had for the original loan – think identification, proof of income, etc.

Following the pre-approval, the lender will also carry out a valuation on your property. Once this is complete, repayment details are organised and the contract is sent, signed and settled. From here your old loan is paid off and you're new loan begins.

STORY PAM WALKLEY

When less is more

Do you want more time or cash so you can do the things you enjoy most? Moving to a smaller house or a cheaper area can benefit your lifestyle and your finances

Downsizing – by selling the big family home and moving to something smaller or maybe just something with a smaller mortgage – is a strategy homeowners can use to improve both their lifestyle and their bottom line.

One reason some people decide to downsize is to reduce the stress of a big mortgage and perhaps also free up some cash. Maybe they want to pursue their dreams, for example by starting a small business or living a simpler, more sustainable lifestyle. Older downsizers might want to grow a bigger nest egg for retirement. They may be able to add a lump sum of up to $300,000 each to their super. This measure became available from July 1, 2018 and applies to those 65 or over selling a home they have owned for at least 10 years that meets the "main residence" exemption under capital gains tax rules. It's an exception to existing super contribution rules and does not require you to pass a work test or be under a certain age limit. Nor do you need to buy a cheaper home (or any home at all) – you can move into any living situation suitable for you. To take advantage of it you need to make the contribution – up to $600,000 per couple – within 90 days of the settlement.

If you're considering downsizing to a more affordable area while you're still earning a living, you need to move somewhere you can access jobs or with the critical mass needed to sustain your business. This rules out many country areas, where house prices are the cheapest.

But if you do your research you will find some regional and outer urban areas that fit the bill with house prices that are considerably lower than those in the major cities, particularly Melbourne and Sydney.

If you can at least partly work from home, seek out areas with good telecommunications and access to major cities.

House prices in many of the big regional areas, such as Newcastle, Geelong and Toowoomba, are still pretty stiff, but if you are prepared to live in the middle to outer suburbs the price tag can be a lot less.

If relocating to a regional area does not fit your lifestyle, you could investigate moving from a really expensive city to a cheaper one. For example, the median price in Sydney at the end of March was $782,473 and in Melbourne it was $642,425, but in Brisbane it was $489,832 and in Adelaide $426,990.

Another downsizing trend is swapping the big family home in the outer suburbs of big cities for a more convenient city pad.

Often this is more about lifestyle than money but

CASE STUDY

Family enjoys the best of both worlds

Marion downsized the family mortgage, but certainly not the family home, by moving to Armidale, in the New England area of NSW, where most properties are connected to the NBN. Marion, a high-level executive in the finance industry, works from home one week out of two and commutes to Sydney for the other week. (There are seven Sydney-Armidale flights most days.)

Marion's husband and two children live full time in Armidale. The family swapped their $3.5 million Sydney home for a bigger and grander $1.5 million property in Armidale. They used the proceeds of the sale to pay off their Sydney mortgage and buy in Armidale debt free. They borrowed to buy a $1 million Sydney apartment, which Marion lives in 27 weeks a year. It's available for short-term rent for the remaining 25 weeks, meaning the couple can claim deductions pro rata for those 25 weeks, including interest on the mortgage.

"We have the best of both worlds," says Marion. "I get to keep my career at the same time as the whole family is living in a more suitable home in a much less-stressed environment. The kids are attending great schools and can take advantage of the many sporting and cultural activities available without spending hours in traffic. And we have no mortgage on our family home, which gives us lots of flexibility."

the drop in house prices in inner-city areas, plus the less frenetic pace of these markets now, has also made it easier.

Some people looking to downsize to inner-city areas are more into luxury, forgoing a large home for a smaller one to free up cash and time. This usually means an apartment, where prices are more likely to have fallen in the past year because of the oversupply of new properties.

Many of these downsizers are also sick of looking after the family garden. And if they're either retired or have a reduced workload, they're likely to want to travel more and the convenience of having a place they can lock up and leave is attractive.

The federal government's new downsizer incentive particularly benefits those who are asset rich but cash poor and are looking to free up some money to fund their retirement.

But downsizers should carefully consider whether the scheme fits their situation. Once the costs of selling your old property and stamp duty for the new property are taken into account, the amount of capital released may be less than you expect.

And for homeowners moving from a dated family home to a modern, well-located apartment, there may not be a big difference between the prices.

It's also possible that selling the family home could make some people ineligible for the age pension. Keep in mind that the family home is exempt from pension tests, while cash is not. **M**

CASE STUDY

Less work plus a lower mortgage

Jodie and Kurt moved from Yowie Bay, a sleepy suburb 30km south of Sydney, to the hustle and bustle of Surry Hills, 3km from the Sydney CBD, last year. Their old property was a two-level, five-bedroom house with a swimming pool on 580sq m of land. Their new house is a three-level, five-bedroom terrace on 157sq m. They plan to renovate in two to five years. It was mainly a lifestyle choice for the couple and their four children.

"Yowie Bay was a beautiful home with magnificent gardens. However, the maintenance of both the gardens and the pool meant that our weekends were taken up with caring for them," says Jodie.

"The home was lovely while the children were young because they enjoyed the pool and riding bikes but now they have all left school and are working and studying. We wanted to give our kids as much opportunity as we could for their employment and at the same time reduce the work around the house, giving us more time to do what we enjoy doing, such as going to the theatre, eating out and enjoying the architecture that the city offers."

The family sold their old property and bought a new one within days. They achieved about 10% less for their home than they had hoped for but they bought their new place for a little less than the vendors wanted. "The beauty of buying in a low-priced market is that you don't need to borrow as much as you would if prices were higher," says Jodie. "We have marginally reduced our mortgage."

Home help

STORY NICOLA FIELD

There are many ways parents can give their children a leg-up but there are also traps to avoid

The property market downturn has been a gift for first-time buyers. Home values nationally have fallen 7% over the past 12 months but in our most expensive cities, Sydney and Melbourne, they have dipped by 11% and 10% respectively

That's giving first homeowners some real buying power. But a helping hand can still be essential to get a foot on the property ladder, and there are plenty of ways parents can get involved.

Know the basics

As a first timer, a key rule of thumb is to understand where you stand in terms of your buying power at an early stage. It may not be necessary, for example, to have a 20% deposit.

"These days no lenders offer no-deposit loans. But there are some that may accept just a 2%-5% deposit," says James Symond, chief executive of mortgage broker Aussie.

Among the cheapest home loans in *Money's* 2019 Best of the Best awards, a number of lenders, including Move Bank and Easy Street, accept deposits as low as 5%. And many lenders will let you use the First Home Owner Grant as part of your deposit.

However, there is a catch. While low-deposit loans can be the gateway to buying a place of your own sooner, Symond cautions that with anything less than a 20% deposit, first home buyers will have to pay lenders mortgage insurance (LMI).

This is a one-off cost – your lender will organise cover, so you don't have to shop around. However, the real sticking point is that LMI protects the lender, not the home buyer, if you can't keep up the repayments. So it's definitely an expense worth minimising.

More importantly, LMI doesn't come cheap. Let's say you plan to buy a $400,000 apartment with a 5% deposit of $20,000. The cost of LMI could add up to $12,800. Sure, you may be able to add this to the loan balance and pay it off gradually over time. But tagging LMI onto the loan can push you over the lender's 5% minimum deposit requirement.

It's a catch that can be avoided by speaking to a mortgage broker or lender at an early stage – certainly long before you've seen a place on which you'd like to make an offer.

In the meantime, there is plenty that mum and dad can do to get you into a first home sooner – and it's fast becoming the norm.

"There's a reason why the 'bank of mum and dad' has become a well-known catchphrase," says Symond. "Increasingly we're seeing more young Aussies receiving help from their parents to get their foot in the door."

Let the kids live at home

It may not be for everyone, but one of the easiest, no-strings-attached ways for parents to give adult children a leg-up onto the property ladder is to let them live rent free (or low rent)

Even with a cash gift from mum and dad, first-time buyers still need to show a strong record of savings, usually for three to six months

in the family home. It can be an opportunity to supersize a deposit sooner rather than later.

Cash gift

What if mum and dad have some spare cash? It may seem like an easy way to help an adult child get into their first home. But there are strings attached.

"The lender needs to understand that there is no expectation that the cash needs to be repaid. Usually a letter from the parent stating this will do," says Symond.

However, he points out that first home buyers still need to show a strong record of savings, usually spanning three to six months. In keeping with this, "some lenders require a cash gift to sit in the first home buyer's bank account for at least three months".

For older parents or grandparents, it pays to bear in mind that handing out gifts of cash can impact age pension entitlements. Pension recipients can only gift up to $10,000 per financial year, or up to $30,000 over a five- year period, to stay within the gifting-free rules.

Loan from mum and dad

According to Symond, most lenders will accept cash gifts or loans from parents. However, from a lender's perspective, the need to pay off a loan from mum and dad can impede your ability to manage a home loan.

This is where a parental loan can be a double-edged sword. "Any sort of debt or liability, including a loan from mum and dad, can impact a first home buyer's ability to borrow – so this is something you'll want to consider when accepting a loan from a family member," says Symond.

Parents can act as guarantor

On the face of it, one of the least stressful ways for parents to assist first home buyers is to act as guarantor for all or part of the loan. Scratch the surface, though, and this strategy has downsides, including the potential to damage parents' financial wellbeing.

A guarantee works by using the equity in a parent's home to provide additional security for your first home. No cash changes hands. And as Symond points out, "parents don't have to guarantee the whole mortgage. If your son or daughter has saved a 10% deposit, you could guarantee just 10% of the loan to help avoid LMI."

First home owners can release their guarantor once they have built up sufficient equity – either by making additional repayments or through an increase in the property's value.

A number of lenders offer "family pledge" loans pitched at first home buyers relying on the support of a guarantor. St.George Bank's Family Pledge home loan, for example, allows first home buyers to borrow up to 100% of the purchase price plus costs such as stamp duty and legal fees.

"Most lenders accept a guarantee," says Symond. "But there's more to getting a home loan than just having a guarantee. The buyer still needs to be able to prove they can repay the loan." Put simply, your income and expenses still go a long way to shaping your eligibility for a loan.

Downsides for guarantors

But – and it's a big but – there are risks for parents acting as guarantors. For a start, the guarantor's ability to borrow money for their own needs can be severely impacted. The bigger risk is that if the first home buyer cannot maintain the repayments, the lender will turn to the guarantor to make good with the loan or the portion they have agreed to guarantee.

For parents heading into retirement this can represent a significant risk. You could be putting your financial wellbeing on the line for an adult child. This explains why lenders often ask that guarantors seek independent legal advice so that they know exactly what they're signing up for.

Perhaps a fridge instead

If it all sounds too hard, rest assured there is another avenue of support parents can offer. "There are other costs to home ownership, and if a parent isn't in a position to provide a loan, cash gift or go guarantor, they could help out by chipping in for stamp duty, legal fees or even other items that need to be bought for the new home like furniture or whitegoods," says Symond.

Ultimately, it's about what works for you as a family, taking into account the needs and risks of everyone involved. **M**

Deductions in the danger zone

The tax office will keep an even closer eye on property investors this year

With the end of the financial year looming, the tax office is on the warpath, targeting property investors who get their deductions wrong. It's also aiming its sights at those who make money from property, such as renting out a room on Airbnb, but don't declare the income. And it has warned real estate investors that they will be subject to more than double the number of audits this year.

ATO assistant commissioner Gavin Siebert has cautioned property investors not to test their luck against its increasingly sophisticated detection methods after more than $47 billion in rental deductions were claimed in the 2017-18 financial year by 2.2 million Australians.

"A random sample of returns with rental deductions found that nine out of 10 contained an error," Siebert said in a statement. "We're concerned about the extent of non-compliance and will be looking very closely at claims this year."

The ATO audited more than 1500 taxpayers making rental claims in 2017-18, applying $1.3 million in penalties, including $12,000 for one person who claimed a deduction for a holiday home that wasn't actually available for rent.

Siebert said audits on rental deductions will focus on over-claimed interest, claiming capital works as repairs, incorrectly, lodging expenses for holiday homes lent to others and omitting income from accommodation sharing.

Here's how to avoid these mistakes:

- You can only deduct the actual amount of interest that relates to your loan on your investment property. If, for example, you redraw on this loan for living expenses, you need to apportion your rental interest deduction to take account of this. One taxpayer had to pay back $5500 for failing to do this in 2017-18.
- Claiming capital works as repairs is a mistake that's fairly common. The ATO provides clear definitions to help investors work out the difference between what's considered a repair, regular maintenance and capital improvements. A repair covers any work to fix damage or deterioration of a property. Examples include replacing part of a fence broken during a storm. Maintenance is considered work preventing damage or deterioration, for example having the carpet cleaned or a deck oiled.

The costs of repairs and maintenance can be claimed as a 100% deduction in the year of the expense.

But if you remove and replace the fence or carpet or build a new deck, these will be classified as capital improvements, which must be depreciated and claimed as a capital works deduction or as depreciation.

- The rule with regard to holiday homes is that you can only claim deductions for expenses to the extent that the home is rented out or genuinely available for rent.

You have to apportion your expenses between periods of genuine rental, private use or use by family relatives and friends free of charge or at less than market rent. For example, your holiday pad is available for rent 45 weeks of the year and widely advertised, you use it for four weeks and you allow a friend to use it for three weeks at a big rental reduction. You need to divide your total expenses by 52, claiming for 45 weeks. For the three weeks it's rented at a lower rate your maximum claim is the amount of rent you received. And, of course, you can't claim for the period you used the property.

- If you share your home with a tenant – either long term or for a short stay – you need to declare the rental income in your income tax return. You can claim deductions for the associated expenses, such as part or all of the interest on your home loan. (If you do this you may be up for some capital gains tax when you sell. You need to apportion expenses according to floor area, based on the amount solely occupied by the renter plus a reasonable amount based on their access to common areas, says the tax office.

Make sure you claim all you're entitled to but don't over-egg your deductions. Penalties can run up to 75% of a claim and the ATO has warned it will scour data from financial institutions, property transactions, rental bonds and online accommodation booking platforms to catch offenders.

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.*

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On the income trail

At a time of ultra-low interest rates, it's still possible to get a decent return without taking unnecessary risks

STORY TERRY RYDER

A combination of factors has driven greater investment in mortgage trusts, but the industry believes Australians remain under-invested in this sector.

Retirees, people with self-managed super funds and others seeking capital stability as well as consistent income have pushed the recent growth, while the credit squeeze by the major banks has provided opportunities for the non-bank sector to offer good returns at reasonable risk.

At the same time, according to Louis Christopher, managing director at SQM Research, the chase for yield has increased the risk appetite of investors.

"Mortgage trusts are attracting borrowers on a slightly higher risk spectrum, paying 5%-6% or a little higher," he says. "It doesn't mean the borrowers are problematic but banks have restricted lending to mums and dads and have also been hard on self-employed people."

Because the major banks have been tightening their criteria and screening borrowers more stringently, the non-bank sector has picked up some "very good risk-free loans".

"Often they're borrowers who have gone through that tougher experience with the major banks and are fed up, so they're willing to pay a little bit more for the greater convenience," says Christopher.

Who's investing?

Chris Andrews, senior vice-president and chief investment officer at La Trobe Financial Services, says the mortgage trust product is a natural fit for older investors.

"Classic investment theory states that an investor should 'own their age' in fixed-income investments," he says. "That is, the older you are, the more your portfolio should be tilted towards capital-stable, income-producing investments.

"A 60-year-old should have 60% of

La Trobe financial

So what makes for a successful income investment?

Capital Stability - For over 65 years La Trobe Financial has been helping investors build wealth.

There's safety in the pool, but not if there's a shark in the pool

their portfolio in such investments, a 70-year-old should have 70%, and so on."

La Trobe, whose mortgage funds score highly in the SQM Research rating system, maintains Australian investors are "massively underexposed" to fixed-income investments, despite the recent growth.

"At an aggregate level, Australia's pension system has one of the lowest fixed-income exposures in the OECD and the self-managed superannuation fund sector is no better," says Andrews.

Funds like the La Trobe Australian Credit Fund (which SQM gives four stars out of five for the Select Investment Account and 4.25 stars for the 12 Month Term Account) give investors exposure to "an outstanding asset class" and a manager with long-term experience.

Investors can generate consistent monthly income, without the capital volatility that characterises many other forms of investment, says Andrews.

Volatile history

One reason the sector has under-achieved its potential to date is the chequered history. Christopher says the sector was "nearly wiped out" after the onset of the GFC, thanks in part to the federal government providing a guarantee to the major banks but excluding the non-bank financial sector.

"That caused a bit of a run on them and some of the big names had to freeze, and it took years before they could return funds to investors," says Christopher. "Entities like Challenger, AXA and Coles, plus some of the smaller names, got smashed.

"Some funds survived, in particular those mortgage funds that had no guarantee or didn't promote at-call liquidity. La Trobe made it through that difficult period because they tied the liquidity to the underlying assets."

Andrews says the GFC provided straightforward lessons, with the quality of the assets paramount. "Had the US mortgage market not engaged in systemic irresponsible lending, there would not have been a GFC," he says. "The Australian mortgage sector has been significantly more rigorous in its asset selection and this has resulted in consistently strong returns for investors.

"There have been exceptions, however, and the themes keep repeating. Avoid managers who lend to related parties and who build concentrated portfolios with a small number of large investments – diversification is the one true free kick in investment.

"And be careful about exposures to those sectors that have historically been more risky and volatile, both geographically and sectorally."

The other great lesson is that managers and investors have to pay careful attention to liquidity risk. Some funds, pre-GFC, positioned themselves to investors as if they were cash accounts and that came back to bite them.

"Some managers focused on short-term investment horizons

And...
Track record of performance - Our approach has been tested in every economic cycle.
La Trobe financial

while investing in multi-year assets," says Andrews. "This caused some of these funds to have to freeze redemptions while they liquidated their asset holdings."

La Trobe avoids liquidity stress by positioning its offerings carefully. "We do not look to attract investors' grocery money, but rather funds that they can invest for an appropriate term," says Andrews.

"We ask our investors to commit for a specific term, which differs according to the account they are selecting. This allows us to manage the fund's liquidity profile to overcome any moments of market disruption."

Non-banks pick up the slack

Christopher says that out of that difficult period a core body of funds became stronger, notwithstanding some episodes of trusts going down because the management was poor.

And as the lending sector undergoes "a significant realignment back to historical norms", it's providing plenty of high-quality assets for non-bank lenders.

"Traditionally the non-bank sector held about 20%-25% market share in the residential mortgage space," says Andrews. "Following the GFC, this shrunk to circa 5%, as the banks shifted their focus to what they saw as safer, less volatile assets.

"More recently, the banks have been forced to restrict their lending program, partly because of criticism from the Hayne royal commission about their automated credit assessment model. However, it is also predates the royal commission and reflects increasing regulation and capital requirements for banks around the world [which were implemented in Australia by APRA]."

The net effect is that the lending market needs the non-banks to "pick up the slack" that the banks have left behind. "So far, there has been a modest – from a systemic perspective – increase in flows to the non-banks," says Andrews. "The odds are stacked against investors today. Ultra-low interest rates have been baked into the economy for a decade. So investors looking even for a modest income from their portfolio are struggling to find it."

So some investors are attracted to the performance of a capital-stable, income-producing fund such as the $3.3 billion La Trobe Australian Credit Fund. "While the returns of the 12 Month Term Account are variable, they have been 5.2% per annum since September 2015," says Andrews. **M**

This report was sponsored by La Trobe but was independently researched and written.

Features to look for

Gavin Hegney, an experienced investor and media commentator, says the key concern with mortgage trusts is the quality of the assets, which reflects the people who have to repay the loans.

If a fund is offering investors 5% or 5.25%, it has to lend at higher interest rates to make money and that calls into question the calibre of the borrowers.

"Key questions include, why aren't the banks lending to them?" says Hegney. "Is it because the asset isn't good quality or the borrower isn't good quality.

"There's safety in the pool, but not if there's a shark in the pool."

Louis Christopher, from SQM, says this means the fund manager's reputation is critical.

"Investors need to do their research and understand what they are investing in," he says. "One of the issues has been that investors are not always fully informed about the risks they are taking on. Sometimes a fund is promoted as low risk when it's not. That's where retirees can get into trouble."

Christopher says the entities that continue to survive and thrive are "very conservative" with their management, including La Trobe and Equity Trustees.

What's on offer depends on the risk spectrum under which the mortgage trusts operate.

"With those offering returns of 4%-6%, such as La Trobe, Australian Unity and Firstmac, you'll find there are pretty solid borrowers – perhaps self-employed people – and the trust managers have done all the necessary checks."

Those offering 7%-8% have a higher risk spectrum, lending to, for example, property developers or people seeking no-doc loans.

"The mortgage trust charges a lot more interest to those borrowers, that's why the yield is higher, but investors need to be aware that it has that higher-risk spectrum," says Christopher.

He says the key advice is to avoid punting all your money in this sector. "Invest only what you can afford to risk. You need to diversify your assets. Retirees in particular need to be very careful."

Andrews maintains La Trobe is "acutely aware" of the importance of careful asset selection.

"It is the quality of our assets that drives our investors' returns," he says. "Those managers who have dropped their credit standards over the years have quickly learned that this results in adverse outcomes both for their investors and for their businesses."

Christopher says that, as a research house, SQM favours trusts that tie fund liquidity back to the underlying liquidity of the assets, which are mortgages.

"That way no one is being misled. If you offer at-call liquidity and there's a run, that trust will have to freeze and will disappoint a lot of people. However, if investors are locked in like a term deposit, liquidity can be far better managed."

Top-rated mortgage funds

FUND	STAR RATING (out of 5)
La Trobe Australian Credit Fund 12 Month Term (LTC0002AU)	4.25
Australian Unity Select Income Fund (SQM1216AU)	4
Balmain Private (Balmain Discrete Mortgage Income Trusts) (SQM1216BA)	4
EQT Wholesale Mortgage Income Fund (ETL0122AU)	4
Trilogy Monthly Income Trust (TGY0003AU)	4
La Trobe Australian Credit Fund – Select Investment (MFL0002AU)	4
Firstmac High Livez (PER0697AU)	4
AIMS Commercial Mortgage Fund (MCK0005AU)	3.75
Boston Private Income Fund (BML5047AU)	3.75
Eclipse Prudent Mortgage Fund (SQM7643EC)	HOLD*

Source: SQM Research *Rating suspended pending further information

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Spread your

STORY SUSAN HELY

Gold, hedge funds and even "fear" provide opportunities beyond the traditional asset classes

With shares, bonds and property looking expensive, and cash rates abysmal, some investors are looking outside the usual box. More than a quarter of financial planners attending a Morningstar conference said they are placing their clients' money in alternative investments over the next 12 months.

"Alternative" is a term for a mixed bag of investments that don't fit the main asset classes. They include infrastructure, hedge funds, private equities, gold, currencies and collectables such as stamps, art, fine wine, classic cars and rare books.

"Alternative investments are anything that isn't one of the big four: equities, bonds, property and cash," says financial planner Jonathan Hoyle, from boutique wealth management firm Stanford Brown.

"Three of the big four are overvalued and expensive on a long-term basis. The yield on cash is low but this doesn't mean that the price of these three banks is going to fall. The question is whether the prices are going to go up like we have seen in the past."

The bull run in equities is now three decades long and economists describe the current investment climate as "late cycle". Some alternatives are connected to sharemarkets, such as hedge funds or funds such as the Triple3 Partners Volatility Advantage, which follows the VIX Index, also referred to as the fear index, a measure of expected volatility on the S&P500 Index over the next 30 days. "It is possible to hedge out the risk of holding equities via options on the VIX Index," says Simon Ho, chief executive of Triple3 Partners.

Industry superannuation funds' substantial allocation to alternatives such as infrastructure, private equity and hedge funds has helped give them a significant performance edge over retail super funds, which typically hold little or nothing in alternatives.

While the big four asset classes share common risk and return drivers, alternatives typically don't. Traditionally, alternatives haven't been transparent, liquid or easy to track. But exchange traded funds (ETFs) that invest in alternatives such as infrastructure, gold and hedge funds and are listed on the ASX have changed that. You can see the underlying investments and a big attraction is lower fees than those for unlisted alternatives.

Importantly, alternative investments are often more risky than the main four asset classes, says Hoyle.

"Sadly, alternative investments are more expensive, which is a major drawback," he says. While a typical share fund may charge 0.8%-1%, unlisted alternatives may charge up to 2% plus an additional performance fee. This can have a substantial drag on returns. "We have seen hedge funds really suffer from high fees," says Hoyle.

Financial planners such as Hoyle use alternative investments sparingly. Of all the alternative asset classes, he uses three sorts of alternatives only: gold, private equity and, controversially, commercial property, which he puts into the alternative category while many others believe it comes under the property asset label.

Commercial property

"Commercial property yields have been mouth-watering compared to residential yields," says Hoyle. "You can get 5%-6% yields for commercial property while, despite what everyone says, you only get 2% from residential." The performance is in addition to the yield.

You can invest in unlisted pooled property syndicates or managed funds, or via a low-cost real estate investment trust (REIT) ETF. They are listed on the ASX and have better liquidity than unlisted pools, but returns are much more volatile because the market "values" change constantly.

Hoyle likes the Vanguard REIT (ASX: VAP), which charges 0.23%pa and holds 36% in retail property, 18% in industrial and 13% in office blocks. It has returned 25.6% over the 12 months to the end of March 2019 and 10%pa over the past three years.

He also likes the VanEck Vectors Australian Property ETF (MVA), which returned 33.5% over the year to the end of March 2019 and 12.81%pa over the past three years. It holds 11

Test the waters first

What you need to consider about infrastructure, private equity and hedge funds:

- Liquidity is often restricted or conditional.
- Fees are high, and not always fully disclosed in the case of non-listed funds.
- Leverage can be high and the attractive stability of an infrastructure asset can be transformed with a leveraged equity position.
- There are often no clear-cut benchmarks or indices to measure investment performance.

property trusts with a maximum weighting of 10% and charges a management fee of 0.35%pa.

Gold bullion and miners

Gold bullion prices are up, largely over political uncertainty and weakening economic signs. You can stock up on gold either by buying gold bars or coins or through large or small cap gold mining companies on the Australian sharemarket.

But the drawback of gold bars and coins is that they do not pay an income. This means they do not compound and this makes gold a rich person's investment – it's for those who can afford to have an asset that earns no interest.

Legendary American investor Warren Buffett has described gold as an "unproductive asset". If you buy an ounce of gold and hold it for 10 years, all you have at the end is one ounce of gold. You are speculating on price rises, which can be fast, so timing is all-important.

Watch out for the high fees charged on gold bars and coins on top of the gold price when you buy and sell.

The profitability of gold companies swings on commodity prices and so when the gold price rises often the mining companies' share prices rise. When they tumble, they fall back. If you buy gold companies, buy ones with quality assets and deep resources.

One hassle-free way to buy gold that is liquid is a physically backed gold ETF such as ETF Securities' Physical Gold (GOLD), which has jumped 9.85% over the first quarter of 2019. It holds fully allocated gold bars with HSBC Bank in a London vault.

Private equity

When you invest in private equity, you are placing your money with private equity managers who take a majority ownership in companies. The strategy of private equity managers is to "buy, strip and sell". Hoyle uses the example of a private equity firm buying a group of radio stations and rationalising the assets and lowering the costs. The private equity company bundles them up and raises capital by listing them on the sharemarket through an initial public offering (IPO). Hoyle says private equity funds can benefit from the late-cycle investment climate of the sharemarket.

But watch out for the private equity fee levels, including performance fees, as they are high and often not fully disclosed under agreements. Also most private equity acquisitions are highly leveraged, which amplifies expected returns, potential fees and risks.

Infrastructure

These investments have performed strongly over the year to the end of March. The AMP Global Infrastructure Securities ETF (GLIN) returned 24%, the ETFS Global Core Infrastructure ETF (CORE) gained 16.4 % and the Vanguard Global Infrastructure Index ETF (VBLD) rose by 13.5%. Infrastructure funds are either listed on the ASX or unlisted, and fall into two broad categories:

- Regulated monopolies such as electricity and gas transmission, and distribution with revenue controlled by the Australian Energy Regulator (AER) or the Independent Pricing and Regulatory Tribunal. They are defensive investments.
- Competitive segments such as roads, ports and airports that can be more cyclical because they are more exposed to the economy.

Check the assets, which can range from greenfield developments to mature business with varying income and growth profiles. In some cases cash flows are linked to inflation.

Infrastructure companies typically have debt in the 50% to 70% range, which is expressed as debt to assets. The AER assumes leverage of 60% in its decisions. Infrastructure prices have been pushed up over the past few years by increased competition chasing too few assets.

Hedge funds

Large institutions have been dumping their hedge fund investments because of their complexity, high fees and lacklustre performance. It is hard to generalise because the category is an umbrella term for so many different strategies such as convertible arbitrage, long/short equity, event-driven distressed, fixed-income arbitrage, global macro and many more. *M*

STORY VITA PALESTRANT

Investors who follow the herd into get-rich-quick schemes are likely to be losers rather than winners

Banish the gambler

Modern economics is based on the assumption that we humans always act in our own best interest and in a purely rational way. But the "irrational exuberance" that led to the 2008 GFC demonstrated just how flawed we are as investors.

Behavioural economist Richard Thaler, winner of the 2017 Nobel Prize for economics, explored these flaws – lack of self-control, limited rationality and routine biases – which give rise to poor choices and embarrassing blunders and leave us baffled in hindsight.

Who can remember the dot.com frenzy, agricultural investment schemes, mass marketing of contracts for difference and forex trading or double gearing into index funds. While they are etched in the memories of those who lost money, they hardly rate a mention now.

Investment fads come and go but they all have common characteristics. They are heavily hyped, create mass followings and convince investors they can make a fortune easily.

Watch for red flags

"How I would define an investment fad is something that was massively popular at the time and not necessarily popular now," says associate professor Adrian Raftery, the course director of financial planning programs at Deakin Business School. "People invest in them without thinking or knowing much about them. Cryptocurrency is a good example."

He says an initial $1000 invested in bitcoin shot up to $US20,000 in December 2017 but has subsequently plunged to about $US3200 a year later. (At the time of writing it was about $US7500.) It is also subject to theft. Hackers recently stole $US40 million worth of Bitcoin from one of the largest cryptocurrency exchanges.

"Everyone loves a get-rich-quick scheme – there's something of a herd mentality about it," he says. "People will tell everyone about their huge wins but not about their huge losses."

Dominique Bergel-Grant, a director and financial planner at Leapfrog Financial, says there's a reason licensing exits and why financial planners tend to stick to "boring" investments. "An investment needs to be proven over time and there needs to be a track record. If you look at the Bitcoin example, it was when it was at its peak that the maximum hype occurred. It was already extremely high-risk for the people piling in. Those selling it weren't qualified, licensed or registered advisers.

"The biggest question to ask when you get carried away by the hype is: if you are buying, someone else is selling, so what are the reasons they are willing to sell you that Bitcoin, or investment property in a mining

town, or agricultural scheme? It's about understanding why they are willing to sell it to you when they could be making a windfall instead."

Chris Giaouris, a partner and principle adviser at Chronos Private, also elects cryptocurrencies as the No.1 investment fad. "Bitcoin went up so quickly and has come down just as quickly. It's a good example of something that can be hyped and hyped and hyped, initially in private channels, then social media and then the mainstream media.

"It's talked about by everybody – people with no investment experience, people with lots of experience, highly educated people, people who just follow the crowd. Some people who bought and sold quickly made a fair bit of money, but for rest I can only imagine how much they've lost over the last 12 months."

Human foibles

Giaouris knows one investor who used his credit card to invest in different cryptocurrencies. "The extra-scary thing is he was trying to recoup losses from a previous poor investment that he had lost money on. So he was doubling down to try and make extra profit."

Initially, he did well. "Once you've made some profit you think it's not going to stop. 'I'm going to have a 500% return for the next three years!' – that's what people tell themselves." Instead, the inevitable happened: the crypto market dropped sharply, leaving the investor deeply in the red and worse off than ever.

While most people don't sink their life savings into speculative investments, Giaouris says one client who came to him had a self-managed super fund that only invested in gold, silver and cryptocurrencies.

"That was his strategy. He thought he was an expert investor and felt he had inside information on cryptocurrency that was going to give him a competitive advantage that no one else had.

"People think they are ahead of the curve but at the end of the day if you've read something on the internet it's already well and truly priced into whatever market you're reading about. It's not like you have some information no one else has."

Fertile ground

An investment fad doesn't necessarily have to be confined to the virtual world and involve complex technology – it can be something as simple as bricks and mortar. Although it has played a central role in wealth creation not all property is created equal.

"We saw this in the US a few decades ago," says Giaouris. "You buy a property, it's a guaranteed way to make money. You can't really lose. Except you can." Like other fads, "fear of missing out" (FOMO) has driven off-the-plan property purchases.

"The problem with off-the-plan property is there isn't a market to give it a true value. The developer sets the prices and the developer is going to set a price that makes them a healthy profit, they're not interested in the intrinsic value."

Unprepared buyers were caught out when their apartments dropped by 10%-20% and lenders demanded they top up their equity. "It meant they didn't have enough equity in the property and needed to either add money to the deposit or borrow more. Some buyers had the funds to top it up or were fortunate enough to have assistance from family, but not everyone did. A lot of people had to walk away," he says.

Those who walked away were left with nothing more than a bad credit rating. "It's not an easy situation to find yourself in after you've lost quite a lot of money," says Giaouris.

"It's the perfect storm. You've got an investment fad and you're borrowing to take advantage of it. If you can get in and get out at the right time, then maybe it can work. But with these things, generally they come down as quickly as they go up."

Bergel-Grant says mining town investment property is another recent fad. "During the mining boom property prices went up rapidly but then they crashed just as heavily. It's about that short-term windfall where people think, 'I can make money. It's easy money.'

"The reality is there is no such thing. At the end of the day there are rules around basic fundamentals like supply and demand."

She says it's a danger to think you are smarter than everyone else. "I've got a simple rule if you're hearing about it on social media, if your Uber driver is telling you about it, if friends are telling you about it or your son-in-law is trying to convince you to buy something because he's just made a tonne of money on it – you are already too late."

Tough environment

Not all those who chase investment fads are risk takers, impulsive personalities or naive people who fall for the hype.

"There's a large portion of the community who don't have adequate funds for retirement and they do take a bit more of a gamble to try to fund their retirement. It's often people on struggle street who seem to be the victims," says Raftery.

Uncertain market conditions can encourage risk taking, says Bergel-Grant. "This is a difficult environment in which to get good investment returns. It's hard to get good returns when the cash rate is so incredibly low. Investors are looking at investing in shares but that's a risk. Property is going down and that's a risk. People are asking, 'Where can I put money?' "

"Often these get-rich schemes feel like it's the only way through or out of what can feel like a bit of a rut. But sometimes it's good to be really boring. Right now, cash is where you want to have your money." *M*

DO YOUR OWN DUE DILIGENCE

"I'd recommend that the consumer do their research, get to know the product and get independent views. You need to understand what you are investing in. If you can't explain it simply then you probably shouldn't be in it. That's probably No 1," says Deakin Business School's Adrian Raftery.

"If it's not a traditional investment, typical bricks and mortar or the top stocks in the stockmarket, it's more speculative, I'd say be prepared to lose the whole amount. If you are not willing to lose the whole amount, I'd say don't gamble it."

While it's rare for people to bet their home on a get-rich scheme, that's what happened with the advisory firm Storm Financial. People borrowed to the hilt, double geared, and lost their homes during the GFC.

But on a positive note, Raftery says greater financial regulation and tighter borrowing requirements since then mean many get-rich-quick schemes have been eliminated.

Chris Griaouris, from Chronos Private, agrees: "If we want to give clients advice on anything, even the smallest thing, the amount of regulation and compliance and paperwork we need to go through is intense.

"I'd like to think these sorts of investments that come with a lot of risk are going to be better researched now either through an adviser or the end consumer doing that research themselves.

"Twenty years ago, people were more easily sucked in by hype. The flow of information is far faster today than it was 10 years ago let alone 20 years ago. Investors are smarter in their research now and more willing to share good and bad stories," he says.

See ASIC's safety checks at moneysmart.gov.au/investing/investment-warnings.

It's in your hands

STORY SUSAN HELY

You don't have to set up an SMSF to be in control of your retirement savings

If you have your retirement savings with a superannuation fund, to what extent should you tinker with the investments?

Most funds allow you to choose your investments from a line-up of options. What's more, you are free to switch at any time. Funds recognise that some members want full or partial control of their investments and if they don't offer a selection of investment choices, members could take their money and set up a self-managed super fund (SMSF).

The question of whether to actively have a go at investing is a dilemma for some super fund members, especially if they know about investing or want to further their skills by using their own nest egg.

Most funds offer not only a range of diversified options, such as high-growth or conservative as well as the default balanced fund, but also a menu of different asset classes such as international and Australian shares, fixed interest, listed property, cash and socially responsible investments to allow members to build their own portfolios.

Quite a few super funds, such as AustralianSuper, QSuper, CareSuper, Hostplus, Media Super and Cbus, offer a smorgasbord of direct investments that includes the top 300 listed Australian shares, dozens of exchange traded funds and term deposits. Fees are higher for the direct option than for the default fund but you have access to a wide range of tools to help you manage your portfolio.

Funds such as Cbus offer direct niche investments in its self-directed option including unlisted and listed infrastructure. HESTA has a private equity investment option, a line-up of unlisted managed funds and, together with CareSuper, offers listed investment companies.

The defined contribution super system that most Australians belong to – except for a small number of defined benefit funds – means that you are responsible for your own retirement savings.

Choosing how to invest

How you choose to invest your super is one of the most important decisions you can make. Higher returns will result in more money in retirement, which can stretch for 30 years.

More than 1 million Australians have an SMSF, with one of the main reasons being that they can control the investments. But, alternatively, managing your investments within a major industry fund has plenty of advantages. One is the guarantee that comes with belonging to a super fund approved by the Australian Prudential Regulation Authority. For example, in cases of fraud or theft, APRA-regulated funds are able to apply to the government for compensation, which is funded through an industry levy. SMSFs are on their own.

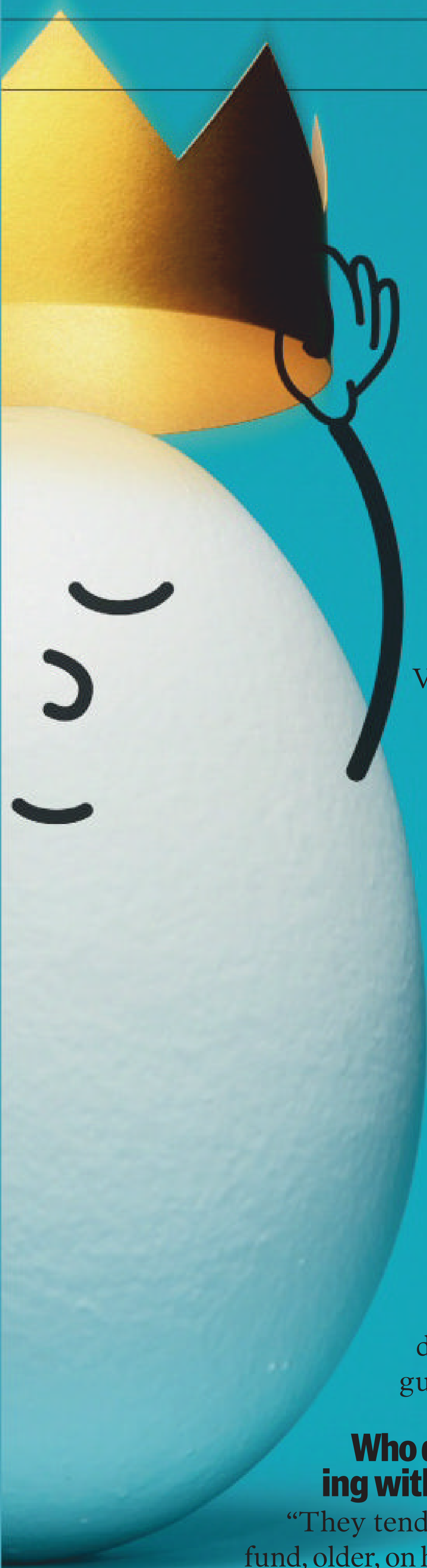
Also, unlike an SMSF, there are no establishment fees with an industry fund and it takes care of all the time-consuming administration, compliance and reporting requirements. Fees are often lower, too.

The member-direct option also gives you access to real-time trading, extensive market information, independent research and investment tools to help you make informed investment decisions and manage your portfolio. This option suits members who want to be actively involved in managing their investments.

But most people leave the investing to their fund. A new survey of 2.3 million members from three big super funds with $168 billion under management (6% of total superannuation assets) has found 87% are in the default MySuper option.

A further 13% tinker with their own investments. Of these 260,000 members who do their own investing, less than half choose a diversified option such as high-growth or conservative, rather than the fund's default balanced option, while more than half use other options. Some may have most of their money in a default fund and invest around the edges.

The three super funds that signed up for Vanguard's research program, titled How Australia Saves 2019, are Sunsuper,



VicSuper and First State Super. Vanguard has run the research into how the US saves for 17 years and started the same analysis in Australia three years ago.

Sunsuper has a default super fund that is a lifecycle model, which means that as people age it reduces the asset allocation to growth investments and increases it to cash and fixed interest. VicSuper and First State Super offer a diversified default option that Vanguard calls "target risk".

Who does their own investing within their super fund?

"They tend to be engaged with the fund, older, on higher salaries and closer to retirement," says Paul Murphy, senior manager of government relations and industry policy at Vanguard. As well, self-directed members are more likely to make voluntary contributions. Vanguard found that only 12% of super fund members make additional contributions.

How do the self-directed investors invest?

They tend to hold greater extremes in growth investments, with one in 10 holding no growth options and 4% holding growth only, says Murphy.

"There is a question over whether an elderly person with a more aggressive investment portfolio is well positioned for a market downturn," he says.

Because of the wide dispersion in investments, the returns range from 9.7%pa down to 2.1%pa over the three years to June 30, 2018. The median return for self-directed investors was 8.2%.

"You get a more mixed outcome than if they stuck with the default option," says Murphy.

The default options returned 8.6% for the Sunsuper lifecycle fund and 8% for the other two "target risk" funds.

If you do choose your own investments, perhaps control a small percentage of the assets to see how you go. But be aware of how these investments fit with your asset allocation mix. If you are going to pick direct shares, maybe don't put a lot of your money into them in case you are no good at it.

Overall self-directed investors choose more conservative investments compared with the default fund, says Murphy.

Default super funds invest 69% of the portfolio in growth assets such as Australian and international shares and listed property – a consistent trend over the past three years since the survey began – while self-directed investors held 59% in growth assets.

Having lower-risk investments fits with the profile of an older cohort who are closer to retirement. It could also indicate that there are members with health issues who need to be more careful with how they manage their money, suggests Murphy.

Rebalance your investments

One of the drawbacks of being a self-directed investor is the need to constantly rebalance the portfolio, says Murphy.

When your money is in the default fund, the professionals do the rebalancing for you constantly. If the investment market is going up and down, "constant mix rebalancing" can mean you are selling when prices are high and buying when they are low. This is ideal and will enhance your wealth.

So if you aren't rebalancing when markets go up or down, you are moving away from the set asset allocation that fits your risk profile and taking on more risk.

If you aren't confident about setting your own asset allocation, it may be best to leave it to the experts. After all, would you do your own plumbing or surgery? No, you would call in a plumber or pay a surgeon to operate.

When it comes to investing, it could be smarter to leave it up to the experts. Asset consultants and highly qualified and experienced investment committees have done a good job, as the Vanguard study has shown.

"There is a lot of merit sticking with the default and doing nothing," says Murphy. "It does deliver good outcomes for people." M

When it comes to investing, it could be smarter to leave it up to the experts

Good habits will pay off

This is the time of year to do some housekeeping and consider topping up your balance

When it comes to super, a few basic housekeeping rules can put you on the right track. In the lead up to June 30, you might want to use the time to maximise your contributions, review your insurance and tackle the more mundane stuff that is easily overlooked.

All of this assumes you have online access to your account. If you don't, register ASAP. Without this access, you cannot keep your account in good order, make changes or monitor your fund's performance.

Super accumulates over the 40 or so years of your working life so establishing good habits early pays off, as does making extra contributions that compound over time.

"You should be maximising concessional contributions where you can if you've got the capacity to do so," says Colin Lewis, head of technical services, at Fitzpatricks Private Wealth. "Employees can now claim their own personal contribution and claim a tax deduction."

Previously employees had to rely on salary sacrifice to contribute before-tax dollars but they can now do so directly. But be careful you don't exceed the $25,000 concessional cap.

"If you got $10,000 from your employer you can contribute up to $15,000 before June 30," says Lewis. "That's the beauty of personal contributions. In the past, June would've been too late to arrange salary sacrifice. Now you can put a contribution in and claim a deduction."

The other thing that is important to note, he says, is that if you have less than $500,000 in your account – which covers a lot of people – you can carry forward the unused portion of your concessional contributions to next year (see breakout).

Lewis says the other avenue to top up super is an after-tax contribution – up to $100,000 a year. "That is dictated by how much you've got in super. If you've got more than $1.6 million you cannot make an after-tax contribution," he notes.

However, a couple can maximise their super as a family unit. "You might have $1.7 million in super and your spouse $800,000. When the time comes to move into retirement phase, you could cash out the amount over the $1.6 million and transfer it to your spouse."

Check also whether your fund and your insurance are suitable. "Are you in the right fund to start with? That's important. Also, you don't want to be duplicating fees with multiple accounts but you also don't want to give up valuable insurance cover."

This might mean keeping an unloved fund going for its life cover with enough in the account to cover the premiums. "Make sure you know where your insurance is held and make sure you have the right amount of cover," says Lewis.

Once the mortgage and other debts are paid off and the kids have left home you may no longer need it. "As you get older, premiums go through the roof and your contributions are not going towards your retirement savings, instead they're being eaten up by the insurance."

Review your death benefit nominations and remember that if you have a binding nomination it needs to be renewed every three years. A binding nomination advises the fund's trustee who should receive your benefits. Otherwise, the trustee has the discretion to direct it to somebody else, or to your estate. Under super law, benefits can only go to a "dependant", generally your spouse and children. Young members often make the mistake of nominating their parents, which is invalid.

Lewis points out that a binding nomination has a downside. "It gives you certainty but if your circumstances change – you have another partner, haven't got divorced and you haven't updated your nomination – the trustees will pay your ex instead.

"It's only when you've got complex arrangements that involve children from former marriages that you may want to put in place binding nominations. But you need to make sure you update them," he says.

Finally, does your fund still meet your needs? "So many people have self-managed funds and don't need them," says Lewis. "If all you are invested in is term deposits, shares and managed funds, you have to ask why you've got one. Why go to the hassle and expense?" All these direct investments are now available in mainstream funds."

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

Push contributions to the limits

If your super balance is under $500,000 you can use a new "carry-forward" rule for unused amounts of concessional contributions.

The first year you will be able to do this is 2019-20. To take advantage of the rule your total super balance must be under $500,000 on June 30, 2019.

Under the rule you can roll over the unused amounts of your concessional contributions cap of $25,000 for up to five years. It expires after this period.

"If you've only got $10,000 in concessional contribution this tax year, you now have the ability to carry forward $15,000 to next year. The catch is you can only use it if your total super balance is no more than $500,000, which applies to a lot of people," says Colin Lewis, at Fitzpatricks Private Wealth.

See ato.gov.au/rates/key-superannuation-rates-and-thresholds/?anchor=Concessionalcontributionscap#Concessionalcontributionscap.

Should you establish a private ancillary fund?

YES

SIMONE DANIELLS
senior lawyer, Andreyev Lawyers

Private ancillary funds (PAFs) can be an effective tool if you want to leave a strong and lasting philanthropic legacy while leaving the actual hands-on charitable work to well-established frontline service providers and organisations.

In our experience, PAFs are a good option if you want to set aside part of your family wealth to be given to established charities, either now or after your death (we recommend $1 million as an appropriate starting point), and want to involve your family in controlling the focus and governance of your legacy.

There are some important "must knows" when assessing if a PAF is right for you:

- Mandatory rules to maintain the PAF's tax-deductible status. For example, PAFs are required to maintain an investment strategy and distribute at least 5% of the fund's value to other charities each year.
- Governance and reporting requirements. PAFs must appoint an independent "responsible person" to a decision-making role; regularly report to the Australian Charities and Not-for-profits Commission (ACNC) and/or the ATO; and be either reviewed or audited each year.
- Lock-up of funds for charitable purposes. Once funds are contributed, they can never be clawed back for personal or family purposes but must be applied for charitable purposes.

If you can live with these rules and restrictions, the main benefits include:

- You can claim tax deductions for donations to the PAF.
- The PAF is tax exempt.
- You can set a PAF up while you are still alive.

It is possible to set up a PAF under your will and this enables your executors to have flexibility as to when and to whom charitable donations are made after your death. This can also guard against a specific charity being deregistered or falling into disrepute, or a new more worthy charity entering the field.

NO

MAREE SIDEY
chief executive, Australian Communities Foundation

At Australian Communities Foundation we support all kinds of giving but we know from the diverse mix of funders we work with that there are three key reasons why many donors choose not to establish a private ancillary fund.

The first is that many people don't want to give in isolation. Using a sub-fund structure (most often set up under a PAF such as a community foundation) gives you access to a community of donors, many of whom will share similar funding interests. This often results in many more opportunities for shared learning and co-funding, which can make your philanthropic dollars go further and generate greater impact.

The second reason many donors choose not to go the PAF route is because they want to maintain a degree of anonymity. Some people prefer to give anonymously or at least not have their name publicly associated with their giving so as to avoid unsolicited requests from charities. That's not possible with a PAF, which requires public reporting. By using a sub-fund structure through a public ancillary fund, donors can keep a much lower profile around their philanthropy should they wish.

The third reason is the amount of work and administration involved in establishing and maintaining a PAF. Setting up your own foundation is a lot like setting up your own business or company and comes with rigorous regulatory and compliance issues, which a lot of people find burdensome. By contrast, if you use a sub-fund structure through a community foundation it can take care of the regulatory requirements, handle all the due diligence and help set you up with a granting strategy that leaves you free to enjoy the most rewarding part of philanthropy – the joy of giving!

WHAT YOU NEED TO KNOW

As at August 2018, there were 1700 private ancillary funds with assets of about $10 billion. They give away about $500 million a year.

Fair game

A takeover bid can provide shareholders with an unexpected windfall. These two companies could end up in a predator's sights.

STORY GREG HOFFMAN

Before diving into the exciting topic of takeover targets, a quick disclaimer. I'd never buy a stock solely because it might receive a takeover offer and, for the most part, I reckon that's a good rule for all long-term investors to follow.

Yet there's no denying that takeovers can get the blood up. As Wesfarmers' recent bid for rare earths miner Lynas showed, such deals can garner plenty of media headlines. For investors, the rise in share price can bring forward years of capital gains and deliver handy near-term profits.

Then there's the prospect of a bidding war, where two or more companies set their sights on the same target. This can lead to mouthwatering returns for those holding shares in the target company. The bidding war that erupted over Warrnambool Cheese and Butter Factory (ASX: WCB) was a classic example.

In September 2013, Warrnambool received a takeover bid from Bega Cheese that valued each WCB share at $5.78. The bid was rejected by Warrnambool's directors as inadequate. Less than a month later, Canadian dairy company Saputo showed up with a $7 offer, which Warrnambool's directors unanimously recommended.

Saputo's bid was a handy 21% higher than Bega's initial bid but things were about to heat up even more. Ten days after Saputo's bid, Murray Goulburn Co-operative entered the fray by announcing its intention to make a $7.50 per share bid for Warrnambool.

The action went back and forth until Saputo bid $9.05 per share, which proved the knockout blow. It was an astonishing 57% above Bega's initial bid and even further above the price Warrnambool shares were trading at before Bega's approach. Warrnambool shareholders laughed all the way to the bank.

Setting the scene

In my view, increased takeover activity is likely for at least three reasons. The first is that Australia's economic conditions are getting tougher. Falling property prices in major cities have impacted consumer confidence and already seen a downturn in the purchases of cars and motorcycles, for instance. The ripple effects could continue for some time yet. This means many companies are likely to find it hard to increase their revenues and profits. So, for many companies that wish to grow in this environment, acquiring another business becomes a viable option.

Second, the weakening economy and property market have seen the Australian dollar come under pressure recently. This makes Australian companies more affordable targets for any acquirer that has foreign currency to spend (US dollars or euros, for instance).

Third, with interest rates at record lows, the cost for a company to borrow money to fund a takeover is lower than ever. And it's not just other companies that play the takeover game. Private equity funds are also a factor. These funds can target companies that are struggling and that might benefit from drastic corporate surgery, which is typically easier to undertake away from the glare of the sharemarket.

Private equity funds can also look for businesses that might be combined with an existing one they own, in the hope that

18+

WHAT IS
AVAXHOME?

AVAXHOME -

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company is now making progress in growing its own-branded volumes (up 38% in the six months to December 31 compared with the same time the previous year).

Last year it acquired niche operator Matso's Broome Brewing. Matso's has the market-leading alcoholic ginger beer in Australia, as well as other novelties such as mango beer and chilli beer. Matso's was a former contract brewing client of Gage Roads, so the product was a known quantity, removing a layer of risk.

Gage Roads now has a market value of around $100 million, which may start to place it on the radar of the international brewing giants.

Virtus Health

The share price of Virtus Health (VRT) has been on a downward slide for the past three years. Revenues, profits and dividends per share have flatlined or declined over that time at Australia's largest provider of fertility services. But there are several factors that could attract the attention of a private equity firm.

First, the company is more diversified and so, arguably, safer than ever. In 2012, the year before it floated, Virtus's Australian fertility business accounted for 80% of revenue. Today that figure is 64%.

That's due to management following a clear strategy of overseas expansion. Australia has always been a world leader in IVF science and research and in recent years Virtus has been steadily acquiring international businesses. It now has operations in the UK, Ireland, Denmark and Singapore.

one plus one will equal more than two. And these funds can also simply buy businesses that they find attractive with the plan of growing them (and sometimes playing a few financial games) before re-floating them on the sharemarket or selling to another buyer.

When I look across the family portfolios I manage, I can imagine a couple of the holdings being subject to takeover offers in the coming year or two. To be clear, I like both of these businesses for reasons that go beyond a potential takeover offer. But a takeover is a possibility for each.

Gage Roads Brewing

In all the years I've been investing, brewing companies have been serial takeover targets. In 2000, Filipino group San Miguel swallowed Tasmanian brewer J. Boag & Son. San Miguel then flicked Boag to Lion Nathan (owner of the likes of Tooheys and XXXX) in 2007. Lion Nathan was then itself taken over by Japan's Kirin in 2009.

The big one came in 2011 when global giant SABMiller bought Foster's Group (owner of brands including Carlton, VB and Pure Blonde) in a deal worth almost $10 billion. And that was followed in 2012 when Lion (Kirin) took over of Little World Beverages (maker of Little Creatures) in a deal that valued it at $380 million.

All of that activity has left slim pickings on the ASX for those who want to invest in the beer business. There are only two stocks that I know of: Gage Roads Brewing (ASX: GRB) and tiddler Broo (BEE).

Gage Roads has had a chequered past but, I think, is in much better shape today. After focusing on contract brewing for others, the

A private equity firm could perhaps hasten the strategy by providing more funding to pursue future deals. And without the distraction of small shareholders, Virtus's respected management team would have more time to focus on its business.

Virtus has also recently completed the development of two specialist day hospitals. This should see cash flow improve which, again, could catch the eye of private equity funds. In fact, when Virtus first floated in 2013, it had previously been owned by a private equity fund.

Were a bid to materialise, it wouldn't be the first company to fall into private equity's hands a second time. In the meantime, I expect Virtus shares to pay a fully franked dividend yield of more than 5% over the next 12 months.

The weaker dollar has made Australian companies more affordable targets

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).

Disclosure: Private portfolios managed by Greg Hoffman own shares in GRB and VRT.

STORY JOHN ADDIS

Battles take a toll

The golden days are over for the big four banks and heavily exposed investors need to carefully manage the new risks

There was a time when you couldn't get an Australian investor to listen to an argument to reduce their holdings in the big banks. "They've been my best performers – there's no way I'm selling", "We love the dividends" and "I don't want to pay the capital gains tax" were the superficially persuasive rebuttals.

Slowly, times are changing. Prompted by the Hayne royal commission and its revelations of the rotten, greedy, profit-at-all-costs culture inside the big banks, many investors are now questioning their default beliefs. Unfortunately, attitudes are not changing quickly enough.

After 20 years of generally rising bank share prices, there remain plenty of investors with anything from a quarter to a half of their portfolio wrapped up in the big banks. For a US or European investor, this level of exposure would be unthinkable. Here we take it for granted.

The Hayne recommendations might arguably cement this attitude. The material impact on the big four banks amounts to a few billion dollars in fines and remediation measures but not much else. Instead, wealth managers and mortgage brokers will carry the can.

That's fortunate because the big banks are fighting a series of battles that will have a much greater bearing on their future profitability.

The first is structurally lower growth. Home loans have been the major driver of the big four banks' sensational run of profit growth over the past few decades. Any slowdown in this area would have an outsized impact on profitability.

The latest quarterly results from NAB make the point. With margins on home loans shrinking and impairments rising, albeit off a low base, revenue fell 6% to $2.6 billion and cash earnings slumped 21% to $600 million. The result was a slashed dividend.

At ANZ the value of outstanding home loans fell 1%, well behind market growth, although an overall 1% fall in revenue was more than offset by cost cuts, which allowed the dividend to be maintained. The same trends were evident in the recent results from Westpac and Commonwealth Bank.

Across the board, conditions in mortgage lending are challenging and are likely to stay that way for some time.

Competition is also increasing. Customer inertia and regulation have traditionally been a barrier to new entrants, but technological advances mean banks are now fighting fintechs and large technology players focused on payments, loans and (to a lesser extent) deposits for retail customers and small businesses.

Where this ends up is hard to say. Even the banks themselves don't know. Maile Carnegie, ANZ's

digital banking head and former Google Australia boss says the future is "going to look like whatever customers want it to be".

The quote is revealing. For decades customers had to conform to the banks' idea of service and product choice. That power imbalance is now shifting, a fact best represented by Commonwealth Bank's recent announcement that it would support Apple Pay after years of resistance.

A higher regulatory burden is also forcing change. Banks play a vital role in the economy. They provide loans and other financial services to people and businesses. With those activities comes greater responsibility: if a bank fails, it threatens deposits, while lending clampdowns can cause widespread economic pain.

The response to the GFC was a new regulatory framework called Basel 3 and some local measures, a result of the recommendations to the 2014 Financial System Inquiry. The result was a double whammy for the big banks. The first hit came from an increase in the risk weighting for residential mortgages from an average of at least 17% to an average of over 25%. The second was an increase in the minimum common equity tier 1 capital ratio requirement from 8% to 10.5% by next year.

Investors would be advised to buy a major bank with a big margin of safety

I won't bore you with the details; suffice to say that for a hypothetical $1 million home loan the big four banks would need to hold $26,250 (10.5% of $250,000), or around double the levels under Basel 2. Australia's major banks now have some of the highest capital requirements in the world.

This has fundamentally impaired their "capital light" business model, right at a time when home loan growth is shrinking and the country is facing its first major house price slump in decades.

Regulatory changes, competition and structurally lower home loan growth mean the future for Australia's big four banks is different from what it was 20 years ago. The question for shareholders is how to address these changes.

Our first suggestion is to carefully manage your risk. The best way of doing that is to keep your portfolio exposure to the sector below 20%, and closer to 10% for more conservative investors or those with other significant property exposure.

The second is to accept the new reality and act opportunistically. We expect little, if any, growth in dividends in the next few years. In fact, if margins decline or bad debts rise we expect further dividend cuts. Given fading growth prospects and growing risks, we'd only recommend investors buy a major bank with a considerable margin of safety.

That wasn't the case a year ago but, with a growing awareness of how the sector is changing, investor antipathy is building and that's creating opportunities.

Westpac recently took a $1.1 billion provision for remediation and restructuring in its latest interim results. In its retail business, lower interest margins and higher costs pushed cash earnings down 11% to $1.5 billion and margins are likely to remain under pressure. It was an undoubtedly weak result.

Yet with a prospective fully franked dividend yield of almost 7%, little growth is already factored into the share price. That allowed us to recently add Westpac to our buy list.

It is, however, one thing to buy a particular stock and quite another to assess a sensible portfolio allocation to it. The major banks remain strong businesses worthy of a place in many investors' portfolios. Their futures, however, will look quite different from what they did in the past. If you have more than 20% of your portfolio in the big banks you might be taking a bigger risk than you think.

John Addis is founder and editor of Intelligent Investor, part of the InvestSMART Group. To unlock more stock research and buy recommendations, register for a free trial at investsmart.com.au/money. This article contains general investment advice only under AFSL 226435.

Why we're pushing our luck

In light of all the domestic and global challenges, Australia's leaders need to lift their game

It was Donald Horne who first coined the expression "the lucky country" in his 1964 tome *The Lucky Country*. It is instructive to perhaps go back and examine exactly how he cast it, particularly in light of the recent federal election. His exact words were: "Australia is a lucky country run mainly by second rate people who share its luck."

That luck has most recently manifested itself in an unbroken run of almost 28 years without a recession (defined as two consecutive quarters of negative GDP growth). Can that luck hold?

Some maintain that the storm clouds are gathering. On the domestic front, an excess in housing markets is creating ever stronger headwinds just as a number of forecasters are discerning more difficult times ahead for the global economy. Uncertainties associated with the election and a potential change of government complicated the outlook.

On the global front, the International Monetary Fund has forecast that the world economy will endure the lowest economic growth since the GFC. Europe seems mired in stagnation. China is growing but challenges are evident. Even in the US, where growth has been robust, there are concerns that underneath it all things are not so rosy, particularly once the "sugar hit" from the massive growth in the budget deficit loses its potency.

Moreover, the foregoing occurs at a time when the global economic and financial landscapes are confronted with several uncertainties.

These uncertainties include trade tensions, dysfunctional global politics and the rise of left/right populism and, as mentioned, sluggish global growth.

There are also uncertainties of a more structural nature as well: climate change, perceptions of growing inequality, cyber attacks, the growth of emerging markets (China, India and Indonesia will soon be bigger than many developed markets), not to mention ongoing geopolitical events.

And all this is taking place at a time when, globally, the conventional macro policy armoury is in many respects substantially depleted. In other words, there is limited room for manoeuvre on monetary and fiscal policy.

These developments come at an "unhelpful" time. Australia is likely to experience, at best, lacklustre growth this year as declining house prices, high levels of household indebtedness and subdued income growth constrain household spending. Any heavy lifting has to be done by private and public (infrastructure) investment, but it is difficult to envisage this being of a sufficient order of magnitude to offset the headwinds, particularly in the wake of the poor global growth backdrop.

The judicious application of fiscal policy may ameliorate a downturn. Such an application needs to be efficient and immediate, unlike some past episodes when it was too drawn out in the pursuit of "signature" or "grandiose" projects.

> In an environment of growing uncertainty, portfolio diversification is paramount

For investors in an environment of growing uncertainty, portfolio diversification is paramount. This may mean looking beyond typical domestic equity and bond exposure to encompass overseas exposures (including currency unhedged and emerging market exposures), as well as absolute return type exposures (bond and equity exposures not linked to a benchmark) and perhaps private equity exposures where they can be accessed. The benefits of well-managed "active" portfolios are also likely to be enhanced as volatility returns and stock return dispersion increases.

All in all, challenges loom for our country's leaders. Let's hope they can break the "second-rate" mould enunciated by Donald Horne.

Stephen Miller is an adviser with GSFM.

Role models for twilight years

It's best to avoid the drug running, but if you think young you can stay young

In *The Mule,* a recent film produced and directed by Clint Eastwood, now 88, he plays the lead role as a grumpy old man who goes out kicking. It leaves you wondering whether the film doesn't reflect a lot of Eastwood's own reality, and possibly that of a lot of the twilight generation, as it provides a window on "limited lifespan" living, which in this case includes not giving a damn about just about everything, to the point of his casual acceptance of corruption.

The soundtrack to the film is a country and western song by Toby Keith who, the story goes, met Eastwood on a film set and asked him how he kept up the pace. "Don't let the old man in" was the reply and that's the name of the title track. It has the thought-provoking line, "Ask yourself how old you'd be if you didn't know the day you were born".

When it comes to the stockmarket and the twilight years, I am reminded of a talk I gave over a decade ago at the RACV Club. It was in the middle of the day and, naturally enough, after my hilarious dissertation on the benefits of long-term investment one senior member quickly stood up.

"What is it about you stockbrokers," he said, "that you all seem to think that old people are long-term investors." We do, don't we.

He continued: "In fact, this very morning my stockbroker rang me and started talking to me about Telstra's five-year plan and the benefits of reinvesting dividends and achieving long-term compound returns.

"But I am 79 and according to my insurance company's actuaries that means I have just 3.5 years to live. Mate, I have absolutely no interest in Telstra's five-year plan because, quite simply, I'll be dead."

A mild ripple of applause.

He went on: "I don't want long-term returns, so stop selling them to me. I want income, I want enough to be ripping up Route 66 on a Triumph Rocket, or schmoozing babes in the Roman Room at the Ritz. Not listening to Telstra's five-year plan. So don't give me your long-term compound growth bullshit. Give me sex. And give it to me now!"

And like a blue-rinsed thundercloud, the midday crowd at the RACV Club rose as one to ovate him. "So what are you doing here?" I asked. "Why aren't you in the Roman Room at the Ritz?"

He replied: "Well, there's something else you need to know, young man. There comes a time in your life when things move not in seconds, minutes, hours, days, weeks, months and years, but in organs, and when the only organ in your body that can still pump blood is your brain, the stockmarket is as close to sex as you can get. So here I am."

Robert C Gould, an Australian Investment Association member, wrote a book a couple of years ago called *Don't Let the Old Man/ Girl In*. It might interest some of you.

The cover says that "He/she never knocks. He/she rings no bell. He/she slides in unseen. And then ... that old man/woman ... is YOU!". It is aimed at people over 60 and delivers 15 commandments. Here they are:

- Accept a social invitation always – you will never experience amazing outcomes, exciting new plans, fresh faces and surprises if you don't.
- Be athletic one hour each day – move in any way you can for one hour a day without compromise. The benefits are priceless.
- Adopt role models – study/adopt the traits of the admirable, people who have taken the risk and got a result. It reduces risk, saves time and the result is known.
- Be a gentle man/woman – the magic of gentleness over anger, bitterness and grumpiness.
- Dress half your age – slumped physiques shrouded in dull, colourless, shapeless garments say old. When you look old, others see you as old and treat you as old. So you are old.
- Watch over your family – as you get older, you are promoted to non-executive director of your family's board of directors. You are a readily available source of wisdom.
- Mow your own lawn – relying on others to do simple tasks means losing self-reliance. Develop self-reliance.
- Do a good turn every day – it nourishes your soul.
- Foster a sense of the ridiculous – die smiling. Having a sense of fun, seeing the funny side, being of good humour, ready smiles, bright eyes and a lightness of being attract family and friends.
- Drop the drink – as you age your body will not cope with maintained alcoholic intake, so reduce your consumption.
- Lose weight, just shrink – there are no fat old men. How do you handicap a racing thoroughbred? Place weights on them to slow them down.
- (S)train your brain – or lose your mind. Brains are like brawn. Lift mental weights.
- Live within your means – money is not important, but it is up there with oxygen. Develop financial toughness, be financially honest, deal with your own financial facts.
- Unload stuff, let it go – you are no longer in the accumulation phase. The competition for the best cars, houses, boats ... is over. Hold, make do or replace. Being a material man wearies you. Throwing away stuff makes you feel free.
- Aspire to a simple life – disengage from activities that create hassle and anguish. Do not compound your own life's complexities with those of others.

My dad is 85. He is in a nursing home on the Isle of Wight. He is older than he needs to be. I wish he had taken some note of this list – exercising in particular. I am playing golf with people older than him – one of them continues to beat his age off the stick. Maybe there is something in this for you too, before it's too late.

Marcus Padley is the author of the daily stockmarket newsletter Marcus Today. *For a free trial of the newsletter, see marcustoday.com.au.*

PROMISING THEMES

From currency to computers

These stocks offer investors the chance to profit from strong business growth

This month we've split our column into two lists. The first represents companies of varying sizes, with global growth opportunities and the second shows companies exposed to the booming demand for software and data.

Exposure to companies growing overseas makes sense. Over the long run, fast growth rates and long runways, particularly off a low base, can help to produce returns which defy the economic and business cycles that plague many mature businesses.

In the short term, Australia's economy is beset by imbalances that are generating speculative misallocations of capital at one end and pressure on sales and margins at the other.

Finally, there's a benefit that stems from having exposure to multiple geographies and currencies.

Software and data will remain a growth area for many years. From manufacturing and design to sales and marketing, there is almost no aspect of commerce that doesn't produce it, need to store or use it.

Data, it seems, is akin to an oil discovery. And of course, software is the essential transmission mechanism for that data to communicate an intention.

The following companies are all growing their overseas businesses, ensuring Australian investors benefit from a growing global economy and currency diversification. Keep in mind, however, that getting the theme right is only half the battle. Investors must also ensure a reasonable price is paid rather than a high one.

GLOBAL GROWERS

There's debate about whether the Australian dollar will rise or fall against the US dollar, but one thing is certain: it makes almost no sense to have all your wealth tied to one currency.

As well as the companies below, other

A2 Milk share price

Macquarie Group share price

ARB Corp share price

❶ A2 Milk

ASX code A2M
Price $15.39
52wk ▲ $16.08
52wk ▼ $8.14
Mkt cap $11.3bn
Dividend -
Dividend yield -
PE ratio 48

HOLD

A strong third-quarter trading update from the infant milk formula marketer revealed a 44% lift in revenue. However, it announced no material changes to its full-year 2019 or 2020 outlook and this is partly due to pulling forward some fourth-quarter orders. In China, market share now sits at 6%, up from 5.4% at December 2018. In the US, A2 has added 300 stores to its distribution network, which includes a new Costco geography. After announcing its coffee creamer product for the US market, the company announced its Smart Nutrition fortified nutritional milk powder for kids aged four to 12, initially in Australia and China. Recent share price strength implies expectations of greater than 40% revenue growth and an EBITDA margin of more than 30%.

❷ Macquarie Group

ASX code MQG
Price $119.93
52wk ▲ $136.84
52wk ▼ $103.30
Mkt cap $40.8bn
Dividend $5.75
Dividend yield 4.8%
PE ratio 14

BUY

The strong full-year result in May was driven by more volatile gains on sale and performance fees. The international businesses now account for two-thirds of Macquarie's income. Equity capital market volumes disappointed, as did foreign exchange turnover. But the company reported higher assets under management – reaching a record $500 billion – and merger and acquisition activity. Coming off strong prior numbers might mean the near-term growth outlook is more challenging and management has forecast a lower profit for 2020. But what we have learnt is that at this early stage of the year management's guidance is typically conservative because it's difficult to predict revenue when so much is based on market conditions.

❸ ARB Corp

ASX code ARB
Price $18.27
52wk ▲ $23.94
52wk ▼ $14.55
Mkt cap $1.5bn
Dividend 38¢
Dividend yield 2.1%
PE ratio 26

HOLD

The 4WD accessory maker's trading update for the third quarter of 2019 revealed 2.2% growth in Australian aftermarket sales, which make up 63% of total sales. This was lower than the growth reported for the first half, which was up 4.1%. Particularly slow were Queensland and NSW. Unlike domestic sales, export sales, which represent 29% of total sales, were up 9.2% year on year, compared with the 6.9% growth reported in the first half of 2019. Export sales strength was attributed to the weaker Australian dollar. ARB remains one of the higher-quality companies on the ASX and management reiterated its desire to act conservatively when it comes to using the strong balance sheet for acquisitions.

Prices as at close of business, 17-5-19.

global growers include CSL (ASX: CSL, hold), Costa Group (CGC, hold) and Starpharma (SPL, speculative buy).

TECHNOLOGY AND SOFTWARE

Software is currently the sexiest place to put their money for many professional investors thanks to what is being referred to as the "digitisation of the economy" tailwind. Companies such as Afterpay, Seek, IDP Education, WiseTech Global, Jumbo Interactive and NextDC are all beneficiaries of the popularity in software.

But while the tailwind may be helping to drive revenue growth, in many cases there is limited if any profit. It's too easy to say NextDC will continue to roll out new data centres to take advantage of the growth in data and communications, but investors must also remember that competitors will emerge and unit prices will decline.

Low interest rates and steady economic growth, however, are allowing investors to defer the date that profit is delivered but eventually returns on capital need to be positive.

Apart from these companies below, another consideration is WiseTech Global (WTC, hold).

Roger Montgomery is the founder and CIO at the Montgomery Fund. For his book, Value.able, see rogermontgomery.com.

1 IDP Education

ASX code IEL
Price $16.72
52wk ▲ $16.09
52wk ▼ $8.38
Mkt cap $4.3bn
Dividend 18.5¢
Dividend yield 1.1%
PE ratio 68

HOLD

IDP Education is benefiting from the increasing mobility of international students. Through the 2017 acquisition of Hotcourses, IDP is leveraging a platform to deliver leads, penetrate new markets and introduce its value-added services, ultimately increasing revenue. Through digitisation, such as the rollout of its computer-based International English Language Testing System, IDP's already impressive economics and margins are expected to improve. As with many companies benefiting from software tailwinds, the share price appears fully valued. In the absence of disappointment or an exogenous event, continued top-line growth should remain supportive.

2 Nine Entertainment

ASX code NEC
Price $1.88
52wk ▲ $2.60
52wk ▼ $1.30
Mkt cap $3.2bn
Dividend 10¢
Dividend yield 5.3%
PE ratio 9

BUY

I have previously written about the structurally shrinking audiences and profits suffered by free-to-air-television networks. Nine, however, is transforming itself with Stan, 9Now and Domain as part of an integrated monetisation platform. Some analysts now describe Nine as an attractive growth story. The streaming service Stan is on an annualised revenue run rate of about $200 million and continues to grow subscribers. Stan is now also profitable and is projected to incrementally add about $30 million to EBITDA in 2020. Revenue at 9Now grew 75% – admittedly off a low base – and Domain is being held up as a beneficiary of a major cross-selling program within the group. Nine also recently sold its Australian Community Media and Printing business.

3 Seek

ASX code SEK
Price $20.34
52wk ▲ $22.94
52wk ▼ $16.27
Mkt cap $7bn
Dividend 46¢
Dividend yield 2.3%
PE ratio 141

HOLD

Seek is still seen by many analysts as being tied to Australian employment cycles, and while much of its profits are derived from Australia, revenue from overseas businesses is already greater. Seek is reinvesting heavily overseas, which means that, at the profit level, it looks dependent on Australia. The reality is, however, vastly different and Seek continues to articulate a very long runway for growth. Price increases locally are also a strong possibility and the company believes revenue growth of circa 20% out to 2025 is not unrealistic.

HEALTHCARE

In sickness and in health

Be sure to sort the real contenders in a growing market from the rest

Somewhere there's a logician who will take exception to me beginning a discussion on healthcare stocks by talking about companies that aren't actually healthcare stocks. But, with his or her indulgence, that's precisely where I'm going to start.

One of the older tricks in the stockmarket book is for a company (or anyone else trying to boost share prices) to "draft" behind the hot sectors of the day by trying to create a linkage in investors' minds.

Recently, that's been FlexiGroup's positioning of its business as the "original buy-now-pay-later" company; a move it likely hopes will see the market confer some of the Afterpay glow to the battling "original", with a commensurate rise in share price.

Foolish takeaway

For a small country, Australia punches well above its weight when it comes to healthcare companies. I feel pretty confident that a basket of the abovementioned businesses would be market-beaters, but we're here to choose the best in breed.

The winner is a company that tends to secure customers for life and benefits from its customers paying for upgrades to ancillary equipment, often over many decades.

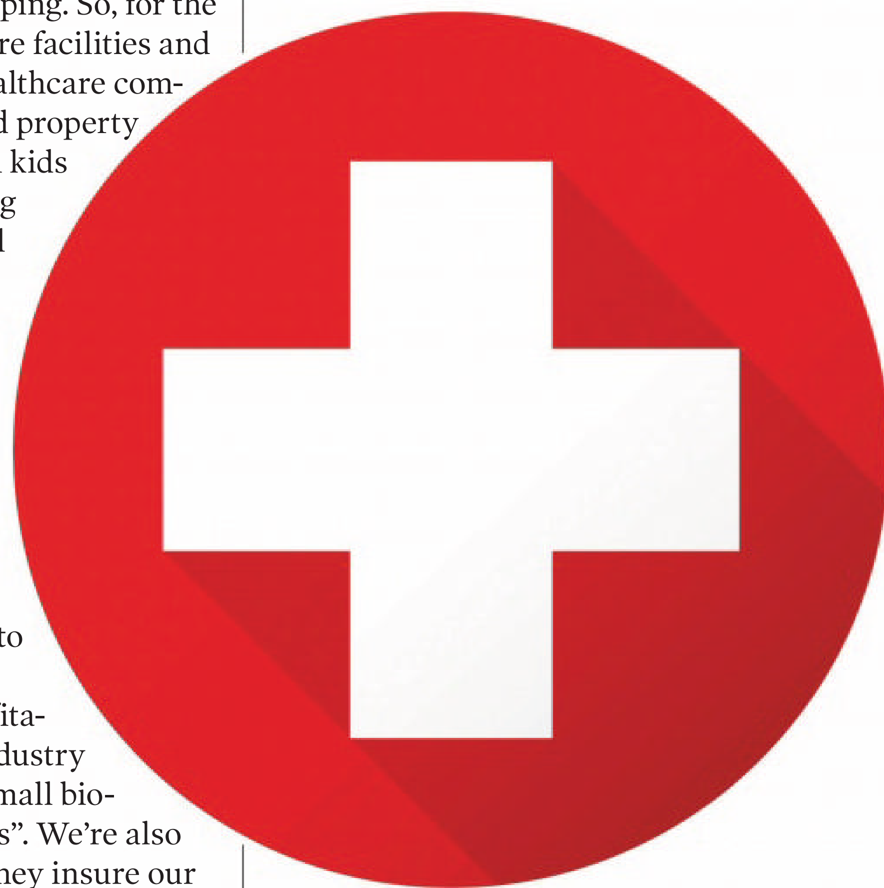
Add that to a growing market and the premier brand in its category, plus research and development spending that dwarfs that of its rivals, and Cochlear takes the title as the ASX's best in breed healthcare company.

Best in Breed's tips so far

SECTOR	STOCK	ASX CODE
Banks	Macquarie Group	MQG
Resources	South32	S32
Consumer staples	Treasury Wine Estates	TWE
Discretionary retail	Premier Investments	PMV
Healthcare	Cochlear	COH

Healthcare can be tricky. Indeed, it's a label that's incredibly broad, covering everything from biotech hopefuls to hospital operators and even health insurers. At which point "healthcare" runs the risk of being useless as a label with which to group companies.

But, as I started by saying, there are limits to even that generic grouping. So, for the avoidance of doubt, aged care facilities and residential parks are not healthcare companies. They are specialised property trusts (or REITs, as the cool kids call them these days), having more in common with retail landlords than with drug or medical device makers.



With that out of the way, let's turn our attention to the (very wide) field of candidates as we seek to identify our best in breed.

To start narrowing, we're going to remove companies that can't hope to lay claim to the title of "best", by dint of their short histories, unprofitable operations or general industry concerns. That gets rid of small biotechs and other "moon shots". We're also taking out insurers (while they insure our health, they're more usefully considered finance companies) and excluding wholesale and retail pharmaceutical companies for similar reasons.

What's left is still a very impressive list. Hospital operator Ramsay Healthcare, blood products and vaccine maker CSL, and medical product innovators Cochlear, Nanosonics and ResMed are chief among them.

The next step is to review the companies' competitive position, diversification, market size and growth potential. A caveat, though: trees don't grow to the sky, so while we like market dominance, we also need enough "headroom" to justify often lofty share prices.

None is perhaps as dominant as CSL, with a huge global presence in a valuable and growing market. Ramsay is dominant in Australia, and is making moves in Asia and Europe that should pay off over time.

Nanosonics is still in the reasonably early stages of adoption of its Trophon disinfection device, but has a nice, and growing, international footprint and a lots of opportunity in front of it. ResMed, similarly, has a growing market, with ever-increasing diagnoses of sleep apnoea in the developed world, while Cochlear is the premier name in hearing implants.

Overall, the developing world's increasing affluence should continue to open more markets for all of these companies in the coming decades.

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).

DATABANK

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 – March 31, 2019

RANKED BY 3-YEAR RETURN

FUND & INVESTMENT OPTION NAME	Fund Type	Strategy	1-year Return	Rank	3-Year Return (%PA)	Rank	5-Year Return (%PA)	Rank	Quality Rating
HOSTPLUS – Balanced	Industry	S	7.2%	27	10.8%	1	9.3%	1	AAA
LGS Accumulation Scheme – High Growth	Industry	LC	7.5%	21	10.5%	2	8.9%	4	AAA
Qantas Super Gateway – Glidepath Take-Off	Corporate	LC	7.9%	15	10.3%	3			Not Yet Rated
Mercy Super – MySuper Balanced	Corporate	S	7.8%	17	10.1%	4	8.6%	8	AAA
AustralianSuper – Balanced	Industry	S	8.0%	10	10.1%	5	9.0%	3	AAA
Sunsuper Super Savings – Lifecycle Balanced Pool	Industry	LC	8.1%	8	10.0%	6	8.5%	10	AAA
Club Plus Industry Division – MySuper	Industry	S	7.2%	28	9.8%	7	7.9%	21	AAA
FirstChoice Employer – FirstChoice Lifestage (1970-1974)	Retail	LC	7.4%	22	9.7%	8	7.6%	36	AAA
UniSuper – Balanced	Industry	S	10.3%	1	9.7%	9	8.8%	5	AAA
First State Super Employer – Growth	Industry	LC	7.3%	24	9.7%	10	7.9%	22	AAA
Media Super – Balanced	Industry	S	8.1%	9	9.7%	11	8.1%	16	AAA
StatewideSuper – MySuper	Industry	S	6.9%	40	9.6%	12	9.1%	2	AAA
Telstra Super Corporate Plus – MySuper Growth	Corporate	LC	6.9%	39	9.6%	13	8.2%	14	AAA
Cbus Industry Super – Growth (Cbus MySuper)	Industry	S	7.0%	36	9.6%	14	8.8%	6	AAA
Mercer CS – Mercer SmartPath 1974-1978	Retail	LC	7.7%	19	9.5%	15	7.8%	25	AAA
Prime Super (Prime Division) – MySuper	Industry	S	6.4%	44	9.5%	16	8.3%	13	AAA
VicSuper FutureSaver – Growth (MySuper)	Industry	S	7.1%	32	9.4%	17	8.1%	17	AAA
NGS Super – Diversified (MySuper)	Industry	S	7.4%	23	9.4%	17	7.8%	27	AAA
Intrust Core Super – MySuper	Industry	S	6.1%	52	9.3%	19	8.5%	11	AAA
CareSuper – Balanced	Industry	S	6.2%	50	9.3%	20	8.3%	12	AAA
SelectingSuper MySuper/Default Option Index			6.8%		8.4%		7.3%		

Rankings are made on returns to multiple decimal points.

SelectingSuper Benchmark Indices – Workplace Super

INDEX NAME	Performance to March 31, 2019		
	1-year	3-years p.a.	5-years p.a.
SelectingSuper Growth	7%	9%	8%
SelectingSuper Balanced	6%	8%	7%
SelectingSuper Capital Stable	5%	5%	5%
SelectingSuper Australian Equities	8%	10%	7%
SelectingSuper International Equities	7%	11%	9%
SelectingSuper Property	15%	8%	10%

Source: www.selectingsuper.com.au and Rainmaker Information

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.

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	Rank	5-year return (%pa)	Rank
AMP Balanced Growth	AMP0442AU	0.71%	30/09/1985	$5,437m	5.8%	44	6.5%	36
QIC Growth Fund	QIC0002AU	0.50%	6/03/2002	$4,325m	5.0%	54	5.8%	45
Vanguard Growth Index Fund	VAN0110AU	0.36%	20/11/2002	$4,280m	8.5%	10	8.3%	10
Vanguard Balanced Index Fund	VAN0108AU	0.34%	20/11/2002	$3,825m	7.6%	19	7.3%	22
Vanguard High Growth Index Fund	VAN0111AU	0.37%	20/11/2002	$2,277m	9.4%	4	9.3%	5
AVERAGE*		0.77%		$574m	5.8%	86	6.5%	71

Top 5 Australian Equities funds by size

Name	APIR Code	Mngmnt fee %pa	Start Date	Size (m)	1-year return	Rank	5-year return (%pa)	Rank
Vanguard Australian Shares Index Fund	VAN0002AU	0.18%	30/06/1997	$10,865m	11.5%	19	7.3%	63
Fidelity Australian Equities Fund	FID0008AU	0.85%	30/06/2003	$5,765m	12.8%	7	8.2%	49
Investors Mutual Australian Share Fund	IML0002AU	0.99%	30/06/1998	$2,823m	8.8%	48	8.1%	52
Bennelong ex-20 Australian Equities Fund	BFL0004AU	0.95%	2/11/2009	$2,568m	1.1%	106	10.8%	13
Dimensional Australian Core Equity	DFA0003AU	0.31%	3/07/2006	$2,550m	9.5%	39	8.5%	41
AVERAGE*		0.83%		$526m	7.5%	115	8.2%	100

Top 5 International Equities funds by size

Name	APIR Code	Mngmnt fee %pa	Start Date	Size (m)	1-year return	Rank	5-year return (%pa)	Rank
Vanguard International Shares Index Fund	VAN0003AU	0.18%	30/06/1997	$13,837m	12.4%	40	13.0%	34
Platinum International Fund	PLA0002AU	2.45%	30/04/1995	$10,490m	-1.4%	117	9.6%	60
Magellan Global Fund	MGE0001AU	1.35%	1/07/2007	$10,372m	20.3%	5	14.3%	19
MFS Global Equity Trust	MIA0001AU	0.77%	24/04/1997	$6,433m	14.4%	23	13.7%	23
Antipodes Global Fund	IOF0045AU	1.20%	31/07/1994	$3,960m	0.5%	113	14.5%	15
AVERAGE*		1.00%		$717m	9.2%	123	12.1%	74

Top 5 Multi Sector funds by 5-year return %pa

Name	APIR Code	Mngmnt fee %pa	Start Date	Size (m)	1-year return	Rank	5-year return (%pa)	Rank
Fiducian Ultra Growth Fund	FPS0014AU	1.63%	1/09/2008	$177m	4.0%	67	10.5%	1
Perpetual Split Growth Fund	PER0066AU	1.16%	31/03/1999	$46m	8.1%	15	9.8%	2
Responsible Investment Leaders Bal	AMP0453AU	0.82%	23/09/2005	$1,110m	7.4%	22	9.5%	3
Fiducian Growth Fund	FPS0004AU	1.29%	1/02/1997	$123m	8.6%	9	9.4%	4
Vanguard High Growth Index Fund	VAN0111AU	0.37%	20/11/2002	$2,277m	9.4%	4	9.3%	5
AVERAGE*		0.77%		$574m	5.8%	86	6.5%	71

Source: Rainmaker Information. Data sourced as at March 31, 2019. *Numbers stated here depict averages, other than the Rank column which is the total number of funds in the category. For any queries on these tables, please contact info@rainmaker.com.au.

These products may be recommended to you by a financial adviser.

The performance results displayed are the annualised investment returns each managed fund has delivered after taking into account taxes paid by the unit trust and investment fees.

Research was prepared by Rainmaker Information and for more information see **www.rainmaker.com.au**

DATABANK

Top 5 Australian Equities funds by 5-year return %pa

Name	APIR Code	Mngmnt fee %pa	Start Date	Size (m)	1-year return	Rank	5-year return (%pa)	Rank
SGH Australia Plus Fund	ETL0383AU	0.70%	8/10/2013	$9m	2.1%	102	16.5%	1
Bennelong Concentrated Aust Equities	BFL0002AU	0.85%	30/01/2009	$804m	2.2%	100	14.7%	2
Fidelity Future Leaders Fund	FID0026AU	1.20%	22/07/2013	$228m	14.8%	3	14.7%	3
Macquarie Australian Shares Fund	MAQ0443AU	0.60%	28/11/2005	$117m	10.3%	34	13.9%	4
Selector Australian Equities Fund	DDH0002AU	1.18%	7/12/2004	$6m	12.5%	8	13.6%	5
AVERAGE*		0.83%		$526m	7.5%	115	8.2%	100

Top 5 International Equities funds by 5-year return %pa

Name	APIR Code	Mngmnt fee %pa	Start Date	Size (m)	1-year return	Rank	5-year return (%pa)	Rank
T. Rowe Price Global Equity Fund	ETL0071AU	1.18%	15/09/2006	$2,735m	14.9%	21	17.1%	1
Walter Scott Global Equity Fund	MAQ0410AU	1.28%	28/02/2005	$3,500m	22.0%	3	16.3%	2
Franklin Global Growth Fund	FRT0009AU	1.13%	1/10/2008	$204m	10.2%	60	16.2%	3
Lazard Global Equity Franchise Fund	LAZ0025AU	1.25%	1/10/2013	$130m	10.3%	58	16.2%	4
Fidelity Global Demographics Fund	FID0023AU	1.15%	30/11/2012	$59m	11.4%	50	16.0%	5
AVERAGE*		1.00%		$717m	9.2%	123	12.1%	74

Top 5 funds by 1-year performance

Name	APIR Code	Mngmnt fee %pa	Start Date	Size (m)	1-year return	Rank	5-year return (%pa)	Rank
Vanguard Global Infrastructure Index Fund	VAN0023AU	0.49%	30/11/2007	$586m	27.3%	1	13.3%	37
Evans and Partners International Fund	ETL0390AU	1.25%	18/02/2014	$46m	23.4%	2	15.9%	9
Yarra Australian Real Assets Securities Fund	JBW0030AU	0.85%	31/12/2005	$33m	23.3%	3	9.7%	91
Walter Scott Global Equity Fund	MAQ0410AU	1.28%	28/02/2005	$3,500m	22.0%	4	16.3%	5
Legg Mason Martin Currie Global Long-Term Fund	SSB0066AU	0.95%	1/12/2015	$10m	21.8%	5		
AVERAGE*		0.90%		$608m	7.5%	337	9.0%	255

Bottom 5 funds by 1-year performance

Name	APIR Code	Mngmnt fee %pa	Start Date	Size (m)	1-year return	Rank	5-year return (%pa)	Rank
AIM Global High Conviction Fund	AIT3081AU	1.50%	7/07/2015	$186m	-17.8%	337		
Auscap Long Short Australian Equities	ASX0001AU	1.54%	30/11/2012	$528m	-7.5%	336	9.9%	89
Platinum European Fund	PLA0001AU	2.45%	30/06/1998	$912m	-6.1%	335	9.1%	110
Platinum Japan Fund	PLA0003AU	1.54%	30/06/1998	$759m	-5.2%	334	13.9%	29
Orbis Global Equity Fund	ETL0463AU	1.00%	30/06/2005	$2,800m	-4.6%	333	11.7%	53
AVERAGE*		0.90%		$608m	7.5%	337	9.0%	255

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.

"It's hard to earn money and easy to spend, so respect it"

What was your first job?
A friend and I started our own car-washing business when we were in grade 5. We used to ride our BMXs around Ascot in Brisbane on weekends and charged $5-$7 per car (wash and chamois dry). We ended up with regular clients and $50-$60 per week each in our pockets. It was hard work but very rewarding.

What's the best money advice you've received?
It's hard to earn and easy to spend, so respect it and spend it wisely. I often share these words with my kids.

What's the best investment decision you've made?
Buying my first house in Paddington, Brisbane, with my wife in our early 20s. We offered $100 more than the asking price in a closed envelope ballot with six other bidders. Our bid was the highest by $100 and secured the sale – we were beside ourselves!

What's the worst investment decision you've made?
Our next door neighbour offered to sell us his property "off the market" for the same price we paid for our house a year prior. As first time homeowners we simply couldn't imagine more debt, being only one year into our mortgage. We declined the offer but wished we hadn't because a few years later prices had doubled.

What is your favourite thing to splurge on?
Family holidays. Time with my family is priceless and I don't get enough time with them as it is. The best holidays usually involve getting close to nature (and surf).

If you had $10,000 where would you invest it?
To be honest I'd invest it in our house at the moment. We've just finished a big renovation and $10,000 would add some very nice finishing touches.

What would you do if you had only $50 left in the bank?
Sit on the beach with my wife looking at the ocean, sipping a takeaway coffee discussing what we'll do with the $41 we have left after our coffee purchase.

Do you intend to leave an inheritance?
Absolutely, but I'll do my best to enjoy life first! Seriously, though, it's important to leave a solid inheritance for our kids as the cost of living isn't likely to change in the future. It will give them options, but they too will have to learn the true value of money and working for it.

What's the best quote you've read about champagne?
"Only one quality, the finest" by Madame Clicquot. She was a pioneer and visionary businesswoman who brought many innovations to the Champagne industry. She created many "firsts" in Champagne: the creation of the first vintage Champagne; the creation of rosé Champagne and the invention of the riddling table.

Finish this sentence: money makes ...
... life easier in many ways and gives you options but won't buy health or happiness.

Andrew McLaren

Andrew is managing director of Moet Hennessy Australia. The global champagne business is home to brands such as Moet & Chandon, Dom Perignon, Krug, Veuve Clicquot, and Hennessy. Andrew has worked with the business for more than 15 years, including as a travel retail director for Asia Pacific.

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