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MAGIC OF COMPOUND INTEREST SHANE OLIVER

CASH IS THE SAFEST PLACE REBECCA PRITCHARD

GO FOR GLOBAL GROWTH PAUL CLITHEROE

10 QUALITY SHARES TO CONSIDER DANIELLE ECUYER

AN INDEX FUND TO GROW WEALTH JO McCREERY

WHERE PROPERTY IS BOOMING TERRY RYDER

IMPROVE YOUR JOB SKILLS KATE CAMPBELL

BUILD A BUFFER TO PAY THE BILLS ALEX DUNNIN

PLUS

PAUL'S VERDICT: DON'T USE SUPER TO PAY OFF LOAN

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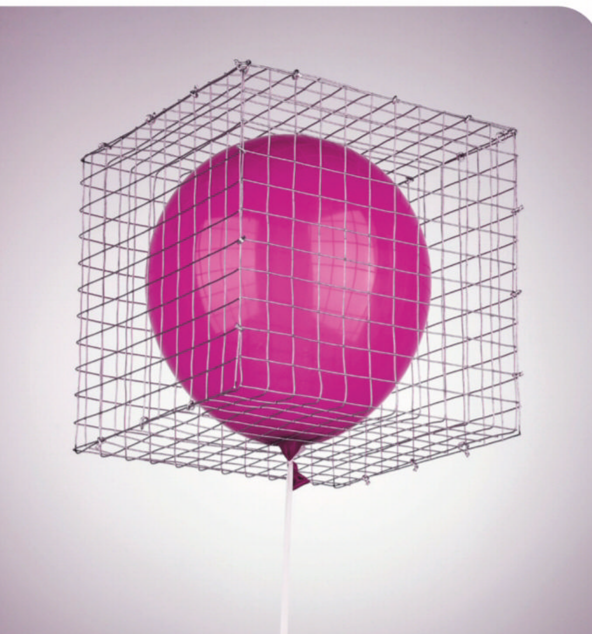

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EDITOR'S DESK

Stay ahead of the curveballs

When we first started compiling our annual "Where to invest $10k" cover story (page 32), we contemplated doubling the amount to $20,000. The original figure just didn't seem enough with the current cost of living and average household debt levels.

It seems serendipitous, then, that the federal government's early access super scheme, a lifeline handed out to every working Australian immediately after Covid-19 struck, was the magic figure of $10,000. The government didn't expect it at the time, but millions took up the opportunity to cash in their super even though research shows that a 50-year-old taking out $10,000 today would be $28,500 worse off at retirement.

So we decided to stick with the original plan. How can you stretch $10,000 further into your financial horizon? Our experts gave answers that will appeal to those who want to put that kind of sum into property, shares and, yes, even super.

Elsewhere in this issue, there's an undercurrent of excitement around where sharemarkets are headed in 2021. Read through the pages as we talk about Alphabet (formerly Google), exchange traded funds (ETFs) and Dow Jones and News Corp.

Sometimes life has a habit of derailing your financial plans. This month we're also featuring articles about parental leave (page 49), reverse mortgages for retirees (page 56) and staying in control of your finances after a divorce (page 42).

The recession will continue to throw curveballs along the way, but to borrow an oft-quoted phrase, where there's a will, there's a … *Money* issue you can rely on.

Michelle Baltazar, Editor-in-chief

Feedback

Letter of the month

Home care is the way to go – if you can get it

The article "Safety first for the aged" (October issue, page 49), written by Susan Hely, struck a chord with me.

My wife and I are in our 70s, both fit and well, and have a desire to stay in our own home for as long as possible. We live in a medium-sized country town where living costs are quite moderate.

Susan's article is excellent and looks at the options, and time constraints, in accessing government-funded home care.

Our situation is different, but I am sure there are many in a similar position, where we are self-funded retirees with a level of assets above the pension limits and, I assume, above any limits with respect to obtaining assisted home-care packages when the time comes.

The reason for staying in our present home is to avoid the transition to a smaller property before moving to a nursing home, if necessary.

I see people, including friends, who have downsized to a smaller property to access a small assisted package. The problem encountered on downsizing is the considerable cost involved in selling and buying another property – many tens of thousands of dollars in some cases. I consider this to be a waste of money if it can be avoided.

Can Susan do a follow-up article looking at private providers, services and costs available for home care for those who cannot access government-funded assistance?

Ian

Ed's note: Ian, thank you for your feedback. Aged care is an evergreen topic for *Money* readers and there's always more to write about. We will consider a follow-up article based on your suggestions for an upcoming issue.

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

Lessons can be learnt from a game of chess

Thank you, Phil Slade! Your article, "Loss hurts but don't throw the game" (August issue, page 50), is one of the best things I have read in *Money*. Chess should be taught in school. I am going to put the article on my fridge for my young adult sons to read!

Julie

Ed's note: Julie's letter was originally a comment on the website version of Phil's article and is published with her permission.

Gender discrimination is alive and well

Thank you, Susan Hely, for the article "Surviving the pink recession" (September issue, page 51) and for highlighting how difficult it is for women in the workforce.

I am middle-aged and found myself out of a job (contracting) in March. I have applied for countless jobs, reached interview stage a number of times, and got pipped at the post several times. I have been applying for lower-paid jobs (much lower than what I am used to) and I'm not even being looked at for these positions. It's completely demoralising. I have never taken a government handout, but this time I did. I have also asked for mortgage relief, which will [in time] be reviewed, and I will no doubt have to start paying again. I still have no job.

I have decided to try to recession-proof my career by studying cybersecurity, as I know that time is not on my side in the job market. People can say you cannot be discriminated against, but let's not kid ourselves, discrimination is alive and well. Just because no one talks about it doesn't mean it doesn't exist – it's the elephant in the room and no amount of "diversity" initiatives in companies makes one bit of difference.

The pay disparity between men and women has been a disgusting reality for many years and doesn't look like changing, if you ask me.

But I am doing as you say, upskilling and seeing where that leads me. I'll be working another 20 years, so I may as well make it in something exciting.

Caroline

Ed's note: Caroline's letter was originally a comment on the website version of Susan's article and is published with her permission.

REG'S TOON

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Aug 2020

Sept 2020

Oct 2020

How would you invest $10,000 now?

MICHELLE BALTAZAR

Michelle, *Money*'s editor-in-chief, says: "I would put $1000 towards a managed fund/ETF for my seven-month-old niece. My plan is to set aside funds for her each year until she turns 18. I'd like her to see compound interest at work and hopefully that would encourage her to invest as soon as she starts earning an income. The rest I would split between my super and an investment in a healthcare stock."

DARREN SNYDER

Darren is the managing editor of *Money*. "As part of my 2020 goals I committed to saving an extra $10,000 and I'll get there by November. There were several reasons for doing this: I needed to prove that saving was possible on my budget; the mortgage offset needed a boost; and I want to test a robo adviser or two in the next 12 months. The last two are where my $10k will be going."

JULIA NEWBOULD

Julia is *Money*'s editor-at-large. She says: "If I suddenly had $10k to invest right now I would start looking at the stockmarket to buy, say, two shares. My most recent purchase was Qantas, which I intend to hold. I would next look at retail or manufacturing. Alternatively, I might look at a technology ETF or biotech ETF. I would like to see a little more diversification in my portfolio."

DAVID THORNTON

David, a staff writer at *Money*, says: "I would chuck it all into an ETF full of quality global companies. Markets are volatile so I'm not interested in putting money into a theme of the day. I love the diversification ETFs can give you. I'd resist checking up on it weekly or monthly – the gains or losses in the short term are irrelevant, and simply tempt you into giving up any gains from compound returns."

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It's time to repair our world

By mindfully spending our tax cuts (if we can afford it) we can help make Australia a better place

I've just finished reading Ronni Kahn's memoirs, *Repurposed Life,* and feel empowered and inspired. Ronni, who was interviewed for our Hot Seat this month (page 90) saw injustice in apartheid-era South Africa, where she was born, experienced socialism while living on a kibbutz in Israel and then put these experiences into *tikkun olam* – translated from Hebrew as "repairing the world". Now she is best known for setting up the food rescue charity OzHarvest. More on this later.

In last month's federal budget, the government announced a $25 billion package of Covid-19 relief and recovery measures. Initiatives included a $1 billion fund to support the industries most affected – aviation, tourism, primary production and the arts. But is it enough and what will it achieve?

Universities were promised $1 billion, but there are ongoing fears that the loss of income from the drop in international students will result in a loss of around $7 billion over the next five years. The Group of Eight (elite Australian universities) is set to suffer the most from the loss of international students – around 70%. Yet these universities are responsible for 70% of the nation's research.

The arts and universities are close to my heart. It's the arts that raises money – and spirits – during national disasters and other crises. Universities are where the research happens, to treat and prevent disease, for instance, and to develop environmental strategies.

The government has also continued with rewarding those who have jobs. We are due for more tax cuts this year – and it's a time we really should be looking at *tikkun olam* in our own way. What can we do to make the world a better place?

> The average household wastes about $3800 worth of food a year

Usually, I would advocate for saving any bonuses for a rainy day or for investing for the future, but right now I would encourage people to spend their tax breaks mindfully.

Under the tax cuts (using an online calculator), a single person who earns $60,000 will receive $1080 more in their pocket for the 2020-21 financial year (compared with 2019-20). For someone on $80,000 it will also be $1080; on $100,000 it will be $1530; $120,000 and above will see an extra $2430.

The cuts are expected to be backdated to July 1, 2020 and will provide millions of Australians with an additional $2000 or more this year.

Those who can afford it could give local businesses a much-needed boost by spending some of the money from their tax break at restaurants and bars, in shops and on the entertainment industry (restrictions permitting).

Which brings us back to Ronni Kahn, whose passion is repurposing excess food and saving it from landfill by donating it to those who need it. Research shows the average household in Australia wastes about $3800 worth of food a year. By reducing food waste, we also reduce our spending.

In her book, Ronni says:

"At OzHarvest, we developed a mantra: look, buy, store, cook. These four simple habits can help you reduce your household food waste. Look at what you have before you go shopping. Buy only what you need. Store food correctly. And cook with what you have. And most definitely eat your leftovers! Believe it or not this will save you money."

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

Introducing ATEM Mini

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

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

Create Training and Educational Videos

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

Use Professional Video Effects

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

Live Stream Training and Conferences

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

Monitor all Video Inputs!

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

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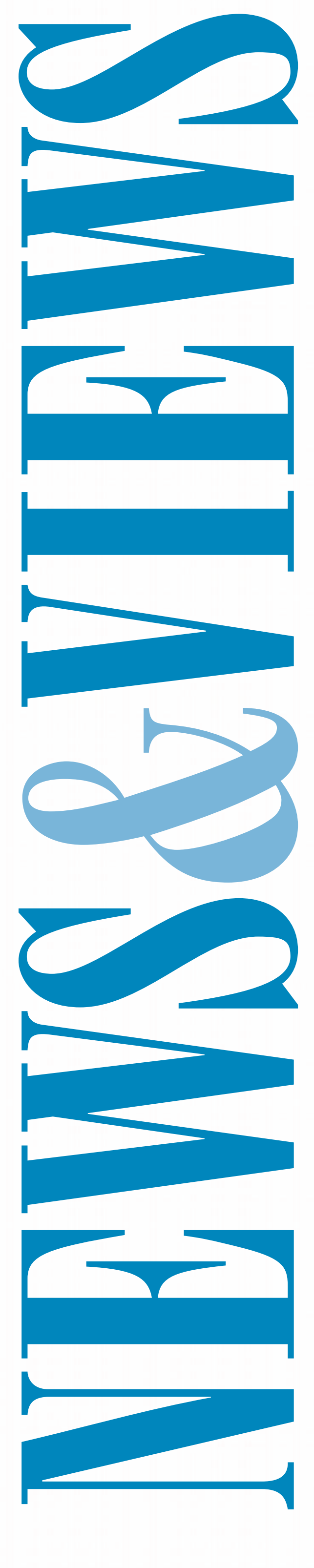


THE BUZZ

Why shoppers still support brands they don't trust

Money has recently received several pieces of research about Australians and their brand awareness during Covid-19. Three studies came to the same conclusion: consumers are more likely to buy products that best serve their needs rather than stick with popular, well-known and/or trusted brands.

A March survey of 5000 consumers, by Sydney-based Fifth Dimension Consulting, says people continue to buy from brands they distrust, provided they personally gain from the relationship.

Lyndall Spooner, founder and managing director at Fifth Dimension, says brand trust is a poor predictor of consumer behaviour. "You may not trust Google, but you might use Google Home. Most people don't trust Facebook ... but how many of us have a Facebook page? A lot of people don't trust big tech companies like Apple, but they still use Apple products."

She says companies should focus on meeting customers' needs rather than investing in trust.

Between March and May, consulting firm KPMG surveyed 2505 Aussies to find which companies were delivering the best customer experiences during the pandemic. First Choice Liquor, IKEA and Afterpay topped the list and special mentions were given to Red Energy, Rebel and NSW Health.

First Choice Liquor got the basics right, with customers highlighting product range, availability, value and an enjoyable purchase experience, says KPMG. IKEA customers who set up home offices and gyms found its website seamless and easy to navigate, while Afterpay made the transition to ecommerce as seamless as possible.

Sudeep Gohil, partner at KPMG's customer, brand and marketing advisory unit, says the research shows organisations need to put the customer at the heart of what they do.

In July, consumer advocate Choice completed a two-day supermarket price survey across Aldi, Coles and Woolworths. Monitoring the pack size, price and unit price of 152 products, Choice found "national brands" (brand names) were 20% cheaper at Aldi on average.

But what's more concerning to Choice is the difference in pack sizes of the same product. It feels this is where consumers are being misled because they're not made aware of what it can cost them. It's up to you to know what you're paying per 100 grams or per kilo (the unit price) to find the better deal.

Choice says different pack sizes muddy the waters for shoppers trying to save money. And it's questionable whether this is serving customers' needs or building any further trust in a brand.

Darren Snyder

CALENDAR OF EVENTS

Tuesday, November 3
RBA interest rate decision

Thursday, November 5
Balance of trade

Tuesday, November 10
NAB business confidence

Friday, November 13
Westpac consumer confidence index

Thursday, November 19
Unemployment rate

ON MY MIND

Prioritise mental health

SuperFriend found that three in five workers have experienced a mental health condition during Covid-19, with more than 25% of those workers having their first experience. And more than half of workers (55.1%) reported that no action is being taken in their workplace to address mental health.

These workplaces are missing out on huge benefits to their workforce and their business more broadly. To put it into numbers, lost productivity due to mental ill-health is estimated to cost the Australian economy between $10-18 billion every year, but on the flip side, every dollar invested is estimated to deliver a return on investment of five to one.

However, it's not all doom and gloom. One in three workplaces have implemented new initiatives to support workers' mental health and wellbeing since March, such as paid mental health days off and sick pay for casual workers. Australian workers are also feeling more connected than ever before, have improved access to their leaders, and reported better work-life balance.

Taking action by investing in workplace mental health and wellbeing is not an optional extra, it's a must have.

Margo Lydon, chief executive at SuperFriend

NEWS BITES

Admin fees and insurance premiums have been cut for BT Super and BT Super Life members with fund balances over $17,647. For instance, fees fell from $628 a year to $573 for members in the BT Lifestage investment option with balances of $50,000. Premiums for the BT Super Tailored Cover product have fallen by 19.5%.

ETFs are becoming the go-to way for fund managers to incorporate ethical and responsible investing principles. According to the EDHEC-Risk Institute, more than half of the global 191 investors and private wealth managers in its annual survey use ETFs to gain ESG exposure. Moreover, 70% of investors intend to replace active investment managers and increase their ETF allocation.

Aussies with an adviser have been less financially impacted by Covid-19, according to the Financial Planning Association's Money & Life Tracker. It also found that 87% of those receiving advice chose not to participate in the super early release scheme. "Those who are in receipt of professional financial advice are well guided and well engaged with their money and will make better decisions and get better results for themselves and their loved ones," says CEO Dante De Gori.

Food relief is financial relief

According to KPMG, food waste costs the economy more than $20 billion every year.

Imagine if an additional $20 billion was able to be spent in October's federal Budget for those most in need. It makes you think twice about over buying or throwing away fresh produce.

Food rescue services as OzHarvest and Foodbank have been vital contributors to keeping our most vulnerable fed during the Covid-19 pandemic.

Last year Foodbank sourced enough food to prepare 210,000 meals every day. It's 2020 Hunger Report says the demand for food relief it's sourced for charities has doubled from 15% in 2019 to 31% this year.

KPMG says hunger relief and food waste reduction services are having difficulty attracting donations of food. It's calling for a government incentive for businesses to donate food, which in turn also spurs on economic activity including tmore jobs and services.

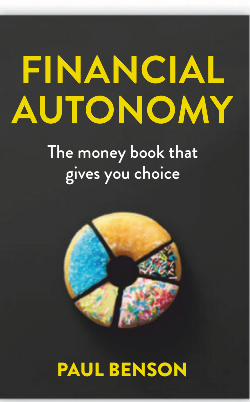
Foodbank says once people receive food relief, 40% feel less hungry and more than a quarter experience improved mental and physical health. That's food for thought.

Darren Snyder, managing editor at *Money*

22%

of economists who took part in the Finder Cash Rate Survey believe now is a good time to buy property, with 86% saying the housing market is holding up better than expected. "The current resilience of the housing market is related to the stimulus that both federal and state governments are directing to the sector and not necessarily driven by current economic conditions," says Rebecca Cassells, from the Bankwest Curtin Economics Centre.

BOOK OF THE MONTH



FINANCIAL AUTONOMY
By Paul Benson
Major Street, RRP $29.95

A financial planner and host of the *Financial Autonomy* podcast, Paul Benson, says there are three main paths to financial autonomy: using property, shares or self-employment, or a combination, to reach your ultimate goal.

However, unlike the financial independence movement, which is largely focused on the notion of being rich to retire early, financial autonomy is more about realising that you can spend money on what makes you happiest throughout life, but this means you have a little less to spend on other things.

Financial autonomy is about taking control of your money in a practical way.

Ten readers can win a copy.

In 25 words or less tell us the best money choice you've ever made. Enter online at moneymag.com.au/win or send entries to Money, Level 7, 55 Clarence Street, Sydney, 2000. Entries open on October 26, 2020, and close on November 23, 2020.

APP OF THE MONTH

EXPENSIFY
COST: FREE
(IN-APP PURCHASES)
OS: IOS 11.0 OR LATER;
ANDROID 5.0 AND UP

Expensify lets you track your receipts for tax and personal expenses; submit your expenses to the office or accountant; collect receipts from your team or clients; or control your company's spending.

Use its SmartScan technology to capture a photo of your receipt and record it as a work expense or a transaction tool for your everyday spending.

Initially you get 25 free scans every month, and you can upgrade to unlimited scans for $6.99pm. If you run your own business, expect charges to be $7-$13pm (per individual) depending on your package.

If you get the Expensify Card you won't have to see a physical receipt again. Swipe it at the point of sale and you'll automatically get an e-receipt. You could even have the expense sent straight to your company or accounting software. The card also works with your smartphone's contactless wallet.

DARREN SNYDER

TAX TIP

Benefits of a salary-packaged car

I am frequently asked to explain how to salary-package a car, and whether the much-touted tax benefits are actually quite as generous as they are sometimes made out to be.

The typical way to salary package a car is by way of a novated lease, which allows an employee to buy a new or used car and have their employer cover the cost of lease repayments. The employer makes repayments to the leasing company out of the employee's pre-tax salary, which reduces the employee's taxable income.

The end result is that the employee owns the car, and the employer agrees to make the lease repayments to the financier for that car as a condition of employment.

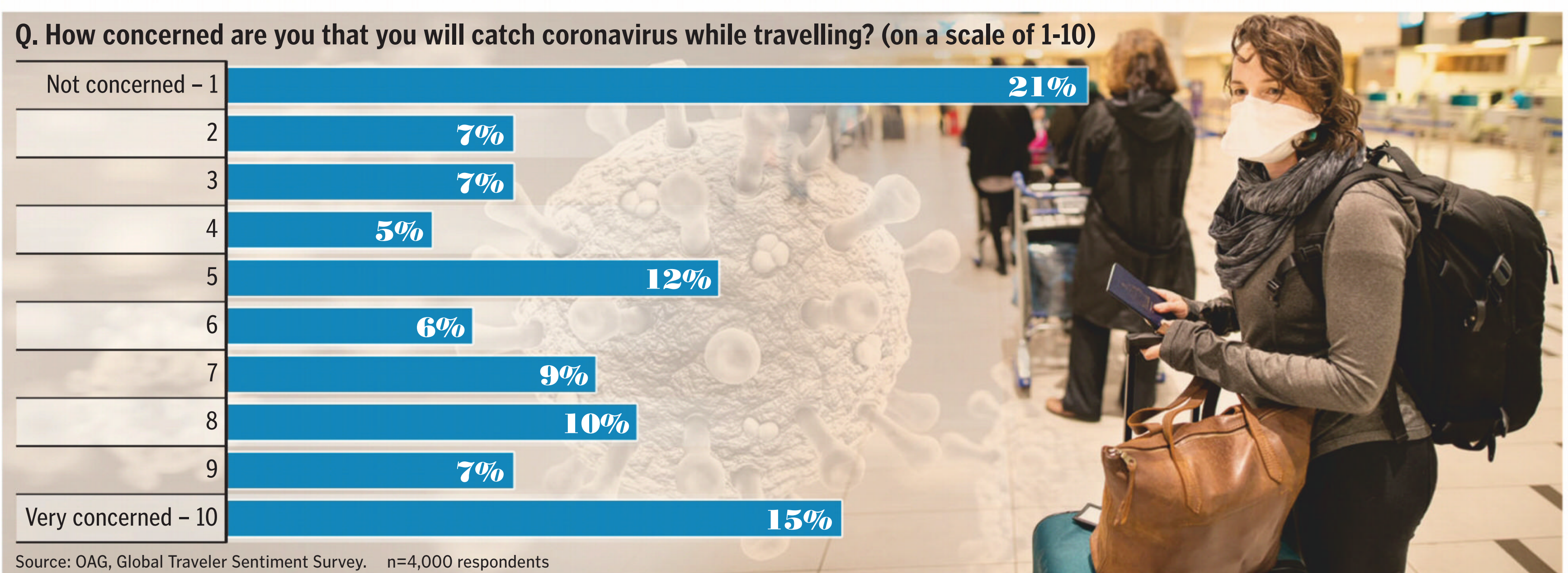
Unfortunately, such arrangements also give rise to a car benefit under the fringe benefits tax (FBT) rules, and employers typically look to pass some or all of this additional cost to employees. As the current FBT rate is 47%, there may be little benefit in salary packaging a car unless you pay tax at the highest rate.

Note, however, that you can usually make post-tax contributions to your employer for the car's running costs, which reduces the FBT. This can change the value benefit for some employees on lower tax rates.

A novated leasing specialist, or your employer's HR department, will usually be able to crunch the numbers for you.

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

SNAPSHOT Corona travel concerns



$10.5 Billion and counting in cryptocurrency trades

Aussies buy Bitcoin at
www.btcmarkets.net

Australia's largest digital asset exchange

MY MONEY

▶ MORE MONEY STORIES ON P42-51

INCOME

Self-funded retirees are left behind

Retirees have been given the short end of the stick in this year's federal budget, according to the Association of Independent Retirees.

"Retirees who partly or fully fund their own retirement have suffered significant income reductions as a result of the adverse economic impact of Covid-19," says the association's president, Wayne Strandquist.

"These retirees rely on income from investments in the sharemarket, property and fixed interest either through superannuation or private investment for their living expenses.

"They have been overlooked by the government as billions of dollars have been allocated to programs to stimulate employment and the economy."

Retirees lean heavily on fixed interest investments as part of their typically conservative investment strategies.

"With official interest rates near 0% as a result of the Reserve Bank settings, retirees are now forced to consider riskier investments and drawdown increasing amounts of their capital to fund their retirement," he says.

This problem has been compounded by recent Australian Prudential Regulation Authority (APRA) guidance urging banks to cut the dividends that self-funded retirees depend on.

"With retirees traditionally having significant investments in bank shares, this guidance means that retirees have been unfairly called upon to forgo dividend income to support bank mortgage defaults," says Strandquist.

Workers feel more connected

Workplace mental health has taken a hit during the pandemic, with more than three in five Aussie workers experiencing a mental condition. Research by SuperFriend, which surveyed 10,338 workers, found that 27.8% of them have experienced a problem for the first time.

Despite this, workplaces have lifted their overall health and wellbeing score to 65.1 (out of 100) from 62.7.

"The improvement in the overall score is surprising, but welcome news in these extraordinary times," says SuperFriend chief executive Margo Lydon.

"Australia's workplaces have moved closer to thriving over the last year. While this improvement may seem counter-intuitive during such turbulent times, it infers two things: work is generally good for our social connections and mental health, and long-term sustained efforts to improve workplace mental health are starting to gain traction."

Aussie workers are more connected now than they were previously – in offices with remote work arrangements.

"Who'd have thought a pandemic which introduced social distancing as a behaviour

norm would make us feel more connected at work?" says Lydon.

"A key positive coming from this crisis is the surge in the sense of shared purpose. Workplaces are increasingly feeling like communities where people support each other beyond getting the job done.

"Time usually spent getting ready for work, commuting and attending unnecessary meetings is instead spent with loved ones, exercising, pursuing personal interests or getting more sleep – all known factors to improve wellbeing and increase productivity."

COMPILED BY DAVID THORNTON

PROPERTY

HOME LOANS

First-timers lead the charge

The property market is proving remarkably resistant, with home loan demand on an upward trajectory.

Owner-occupier home loan commitments hit $16.3 billion in August, the highest month-on-month ri se in the 18-year history of the Australian Bureau of Statistics' series.

"Housing finance approvals came in much higher than expected in August, surging 12.6%, demonstrating the housing market's resilience to Covid-19," says Mortgage Choice chief executive Susan Mitchell.

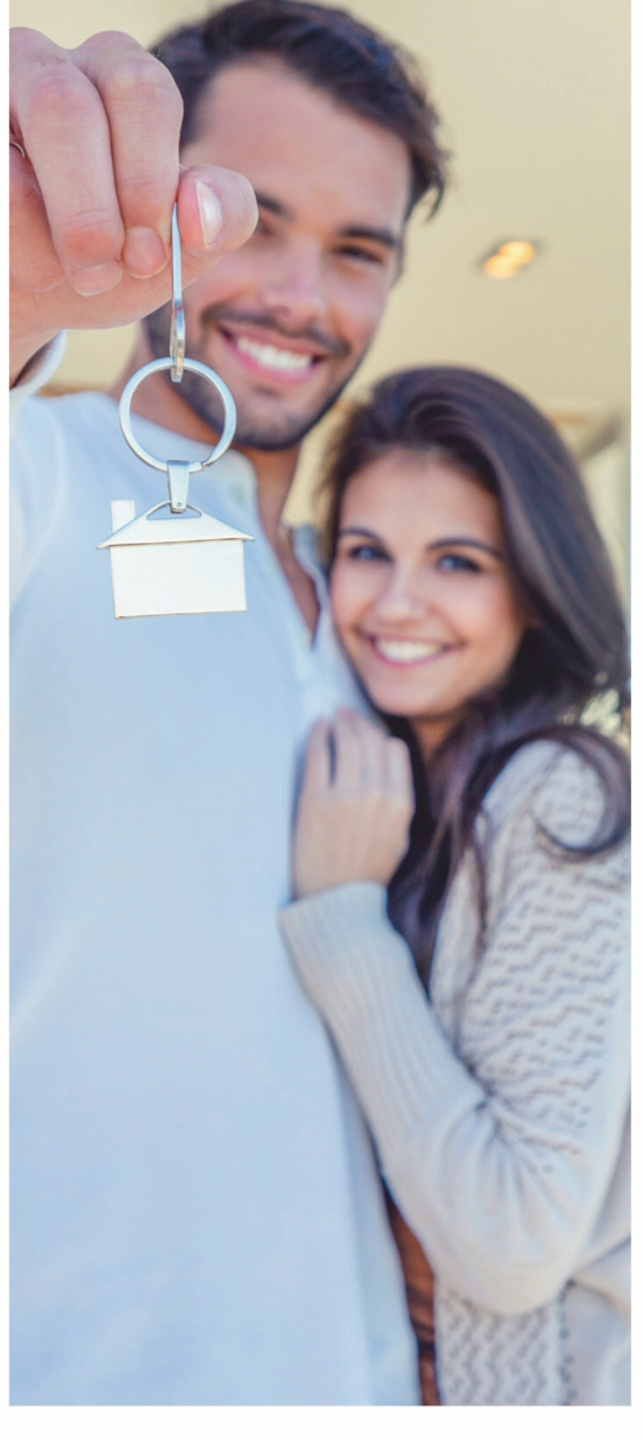
She says the demand is being driven by owner-occupiers, in particular first home buyers.

"The ABS data revealed that the value and number of housing finance commitments for first home buyers rose by 18.4% and 17.7% respectively over August. In fact, August marks the third consecutive monthly increase in the number of first home buyer commitments," she says. "Government stimulus, such as HomeBuilder, appears to be having a significant impact on demand for the construction of new dwellings, with the total number of commitments for new dwellings rising 22.9% over the month, up 34% year on year."

There are also tailwinds that could support lending.

"The recent announcement of changes to responsible lending will increase access to credit for Australians seeking a home loan and go a long way to reducing red tape for many home loan applicants," says Mitchell.

"Monetary policy easing from the Reserve Bank continues to support historic home loan interest rates and the federal and state government grants and schemes will play an important role in supporting buyer demand."



▶ MORE PROPERTY STORIES ON P52-57

Crime rate fails to deter buyers

High-crime areas are punching above their weight in the nation's housing market, outperforming the markets in Sydney and Melbourne over time.

According to Riskwise Property Research, high-crime areas have outperformed safer suburbs over five years, compared with the respective cities' median.

"Despite the stigma that's typically attached to areas with crime issues, and the potential challenges that go with that over the short term, over a reasonable timeframe this has tended to be outweighed by the combined benefits of affordability, convenience of location and gentrification, from a housing market performance perspective," says Pete Wargent from BuyersBuyers.com.au.

"Of course, it doesn't follow that we see buyers actively seeking out crime hotspots, but our experience – and now the actual research figures – show that these other factors tend to be bigger drivers of housing prices over time."

Much of this has been put down to land scarcity and undersupply in the two major cities. But the trend doesn't extend to units.

"The ample supply of units in popular areas over Melbourne over this recent construction cycle has kept entry prices relatively affordable, and generally speaking apartment buyers have not needed to compromise so much by moving to high-crime areas," says Wargent.

In Sydney, the 10-year capital growth rates for houses in all 10 high-crime suburbs analysed by Riskwise materially outperformed the Greater Sydney rate, with the weakest performer (Granville) still outperforming the wider market median price growth by 7%.

It was similar in Melbourne, where the 10-year rates in eight high-crime suburbs outperformed the Greater Melbourne rate. While two other suburbs slightly underperformed, they still showed strong growth.

COMPILED BY DAVID THORNTON

INVESTING

DIGITAL FUTURE

Where to find the winners

So much of investing is about understanding today what the world will look like tomorrow and backing companies that have the best grasp of this. Global research house Gartner has identified five areas in digital commerce that are set to accelerate in the wake of Covid-19.

"Digital commerce has played an important role during the pandemic by enabling organisations to continue serving customers," says senior research director Sandy Shen. "Some customer behavioural changes, such as shopping online and becoming more health- and safety-conscious, will be long term.

Measures implemented by organisations during the pandemic, such as new types of customer engagement are likely to remain, thus evolving digital commerce."

1. Contactless commerce
This takes place when buyers make their purchases without being in close proximity to other people. Gartner predicts that 80% of ordering will be touchless by 2024.

According to the report, "more organisations will offer contactless payments, contactless pick up and delivery for customers and enable contactless commerce operations where organisations can use robotics, artificial intelligence (AI) and computer vision to assist employees with store-level merchandising, pricing, and pick-and-pack at warehouses."

2. Visual configuration
This relates to tools that allow customers to view products in 2D or 3D without physically visiting a showroom. In the future, these tools may reduce the need for samples and showrooms and enable more customer self-service when buying configurable products, says Gartner.

3. Live commerce
Online marketplaces and social networks will use live video streaming to exhibit products. "Outside China, live commerce is in an early stage where there are few livestream platforms or vendor solutions. However, brands that have leveraged livestreaming for selling or customer engagement are seeing early success," says Shen.

4. B2B consumerisation
Business to business shopping will involve the same level of customer experience as business to consumer. "Technologies promoting intuitive user experience and anytime, anywhere availability of comprehensive buying and management functions will gain traction," says the report.

5. Enterprise marketplaces
This allows third-party sellers to sell directly to customers. Gartner predicts organisations that have operated enterprise marketplaces for more than a year will see at least a 10% increase in digital revenue by 2023.

▶MORE INVESTING STORIES ON P60-70

Higher returns will mean higher risk

Retirees with income-focused portfolios will need to move up the risk spectrum, according to Vanguard research.

It found that retirees using the rule of thumb of a 4% withdrawal rate as their income target could have relied on a diversified portfolio of half equities and half bonds back in 2013. To get that same result today, portfolios would need to be completely made up of higher-risk equities.

"Many retirees who have experienced the recent reduction in dividends are understandably worried given their reliance on these payouts to fund their retirement," says Inna Zorina, senior investment strategist at Vanguard Australia.

"This scenario requires a retired investor, arguably at the most conservative phase of their investment journey, to take on immense risk. It certainly presents a real challenge to the most impacted group in today's low-yield and high-volatility investing environment, and is probably not in their longer-term best interest."

The research also found that achieving high-income yield came at the expense of diversification through increased exposure to fewer dividend paying stocks.

"Previously proposed changes to dividend imputation rules highlighted the potential risks that a high-yield, concentrated portfolio may be exposed to. The current high-volatility, low-yield environment further affirms these risks," says Zorina.

"The alternative to an income-oriented strategy is the total returns approach, where a portfolio's asset allocation is set at a level that can sustainably support the spending required to meet those goals and encourages the use of capital returns when necessary."

COMPILED BY DAVID THORNTON

SHARES

▶MORE SHARES STORIES ON P72-85

GROWTH PROSPECTS

Games are hot property

TOP 10 GAMING STOCKS
- Sea Ltd
- Bilibili
- Game Stop
- Nintendo
- Tencent Holdings
- Activision Blizzard
- Take-Two Interactive Software
- SciPlay Corporation
- Electronic Arts
- Sony

Global video-gaming stocks are hot property, made even hotter by the extra time people are spending indoors these days.

According to the financial education website Buy Shares, the five best-performing gaming stocks recorded an average return on investment (ROI) of 101.33% in the 12 months to October 2.

Leading the pack is Singapore-based online game developer Sea Ltd, which has an ROI of 286.27%.

China's Bilibili came next with an ROI of 99.52%, followed by Game Stop 48.81% and Nintendo with 37.02%. Chinese entertainment giant Tencent Holdings came in fifth highest with an ROI of 35.05%.

"Gaming stocks continue to remain attractive for many investors as the sector shifts towards higher margins," says the Buy Shares report.

"Most companies can generate revenue all year round. In the past, most gaming companies used to rely on big releases to get them through the year. The ability to distribute games in a digital form has helped companies cut on costs and maximise revenues."

The ROI for the sampled video game stocks involved companies that deal with the development, marketing and sale of video game hardware and software.

Buy Shares acknowledges that advancements in 5G will improve gaming globally, and cloud gaming will be important to the sector's growth as it eliminates the need for hardware, any installation or cables.

HOLD BHP (BHP)

The Intelligent Investor Gaurav Sodhi

RECOMMENDATION

BUY	HOLD	SELL
below $25.00	up to $45.00	above $45.00

HOLD

Source: Intelligent Investor; price as at October 9, 2020 close of business

BHP has made a sensible, contrarian acquisition. No one has ever said that before. This is also the moment many investors had feared. BHP has established a reputation for destructive acquisitions: Magma Copper, Petrohawk and the merger with Billiton have all proved fruitless at best and downright disastrous at worst.

It has again hit the acquisition trail, spending more than $US500 million ($690 million) on a 28% stake in the Shenzi oilfield, bought from Hess. The purchase increases BHP's stake in the field from 44% to 72% and adds 11,000 barrels of oil equivalent per day to production.

In BHP's colossal terms, this is a minor purchase, but the signal it sends is significant. The miner has a reputation for buying at the peak and selling at the trough. This time, though, it has bought a commodity that is depressed and an asset that it knows well.

We've long argued that BHP has always been a high-quality business marred by poor capital allocation. Its commitment to a new capital allocation model has been tested for several years and again with this purchase. Increasing its stake in Shenzi, a long-life, low-cost oil project, at a time of weak prices is a sensible use of capital and suggests that BHP isn't merely a miner with quality assets; it is close to morphing into a properly high-quality business. Hold.

Gaurav Sodhi is an analyst at Intelligent Investor

COMPILED BY DAVID THORNTON

STORY ALAN DEANS

The joy of writing

Fact file

Matthew Reilly

Action thriller writer; age 46; lived in Sydney's Mosman and Willoughby before moving in 2015 to Los Angeles. Biggest achievement is "still being around", writing best-sellers 22 years after his first novel was published.

First job was operating a lift at Grace Bros department store; yearned to be an action movie director and built sets using Star Wars figurines. His parents enticed him to save by paying half of the cost of a Millennium Falcon toy. Motivation is to make each novel faster, more relentless and visceral than the last. Best money advice was "cash is king", especially if computer systems were to crash.

One of the joys Matthew Reilly gets from writing thrillers is to travel. His research takes him to plenty of exotic places – the pyramids in Egypt, Easter Island and the ancient Mayan city of Chichen Itza in Mexico. No matter what evil is pursuing his heroes – and there is always plenty lurking – his plots captivate the reader's imagination in part because of their ancient and evocative settings.

Right from the opening pages, his latest book, *The Two Lost Mountains*, dumps readers into a life-and-death fight against evil in a sacrificial ceremonial chamber cut into the Rock of Gibraltar. Before we can draw breath, we're swept up into a new theatre of action, as the younger brother of the King of the Underworld is rescued from an abandoned royal prison in Algeria. Capping it all, an order of nuns in Moscow's Red Square become victims of a dreadful atrocity. All this in the first 12 pages. If you're not instantly gripped, you never will be.

One favourite Reilly location is featured in his apocalyptic *The Secret Runners of New York*.

"[As a writer] you can put the head of the Statue of Liberty in the water," he says. "You can make the city crumble. New York is the world city, which is why in alien movies they are always trying to destroy it.

"I tell people who want to be writers, Tolkien could not have written *The Lord of the Rings* growing up in Australia. He could only write that growing up in England, with all those castles and henges and the rolling hills. So I go and see a place and immerse myself in it."

Reilly also devours non-fiction. Think books on physics, astronomy, and history.

"If I'm in a second-hand bookstore, I'll find a book like *The Atlas of Mysterious Places*, which seeks to unravel mysteries. In *The New York Times*, on weekends, the science section often looks at new discoveries. There are always things to stuff into your brain. You don't just get an idea for a book by sitting on a beach, stroking your chin, looking at the sky.

"The best example I can give you involves *The Tournament*, a historical thriller that I wrote. I read over the years about Henry VIII and Queen Elizabeth I, and how she never married. That book was about beating the Spanish Armada and Francis Drake.

"I also read about Islam and how it went into decline after Suleiman the Magnificent, and I got more ideas. Then I read about a junior chess champion, and said to myself, 'What if the Sultan of the Islamic Empire, to impress the world, invited every king to send his champion at chess to compete in a tournament?' Suddenly, all these things I had read just went boom, boom, boom. And, in one day, on several sheets of notepad, I wrote out bullet points for the whole story of *The Tournament*. That was from years of reading. I read a whole lot of stuff, it sticks here, and then when I need a story, it comes together."

Reilly says that his writing, at times, also delivers a real-world prescience. In *The Secret Runners of New York*, Earth is enveloped by a gamma radiation cloud that threatens all forms of life. That triggers riots as the poor rise against the rich.

"The wealth inequality was something that I noticed and, bringing that to Covid-19, I had people say to me, 'Your book is coming true.'

"The riots here started out of Black Lives Matter and George Floyd's death. But in my neighbourhood, graffitied on the wall was 'Eat the Rich'. Covid-19 has exposed that [in the US] there is a health system for the wealthy and the health system for

Suddenly, all these things I had read went boom, boom, boom. And in one day I wrote out bullet points for the whole story.

A break from reality ... Reilly says he tries to give readers an escape from the world.

everybody else. There have been a lot of books [lately] about viruses, like the ones which turn people into zombies. I'm a fan of your good zombie apocalypse story, so I would take that into more of a fantastical zone. But the social politics of it is incredibly relevant, and that is something that inspires me."

Reilly completed an arts and law degree at the University of NSW, part of which included making short action movies. When he later applied for a job at the law firm Allens, one interviewer asked whether that was an indication that he didn't really want to become a lawyer.

"I went 'no, no, no' at the time. But he was absolutely right. I wanted to be creative," says Reilly.

He did work as a paralegal, however, after finishing law school just in case his true passion didn't ignite.

So eager was he to be a writer, that Reilly self-published his first book, *Contest*. He designed the cover and had 1000 books printed at a cost of $8 each.

"I did it to get noticed by a major publisher. The goal was to get the book into bookstores on the assumption that a publisher would go to see where their books were on the shelves and what the competition was doing. That's exactly what happened. Cate Paterson from Pan Macmillan walked into the now extinct Angus & Robertson in Pitt Street Mall, saw my book, bought it, read it and rang my parent's home number on the copyright page," says Reilly.

Paterson remains his publisher to this day, 17 books later.

Reilly received an advance of $6000 for his second novel, *Ice Station*.

"The way the book world works is that you don't get any royalties until you earn out that $6000," he says. "If you are due $3 a book, then you have to sell 2000 copies," he explains. *Ice Station* quickly sold its 30,000 print run. He received an additional $84,000 and became a full-time writer, confidently adopting the philosophy that each book had to be better than the last.

He likens writing books to running a marathon. If he drafts 10 pages in a day, he will print out every one. The pile steadily grows. It takes him 12 months to write a book. About half of that time is spent writing the first draft, and the rest revising the work until he's happy. One strict rule is that he has to finish each book before starting another. The work is then stored on a USB drive, which he keeps on a ring along with his car key and house key.

I don't think authors realise how many flaming hoops you have to jump through before getting on screen

"It's got the last eight books I have written on it, just in case the house burns down," he says.

So with eight million now in total book sales, what lies ahead?

"I don't have an aspiration for prizes. I find them confusing. There are too many of them. But I get tremendous joy seeing a long line of people coming to get their books signed in a shopping mall. I'm in the joy business. I'm trying to give readers joy – a few days' or weeks' escape from the world."

But he does have one goal that has proved to be elusive. He left Australia in 2015 with the aim of writing and directing a feature film. One of his early meetings in Hollywood was with Greg McLean, the Australian director and producer of *Wolf Creek* fame. He then introduced him to Stuart Beattie, Australian writer of *Pirates of the Caribbean*.

"I golf with movie producers and people who love story as much as I do," says Reilly.

He sold the rights to his Jack West books to 20th Century Fox (now 20th Century Studios), but that deal expired. The option now rests with the streaming platform HBO Max and Warner Bros, which are looking at a TV series.

"You tend to think that it will be easy. I've sold my books to Paramount, Disney, Fox, Sony, ABC, Spyglass and Sony again. For some reason, they don't make them. Paramount bought *Ice Station*, but the executive who did that left the company and the new guy killed the old guy's projects. I don't think authors realise what it involves, and just how many giant, flaming hoops you have to jump through before getting on screen. *Game of Thrones* has shown that television is perfect for adapting from a book. They are the perfect size for eight episodes, which is now a season for television," says Reilly.

As to role models, Reilly's is someone he has never met – the novelist Michael Crichton. "More so than, say, Lucas or Spielberg, Crichton was the writer of novels, television and film, and he was a director. He's the guiding light for me. I was approached by his estate to complete one of his novels, because when he died he left unfinished manuscripts. It didn't work out in the end, but I got to read 100 pages of an unfinished Crichton book."

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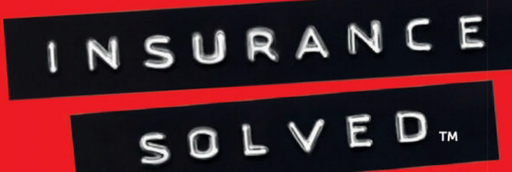

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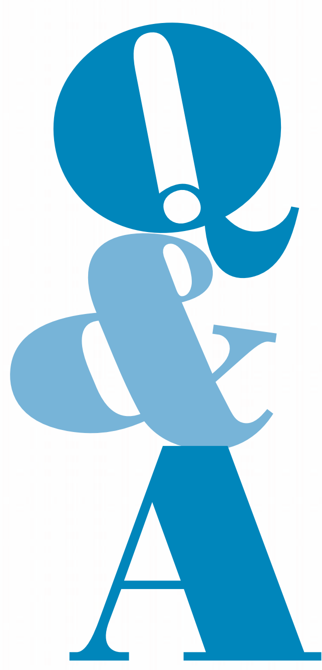

Ru and her kids have had a tough time and now she wants to know …

How to use $300k to make a fresh start in life

Q I'm a 40-year-old single mum to three school-aged kids, and I'm renting and currently unemployed.

I have $300,000 to make something of. I want to put about $150,000 towards a property we can call home and really want to invest $100,000 or so into something that could potentially bring some income. I'm open to starting a business or any recommendations you may offer.

It is a fresh start from scratch for my kids after we lost absolutely everything due to their dad's secret affairs and gambling our whole life away. We are now on our own with no belongings other than the clothes on our backs and money I will receive from a settled compensation.

I want to do what's best for our future with some guidance please.

Ru, I know there is a whole lot of pain and distress that has led you to where you are now. I am so sad to hear about what you and your kids have been through, but delighted you have a fresh start with a good sum of money.

I love the idea of you using some of the funds towards a property. In fact, I would not be against you using a large proportion of the funds to allow you to own a home. Where I am instantly cautious is you starting a business.

I have absolutely no problem with people starting businesses – these are the backbone of our entire economy and can be a real wealth builder. In my own case, starting my business IPAC back in 1983 was the most critical step in creating financial security for me and my family. But many businesses fail, and I have no idea of your business experience.

Naturally, if that has been an important part of your past and you have the skills, time and knowledge, then go for it. But if this is more of a "nice idea" I strongly encourage caution. Losing around half of your compensation is not what you or I want to see happening.

So where I am with you is to secure a home, preferably in a growth location where you and your kids can live full lives. Then if you have strong business skills, a business is a good idea. If not, I would much prefer you to seek employment, possibly in an area where you have a strong interest. Working for someone else is a fantastic way to test your skills in a business environment.

But, above all, good on you for getting through this very difficult stage and starting to plan your new life. My very best wishes to you and your kids.

NEED PAUL'S HELP?

Send 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*.

Christa is putting aside some money and is looking at ...

Investing for young son

Q I'm 41, my wife is 40, and we have a one-year-old son. We put away $1000 for our son when he was born to help him out as a young adult, but we have been unable to decide the best way to invest this for him. Given our age, we thought it may be appropriate to invest this in a separate super fund in my name as it will only be taxed at 15%. This way we can continue to add to it and we can access it tax free when I'm 60 as long as I'm retired. What are your thoughts on this?

Yes, that would work, Christa. You could keep track of the value of your son's "notional amount" and withdraw that from super for him when you retire but, to me, it all seems a bit distant from your son. I would much prefer you chose an investment for him. Heather (page 28) asks about investing in a Vanguard exchange traded fund; something like this with you or your wife "as trustee" for your son is, in my view, a good way to go.

My wife Vicki and I recently did this for our first grandchild, except we decided to go with a listed Magellan international fund. We chose the Magellan Global Trust (ASX: MGG) and invested in our names as trustee for our grandchild. We'll transfer it to her, free of capital gains tax as she is the beneficial owner, when she is an adult, or this will happen through our estate. Hopefully the former!

I'd much prefer the child to have a direct link to the investment. Don't forget, much of investing for our kids and grandkids is the experience they get as they grow older.

Anna has to decide what to do with her super, and history shows ...

Growth assets will do best

Q I was recently made redundant and because of this my super was moved from a defined benefit to a temporary accumulation cash account for 90 days. I'm 54 and have $547,000 in super. I have to decide soon if I will leave it in cash, or is it still a good time to switch it to a balanced option, even during this pandemic? Also, I'm thinking of moving to an industry super fund due to lower fees. Do I do it now?

Here, Anna, we either need the wisdom of the gods or a very good crystal ball. Sadly, my crystal ball is pretty opaque and I certainly can't claim divine wisdom. So I'll just have to go with commonsense, my own experience and the benefit of hundreds of years of market history.

First up, I have no idea what markets will do in the coming weeks, months or even few years. We have seen markets being hammered by wars, plague, pestilence and pandemics many times before. A common theme is recovery. So I am not going to bet against hundreds and hundreds of years of history. The global population continues to grow strongly, in fact, by about 90 million this year. This leads to demand for goods and services, so at age 65 I am leaving my super money in balanced-type funds.

You are likely to have a decade to retirement and, based on the average, you can expect to live for another 30 years. You will need to make your own decision about what is right for you, but history shows that in the long term cash is likely to be your worst asset. I have a life expectancy at least a decade shorter than yours, giving me "less time in the market", but I will continue to hold growth-type assets in a low-cost, well-diversified fund.

Roy lives overseas and is ...

Unable to return to Australia

Q It's been five years since I retired and sold our house (the proceeds are in a savings account) and came to Mauritius (as my wife is a Mauritian) to spend a few years. We are happily sharing a house with relatives and are living off my superannuation pension. I have back problems, which have become worse, and this has made it impossible for me to travel back to Australia.

As my superannuation and our bank account is in Australia, and it looks like I'll be spending the rest of my life in Mauritius, can we safely do so without incurring government penalties? We are Australian citizens.

Goodness me, Roy, it is rare for me to have absolutely no idea about a money issue, but you have me on this one. So, I "phoned a friend". In fact, I phoned several friends about your question and I am still none the wiser.

A consistent theme they all mentioned was your need to see an adviser or accountant in Mauritius who has experience in this area.

My apologies. This is an area fraught with potholes, so I really do need you to seek qualified local advice. Most importantly, I hope your back problems at least stabilise.

Q&A

Carla is concerned by home equity plans but they can provide ...

Extra cash for retirees

Q I have much respect for your articles in *Money* and have just read your response to the couple who are concerned about managing their SMSF as they age. Although it doesn't apply to me, it's an interesting read.

On finishing the article, another one popped up on my computer screen. It suggests that there is a way for homeowners to sell part of the equity in their home to supplement their dwindling retirement funds. My question about this article, which has alarmed me, is this: do you support this idea? Or am I reading it incorrectly?

Some time ago I'm sure I read an article in *Money* about retirees taking a loan against their home where the interest accrues and is taken from the proceeds of the home when it is eventually sold. I seem to remember you were not keen on the idea. It brought to mind a couple I knew who had taken a loan on the home with the interest-only option, and used the money to take the family to Disneyland! I was horrified with what they did.

This current selling of equity in the home sounds just as horrendous as the previous plan for getting a loan.

Interesting question, Carla. Thanks for your kind words. I try my best to answer in a clear, consistent and unbiased manner, but here you have got me. You have picked up on my love/hate relationship with reverse mortgages, or home equity-style loans.

Where I hate them is "reverse compound interest", meaning your loan has interest added and it is taken from your estate. I also hate them when people grab large loans and use them to purchase lifestyle items that add little value to a long life.

But I love them when I see older people with a valuable home taking, say, $1000 or $2000 a month to simply live a much better life. Against a big city home in particular, $12,000 or even $24,000 a year is not likely to be a huge deal but, heck, that money can make their life much better while they live in their home.

I like this to be discussed in a family conference to ensure the kids understand what is happening. Incidentally, if the kids object to their parents living a better life in favour of a bigger inheritance, that also gets me really cranky. I see many kids banding together to help mum and dad and preserve the family home, but that is a family decision.

Also, I always want the parents to seek independent legal advice before proceeding.

So, yes, done well at a later stage in life, I think these schemes can be brilliant. Done badly, they can be a disaster. If later in life Vick and I were short of cash, we'd take out a small regular amount through one of these schemes in a flash!

Heather wants to buy an ETF and is trying to ...

Choose a trading platform

Q We wish to purchase the Vanguard Australian Shares Index ETF (ASX: VAS). What would be the advantages and disadvantages of purchasing either through CommSec or directly with Vanguard's own trading platform?

Not a lot, Heather. Obviously, take a look at the buy costs, but either way these will be modest. I think the question is more likely to be what platform to hold other investments on. It makes a lot of sense to me to keep your investments on one platform as much as possible. It never ceases to amaze me how many of us "lose" our investments, in particular as we get older.

Regardless of which way you go, this is a very convenient and low-cost way to give you access to a diversified portfolio of Australian shares. Both the Vanguard and CommSec customer teams are knowledgeable and friendly, I think it would be worth your time to give them both a call and listen to their opinions in regard to the benefits of their platforms.

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^Points earned will be calculated on 12 month eligible investments of $10,000 or more. T&Cs apply.

SMART SPENDING

Destination Coral Coast Highway

Western Australia remained off limits for many states as *Money* went to print, but for those who can travel within the border, the Coral Coast Highway offers a range of delights and will hopefully be open to other states soon. The highway stretches 1250km along the Indian Ocean from Perth in the south to Exmouth in the north and provides some amazing views and experiences.

Clockwise from above: the Pinnacles, Nambung National Park; Turquoise Bay, Ningaloo Cape Range National Park; Hutt Lagoon; a whale shark.

Five things to do

1. The Pinnacles rock formations are just under a three-hour drive north of Perth in Nambung National Park, where the desert meets the ocean. "Moonwalk" through the otherworldly landscape where thousands of tall limestone spires, formed over millions of years, rise out of the yellow sand.

2. Jurien Bay, a little further north, offers epic skydiving, swimming with sea lions and brilliant turquoise waters. Geraldton, a 40-minute drive away, is rich in maritime history and is also the gateway to wildflower country, aerial tours to the Abrolhos Islands and Hutt Lagoon at Port Gregory – one of Western Australia's famous bubblegum pink lakes.

3. Further north is the Shark Bay World Heritage area, with Monkey Mia's friendly resident dolphins and 3.5 million-year-old stromatolites – the largest and oldest living fossils on earth – at Hamelin Pool. Wula Gura Nyinda runs eco cultural adventures, providing insight into the region's Aboriginal history and culture.

4. Next is the tropical food bowl of Carnarvon, the southern gateway to World Heritage-listed Ningaloo Reef, which is one of the largest and most accessible fringing reefs on earth. In Carnarvon you can enjoy fresh seasonal seafood and tropical fruit direct from nearby plantations and farms.

5. A 2½-hour drive north of Carnarvon is the chilled-out seaside town of Coral Bay, with Ningaloo Reef only a few steps away. You can explore the reef on a kayak, dive charter or snorkel tour and are likely to come across humpback whales, turtles and manta rays. Being able to snorkel with manta rays all year round is unique to Coral Bay. At the northern tip of the reef lies Exmouth, where you can swim with whale sharks (March to July) and humpback whales (August to October). TOURISM WA

DRIVING PASSION

What to check when hiring a car

Before Covid-19, Australia's $1 billion car hire industry was in a period of growth as increased travel and positive business confidence encouraged demand. And according to researcher IBISWorld, consumers had become savvier in booking hire cars online, meaning there was increased price competition.

With borders and businesses slowly reopening, car hire is again becoming a viable choice of transport.

Of course, car hire doesn't have to be just for holidays or business. Vans, utilities and small trucks are often hired to assist in moving house, waste disposal or renovation work around the home, for example.

So before you take the leap and decide to hire a car, there are several things you need to know or ask your car hire company. Here are a few:

- **Car hire companies** generally require drivers aged 21 and over to have a full driver's licence. If you're aged between 21 and 25 you're likely to pay a premium on top of the regular daily rate.
- **Prices aren't fixed.** What you're charged to hire a hatchback in mid-January will likely be different from what you're charged in mid-May. And prices will vary from company to company, as well as location – for example, you may have to pay a premium for airport pick-up and delivery.
- **Membership discounts.** Your insurer, super fund, union and credit card provider may provide discounts when it comes to car hire. If it's not obvious on the car hire company's website, ask which discounts and promotions they're offering.

- **Negotiate on insurance.** While it's convenient to accept the original insurance offer from your car hire company, you might find a cheaper deal elsewhere through a third-party insurer. Or you might already be covered by your travel insurance or credit card. Alternatively, there's no harm in asking for a discount. Over the 2019 Christmas break I travelled interstate and, after rejecting the original insurance offer from the company, I was able to negotiate a 20% discount. It must be said, though, it's always important to read the fine print of your insurance policy – or at least ask your car hire company what is covered. On a trip to New Zealand a few years ago the GPS that came with our hire car blew the cigarette lighter/power socket – luckily this was covered. However, we had to pay the excess when an oncoming tractor flung a rock across our windscreen and cracked it. Also, one of the common "hidden" fees is applied when you reduce your excess.
- **A question I always ask** is how many kilometres you're allowed to travel during your hire period. Most of the time it's unlimited but it's always good to double-check.
- **Book early.** If you want a specific model or vehicle size, it's best to book as soon as you can, especially at peak times. DARREN SNYDER

EXTRAVAGANCE

Buy from the bush

Go to market in style with The Market Tote and support our regional neighbours. Designed, cut, sewn and finished by Dubbo-based Saddler & Co, the generous caramel leather bag is the perfect travelling companion.

How much: $565

Where from: saddlerandco.com.au

WINE SPOTLIGHT

2019 Yering Station 'Little Yering' Chardonnay $20

This is the entry level chardonnay of one of the Yarra Valley's best wineries. It is bright, fresh and lively, with gentle aromatics and pleasingly intense fruit flavours of nashi pear and apple, finishing crisp and clean.

SPLURGE

2016 Leconfield 'The Sydney' Reserve Cabernet Sauvignon $80

Under winemaker Paul Gordon, Leconfield has become one of Coonawarra's finest wineries. The 2016 'The Sydney' – a tribute to founder Sydney Hamilton – is restrained with persistent blackcurrant and mulberry flavours and oak, which contributes to the structure rather than the flavour of the wine. It is fleshy in the mid-palate and impeccably balanced, and lingers long on the finish. Ageworthy.

PETER FORRESTAL

THIS MONTH

SMART SPENDING

SMART TECH

Gaming gets serious in battle of the giants

Moments like this don't come around too often. As 2020 draws to a close, the video game titans – Xbox and PlayStation – are releasing their newest gaming machines.

It's only the fourth time Microsoft and Sony have gone head-to-head like this with brand-new generations of technology. The rivalry began two decades ago with the PS2 and first Xbox, and the most recent contest kicked off in 2013, with the launch of the PS4 and Xbox One, both of which saw iterative updates afterwards.

In a sign of the times, both the PS5 and new Xbox are launching in dual versions in November, catering to people who may only want the entry-level tech, and also to those willing to pay a little more for extra functionality.

Nintendo is so far absent from this new "ninth" generation of consoles (the much-loved Switch only debuted in 2017), but in another sign of the times, home consoles are facing increasing competition from a new kind of gaming innovation: cloud-based streaming services offering console-style gaming even if you don't have a console.

PETER DOCKRILL

Xbox Series S (left) and X

What is it? PlayStation 5
How much? $749
Pros: Sony's PS4 is generally regarded as the winner of the last generation, selling over twice the Xbox One's global tally, and the PS5 will look to continue that form. The giant machine boasts quick SSD load speeds, 8K output, 120fps with 120Hz output, HDR and more. Backwards compatibility with PS4 titles is hinted to be broad.
Cons: If $749 seems steep, you can grab the PS5 Digital Edition for $599, which has no disc drive, only playing downloaded games.
playstation.com/en-au

What is it? Xbox Series S/X
How much? $499/$749
Pros: The new Xbox also comes in two versions, and this time the differences are more marked. The Series X is the full-power variant: best-of-breed specs broadly comparable with the PS5. The Series S, costing $250 less, sacrifices a disc drive (like the PS5 Digital Edition), but is significantly smaller, cuter and less powerful than the Series X.
Cons: It's good to have options; just make sure you choose the right version!
xbox.com/en-au

What is it? Cloud-based game streaming
How much? Varies
Pros: In recent years, a new generation of cloud-based streaming services has sprung up, offering console-style gaming over the internet. Google's Stadia is the most well-known, but there's also Amazon Luna, Microsoft xCloud, Nvidia GeForce Now, with more coming.
Cons: Sadly, most of these aren't yet available in Australia. Watch this space, though, as sampling these game services when they do launch here could be a cost-effective alternative to investing in traditional console hardware.

GIVE IT UP

Tea4E

What is it? Tea4E is a great way to gather a few people for a cuppa and to support epilepsy awareness month in November. Epilepsy is a neurological disorder that can cause seizures through a disruption of electrical activity in the brain. One in three people with epilepsy will not gain full seizure control with medication; and the cause for about 50% of people with epilepsy remains unknown. Currently it affects about 250,000 Australians and many are able to lead full and productive lives.

Where your money goes: Donations go to Epilepsy Action Australia, which provides a range of services for people with epilepsy and their families. For example, $35 provides an information pack to a newly diagnosed family; $70 allows a nurse to provide one-on-one support; and $150 helps fund emergency medication training.

How to donate: Sign up to host a Tea4E event at epilepsy.org.au/fundraise/tea4e or head to the donate page at Epilepsy Action Australia's website. You can also buy merchandise, volunteer or become a member.

WEBFIND

SUPPLYNATION.ORG.AU

This website connects you with Aboriginal and Torres Strait Islander businesses across Australia. Use the search tool on the home page to find your nearest verified Indigenous business. Supply Nation has a vision of a sustainable indigenous business sector and aims to ensure that every Australian has an equal opportunity to achieve and succeed.

DARREN SNYDER

CASE STUDY

Alan and Deb

Can we use super to pay off the loan?

My husband Alan is a fly in, fly out (FIFO) worker in mining. We have a mortgage of about $459,000. He has about $380,000 in super. I have a casual job and about $100,000 in super.

When Alan turns 60 next April (I'm also 60), can he put all of his super into the house mortgage to get rid of most of that debt and still be working for the same company and doing the same job. Or will he have to leave and get some work elsewhere?

We'd also like to know about the tax if we were to take out our entire super at 60. Do we get taxed on that? Do we get taxed if we wait till 67 when we take it out?

We want to slow down and enjoy the fruits of our labour and go travelling. But we're also thinking that while houses are cheap in our town (Geraldton, WA), should we purchase an investment property to have as a further nest egg for later on?

Deb

Paul's verdict: Super is likely to give better returns than the mortgage's 3%

Use your income to pay down the loan and leave your savings alone

This is such a sensible question, Deb and Alan, and it should be easy to give you an answer in a few sentences. But the sad reality is that anything to do with super and our tax system is far from simple!

Let's start with what the rules say. When it comes to taking money out of super, we need to satisfy the "conditions of release".

The most common things that let us access our super are that you are:

1. Over the preservation age and retiring.
2. Over the preservation age and starting a transition to retirement income stream.
3. Over 60 and "ceasing an employment arrangement".
4. Aged 65 or over.
5. Dead.

Of these, the last two are pretty easy to understand, with the last condition of release best avoided for as long as possible. While Alan will be 60 next year, it looks like he will continue in the same job with the same employer, so I suspect his only access to super will be starting a transition to retirement income stream.

This is not an issue to be treated lightly and you certainly need to chat to your super fund and seek advice if needed before you do anything. Sure, if Alan has a retirement event once he is over 60 – that is, ceasing an employment arrangement – this is likely to be a condition of release. If he enjoys his work, this is a pretty drastic way to access his super.

Frankly, though, whether or not Alan can satisfy the rules to access super I'm going to push you gently to really consider if taking money out of super is your best option. You need to make decisions about your money that suit you, but I want you in the best financial situation possible.

I reckon you will be paying 2.6% to 3% on your mortgage. But now we need to look at the long-term returns from your super. Including the GFC in 2009 and now Covid-19, when markets copped a bit of a beating, if you are in any decent, low-cost super funds holding a diversified portfolio of assets in something like a balanced option, I think you will have been averaging more than 7%pa in returns.

Obviously we would all prefer to earn that sort of return on our money than pay off a mortgage costing us under 3%. Here I think it is fair to assume that your mortgage interest rate will remain very low for some time. So the question is, do we think your super will provide a better return than the cost of your mortgage?

There are no guarantees, but if Alan plans to keep working for another few years, history shows that a well-diversified portfolio of assets, as in a good super fund, is highly likely to give you better returns.

But if you would sleep better with the mortgage paid off, that is fair enough. Alan, though, would probably need to "cease an employment arrangement" to access super as a lump sum. You would need to seek advice about this. But in your shoes I would use my income to pay down my mortgage while leaving my money in super, at least until I fully retired.

In terms of buying in Geraldton, this decision I would have to leave to you. At the end of the day, property appreciation will depend upon local economic and population growth, so it would be critical for you to understand these two factors. I have no problem with owning investment property in growth areas, but I suspect going down this path would require your super money. Personally I would prefer to invest in globally diversified assets in a good, low-cost super fund. Do your own research and seek unbiased professional advice if needed.

But this is your call. It is your money and your future and there are many paths to financial success.

I wish it were all a lot simpler, but I hope this is of some broad guidance.

ASK YOUR QUESTION

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

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WHERE TO INVEST $10k

OVERVIEW
DARREN SNYDER

When I look back on the most popular *Money* stories of 2020, there are three themes that stand out. Any story that fell under the Covid-19 tag is the frontrunner. And the most popular coronavirus stories can be split into two: anything to do with JobKeeper and the early release super scheme. Next comes how to invest for children, and then practically any property investment story you can think of.

None of these themes look out of place in a 2020 cover story such as this, answering the perennial question: where to invest $10,000?

Whether you qualified for a supplementary income from the government or needed a cash injection from your super to get by during the pandemic, these payments can well be an investment in yourself.

Or perhaps the pandemic and subsequent recession has made you think about what the future holds for your children and grandchildren. What money can you put aside or invest now to give future generations a leg-up?

While $10,000 doesn't go far when it comes to investing in or buying a property these days, it does stretch when you put it to work correctly. Whether it's adding to your mortgage offset balance, contributing to a renovation budget or paying for a well-informed buyer's agent, there's always somewhere that money can make a difference.

This year we've answered some of these challenges and more. We've asked eight finance experts where they would invest $10,000 and the answers will give you plenty of food for thought.

What they'll tell you is that if you're to going to invest, firstly make sure you can afford it. If you're taking money out of term deposits to invest, for example, make sure it's a sum you're prepared to see invested over the longer term.

You will also make mistakes. If your $10,000 is going straight to the sharemarket, you don't have to gamble it all on one stock. We'll show you how to split your investment and start the beginnings of a promising shares portfolio.

And as much as Covid-19 has changed the way we live and work, it's also changed the investment landscape heading into 2021 and beyond. Whether you're looking for an investment roadmap for next year or want to know why ESG (environmental, social and corporate governance) options are a solid choice for your super, or what the financially independent, retire early (FIRE) movement has done in Covid-19, here are your answers.

WHERE I WOULD INVEST $10K

Investing in any climate is not easy, but the pandemic has made it challenging. The key for all of us in making a decision is risk and timeframe. So if I wanted access to my money inside a year or two, it is easy. I'd go for a term deposit.

But I am a long-term investor, so I see opportunity, as I believe we will get economic recovery. I hold a well-diversified portfolio, so with $10,000 I'd be shooting for growth.

I am a believer in the vast potential still to come with global technology stocks. An easy way for me to get exposure here is the listed Magellan Global Trust (ASX: MGG).

My other choice is hugely biased. I am chair of the small absolute return listed investment company Monash Absolute Investment (MA1). I am already an investor, but with MA1's stellar performance over this difficult period and its recent award as the "Best Listed Alternative Investment Product" at the Alternative Investment Awards 2020, I'd split my $10,000 into two parcels of $5000 and place half with each, giving me international exposure to huge global companies in MGG and a nice contrast in MA1, with exposure to generally much smaller, dynamic Aussie companies.

PAUL CLITHEROE Founder and editorial adviser at *Money*

Where can I invest my money other than in a term deposit?

This is such a challenging issue. Term deposits have been a safe harbour for investors for many decades. Sure, they are still safe, but the returns are getting close to zero. This is a terrible issue for safety-conscious investors and one hard to adapt to.

I'll never forget my Dad calling me in early 1990 to check if we were coping with our mortgage, which had just hit 18.75%. For those of us with mortgages back then, it was our own personal economic depression. Dad had rung to see if we needed help with repayments, which was really kind of him. We had just sold our car, so we were coping okay. But I did have to laugh when he told me he was getting 16% on his term deposits. Sadly, we can't all win. The economic cycle will rarely favour both borrowers and lenders at the same time.

So now it is the turn of borrowers. Debt is incredibly cheap – I saw advertised rates for home loans below 2% recently. Term deposits, of course, reflect this – we are currently earning less than 1% on ours. But we need to hold a proportion of our portfolio in really safe investments, even if the interest rate is near zero.

My very public view has always been that retirees and part retirees, such as my wife Vicki and I, should hold around three years of our budgeted expenditure in safe, liquid investments. The only way to earn higher returns is to move up the risk curve and, at age 65, I am not moving up the risk curve with our eating, rates, insurance and petrol money!

Being forced to sell assets such as property and shares in a falling market is a fool's game and the only way we avoid being in that game is to have safe assets to support us through a cycle of falling markets.

When it comes to investing outside of cash or term deposits, this has to come from money in excess of my "three-year rule". Let me be very clear here. In answering the question "Where can I invest my money other than in a term deposit", it has to be money that I do not need to have in term deposits, namely my longer-term money. The only real mitigating factor to risk is time.

History shows me I can be reasonably confident of positive returns from shares, property, infrastructure and so on over five to seven years. I can become very confident over 20 years. But there is another factor that comes into play and that, of course, is income. While my shares and property may at times fall dramatically in value, the income they produce is more stable.

This means that, providing I am confident I do not need access to the capital that I can only get by selling, I can increase my income by buying these assets. An easy way to do this is to buy some high-yielding shares or a high-yield exchange traded fund (ETF). There are also many income funds available as listed ASX funds, ETFs or unlisted funds. You can quickly get a handle on risk simply by their income projections or past income distributions. A conservative income-type fund is likely to generate 3%-4%. If it is offering huge returns, such as 8% plus, which I do see in advertisements, please take great care.

Let me make two final comments.

It is just the truth that higher returns mean higher risk. Also, and this I guarantee, if it looks too good to be true it will be.

DANIELLE ECUYER author and founder of *Shareplicity*

How have I invested during 2020?

The year has been nothing short of extraordinary and unprecedented.

We started February with optimism as the sharemarket was reaching a new high and the bushfires ravaging Australia were finally under control. With the US presidential election eight months away, most investors were blissfully unaware of any event that could derail markets.

Then the one-in-a-100-year event, a global pandemic, led to the sharpest sell-off in all financial markets since 1987. The health response to the virus and global lockdowns brought economic activity to a shuddering halt.

It's no wonder stocks collapsed, but the price falls were probably exacerbated by excessive leverage in the system. The falls were soon reversed with the support of the most aggressive monetary and fiscal stimulus programs the world has ever experienced. The US Federal Reserve has injected five times the amount of liquidity in 2020 than in 2008-09 after the GFC.

So how did I respond to the market's volatility?

In hindsight, I was far too slow to acknowledge the pending impact of the pandemic, but I did sense markets were rolling over, so I sold and booked profits in both my Australian and US share portfolios. I did make some mistakes in selling some of the quality cyclical retail shares like JB Hi-Fi and Shopify in the US.

I think many investors completely misread or underestimated the beneficial impact from government support payments, super withdrawals and the stay-at-home, work-from-home trends on retail stocks with powerful digital platforms.

By early April, my instincts were to start buying again, as I had raised my cash holdings to a defensive position for capital protection. Some of the sales were prudent, others less so in hindsight, but for me capital preservation remains one of my investing aims.

This example shows how the ability to change and adapt to market conditions is part of becoming a more experienced investor.

I went into the March crash with a heavy weighting in healthcare stocks (CSL, ResMed and Cochlear), infrastructure (Sydney Airport and Transurban); property REITs like Goodman Group, Charter Hall and Waypoint (formerly Viva Energy REIT), Macquarie Bank, technology shares Appen, XERO, Altium, Technology One and NEXTDC; industrial shares such as Amcor and Ansell; and gaming share Aristocrat.

The only significant sales were Transurban and Sydney Airport, which I sold early to book profits and I have since only added some Transurban. I have also bought into the more defensive companies such as Woolworths, Coles and recently Wesfarmers.

I own a small amount of Commonwealth Bank shares, but I am a not a buyer of the banks generally. Macquarie Bank is more of an asset manager. In my opinion, the banks' business models remain fundamentally challenged with lower-for-longer interest rates and digital disruption.

I did own ZIP and Afterpay but sold, booking some good profits at the entry of PayPal into the buy now, pay later sector.

While I am not bearish on the sharemarket, investors need to monitor shares, as there is quite a lot of speculative or hot money from retail investors, particularly in the small to mid-cap area and in some themes, such as e-commerce, biotech exposed to the virus and the buy now, pay later sector.

Investors should also be aware that any signs of inflation could cause a switch from growth, technology and defensive shares into more cyclical companies in the resource, banking, airline and travel-related sectors. To barbell the portfolio for a possible reflation trade I own some BHP, CBA and Fortescue Metals.

I am using my cash holdings to top up shares during periods of weakness. Sharemarkets are likely to remain volatile into the US presidential election and potentially after if either Republicans or Democrats contest the results.

WHERE I WOULD INVEST $10K

Two options are a portfolio with five stocks at $2000 each or one with 10 stocks at $1000 each.

The first portfolio is more concentrated, with each company representing 20% of your total value. In the second, each stock represents 10%. Price movements will have a bigger impact on the total value in the first portfolio than in the second.

Both portfolios contain quality stocks. The first portfolio has stocks that are currently relatively out of favour, and the second has a selection of stocks that I like but are pretty fully valued and can be bought on weakness.

Depending on your risk preference and research, you can adopt one or mix-and-match the following two portfolios:

Portfolio one: CSL (ASX: CSL), Technology One (TNE), Macquarie Bank (MQG), NEXTDC (NXT) and Woolworths (WOW).

Portfolio two: CSL, Technology One, Macquarie Bank, NEXTDC, Woolworths (WOW), Goodman Group (GMG), Xero (XRO), Carsales (CAR), IVV (ETF for the S&P500), and either Commonwealth Bank (CBA) or BHP (BHP) for cyclical exposure.

Some other stocks you could add for more cyclical upticks include Sydney Airport (SYD), JB Hi-Fi (JBH) or James Hardie (JHX), as well as some gold via an ETF (GOLD) as protection in case of a market selldown.

WHERE I WOULD INVEST $10K

Build your team before you build your portfolio. That's an essential attitude for anyone attempting property investment.

Most Australians treat property investing as a hobby. The successful ones regard it as a business. And, as with any business, you have to spend money to make money.

Creating a team of expert advisers is essential to successful investment – for example, a good mortgage broker, an accountant who understands real estate, a specialist lawyer, a quantity surveyor for depreciation reports, a trusted research source and a good buyer's agent.

You have to be willing to spend on good advice and good information before you spend the big money on a piece of real estate.

So, I would invest $10,000 in good advice, on the road to acquiring another investment property. And a big chunk of that would go towards a buyer's agent. I have the expertise to find the right property in the right location. What I lack is time. So I use a buyer's agent.

It's always money well spent. Agents save me time, they organise the due diligence checks and they usually negotiate a good price, thereby saving me their fee and more.

Kate Hill, of the Adviseable buyer's agency, sums it up: "It's not just saving the cost of our fee by negotiating a good price. We'll stop you from buying a massive lemon that's unlikely to grow in value."

TERRY RYDER founder of hotspotting.com.au

Has the pandemic opened up new boom or must-watch suburbs?

There's a property boom that most of the media is missing. And it's not happening despite the pandemic, it's happening because of the pandemic. Markets around Australia are pumping strongly. But because they're not in Sydney or Melbourne, we're not hearing much about them.

A number of key trends have emerged, all of them having a positive impact on local real estate. The main ones are:

Virus-beating cities are strong

Capital cities that got the virus under control early and firmly have solid to strong property markets. Life is relatively normal, businesses are open and consumer confidence is strong.

Perth is the best example. The WA economy is rising, helped by an emerging resources boom. Perth housing markets are reacting to low vacancy rates, with upward pressure on rents. First-home buyers are active, with land sales rising 126% between the March and June quarters. Perth is currently the most searched city on Google for prospective buyers.

Other cities where the virus was corralled early and now have busy property markets include Darwin, Adelaide and Brisbane.

Exodus to affordable lifestyle

This is one of the strongest trends to hit Australian real estate in the 21st century. It was a rising tide before the pandemic, with increasing numbers of people realising the possibilities of working remotely.

The pandemic lockdowns, which forced people to work from home, have opened the eyes of more Australians to the potential. This has supercharged the trend, making it the driving force of markets across Australia.

"People have been leaving the big, expensive cities for some time," says Simon Pressley, of Propertyology. "Sydney loses 20,000 to 25,000 to internal migration every year. The only capital cities that gained population from internal migration in 2018-19 were Brisbane and Hobart. The next set of figures will show an even bigger surge towards the regions."

Buyer's agent Kate Hill, of Adviseable, says regional centres like Geelong, Newcastle, the Sunshine Coast, the Central Coast, Ballarat and Bendigo are all booming.

First home buyers are rampant

The number one cohort among real estate consumers is first home buyers. Levels of government assistance have never been higher and interest rates have never been lower. Investors are largely on the sidelines, so there's less competition for first-timers.

There's never been a better time to be a first home buyer, provided you have secure employment. And the opportunity has been turbocharged by the pandemic.

Aussie Home Loans data suggests that home loan pre-approvals have grown 71% since the start of the year and over half of all pre-approvals are for the first home buyers.

Research published in September indicated that, in most locations across Australia, it's now cheaper to buy than to rent.

Low vacancies predominate

Australia, with a few notable exceptions, has had low vacancy rates for a while. It sounds counter-intuitive, but the pandemic has pushed them lower. Covid-19 has discouraged investors from buying, it has deterred vendors from selling and it has made developers less likely to build. There's a shortage of properties to rent and there's a shortage of properties for sale.

Many locations have the lowest vacancy rates ever recorded. Vacancies below 1% have become the norm around the nation.

When vacancies are that low, rents must rise. They're falling in Sydney and Melbourne, but elsewhere the trend is to higher rents. And when rents are rising, prices will follow.

The outcome is an unheralded boom

CoreLogic figures published in October showed most Australian markets recorded price growth in September, continuing real estate's defiance of the pandemic. Only Sydney and Melbourne fell; the other six capitals and most regional jurisdictions recorded growth.

"The issue is that there isn't enough stock so it's very competitive for buyers," say Kate Hill. "There are more buyers than sellers so prices are rising."

REBECCA PRITCHARD senior financial planner at Rising Tide Financial Services

Where would I invest for my children?

This is one of the most frequently asked questions I receive as an adviser, and it makes my heart sing that families are asking the question rather than going on auto-pilot and putting cash into a child's bank account.

Selecting a strategy for your child will depend heavily on their age and the goal in mind. I have a young family, so there's ample time before the funds would be required.

The goals and support we want to provide our children may look similar, from private education and buying their first car to helping them get into the property market.

However, how far away this is will have a significant impact on the best way to get there.

In the next couple of years

If your goal is less than three years away, we really don't want to take on any risk, because we haven't got sufficient time to ride out any volatility (changes in the value of our money).

This means sticking with cash. If you've got a mortgage, the best value is to save cash, directly into your offset account.

If you don't have a mortgage, a high-interest savings account is your strategy.

Cash right now isn't sexy and it feels slow. But that's the reality for short-term goals: we must accept a low (or no) return in exchange for not taking on any risk.

Setting up an automatic savings plan, with direct debits, will ensure that your strategy is executed.

In three to 10 years

When our horizon extends beyond three years, we should consider investing. This is because we've got time to account for volatility, and taking on additional risk will likely be compensated by higher returns than cash.

Investments such as exchange traded funds (ETFs) will give an opportunity for growth and diversification at a reasonably low cost.

When assessing your options, the level of "growth" will line up with how much time you have until your goal. The shorter the timeline, the less growth (and therefore less risk).

A portfolio of ETFs can be an excellent way to save for your goal regardless of your starting balance. It's also well suited to building up over time with regular contributions.

10 years plus

If you've got 10 years or more until your goal, insurance bonds are a great solution. They are an investment structure, like superannuation, that allows you to invest in a tax-effective way. So you can invest in, say, ETFs and managed funds, but through an investment structure that will save you tax. This option will also work well for most starting balances and you can "save" into this over time. It's a clear winner.

Alternatively, if you've got a big starting balance and lots of time, property might work. This might be the case if flexibility is less important, and perhaps your goal directly links to property itself, such as giving your kids a leg-up on the housing market when they are older.

No matter the goal

You need to be intentional on how you're going to get there. Hope and love are not a viable financial strategy.

Parents with time on their side need to shift their mindset away from piggy banks.

The decisions we make now, compounded over time, make a difference. Start early and start with what you have, and you will reach your goals.

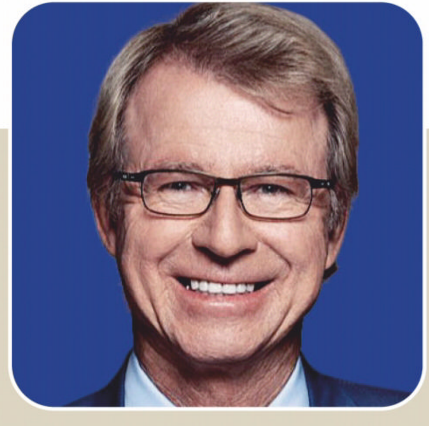
WHERE I WOULD INVEST $10K

The advice I would give myself is the same I would give to any of my clients – firstly, let's have a good look in the mirror to consider my current financial situation, my goals, my values and also my attitude towards risk.

With that information, the answer will quickly become clear. The reality of my financial situation in 2020 is that my financial buffer has taken a beating due to some additional expenses and lower income, with my tenants not paying full rent.

Without a doubt the best investment I can make right now is to retain that $10,000 in cash, to protect myself against further curveballs that may be coming around the corner. I would love to be investing extra in the sharemarket right now, but that would not be prudent given my current situation. The best return on investment I can get is by sticking with cash.

An interesting smell test on your game plan for a $10,000 windfall: think about if you received the money evenly throughout the year, say $833 per month, would you still act the same? Often, the answer is no, which is a good indicator you might need to reconsider.



WHERE I WOULD INVEST $10K

Simple. I would invest it in a well-diversified mix of Australian and global shares spread across actively managed and index funds.

I am not a stock picker. But I am a firm believer in the magic of compound interest and the best way to get exposure to that is via growth assets and not to be blown off course by short-term uncertainties and cyclical swings.

Since I am already heavily exposed to the property market via the family home, I would allocate it to shares.

The short-term outlook remains uncertain: Covid-19 continues to pop up around the world, threatening lives and the economic outlook; the recovery remains of uncertain strength; the US election is a potential source of volatility; and tensions between China and the US are periodically escalating.

However, against this there has been better news on Covid-19 treatments and vaccines, economies are gradually recovering and monetary policy is ultra-easy, making shares relatively attractive – and there is plenty of cash sitting on the sidelines. All this suggests that shares will be higher on a six- to 12-month view.

But given the short-term uncertainty I would probably average into sharemarkets over a few months.

Of course, this is what I would do and it is not personal advice.

SHANE OLIVER chief economist and head of investment strategy, AMP Capital

How does Australia work itself out of recession?

With the economy contracting 0.3% in the March quarter and then a record 7% in the June quarter, it has met the traditional (and rather technical) definition of a recession. This is its first since the early 1990s and the worst since the end of World War II.

The good news is that the recession is probably already (again, technically) over. The rest of Australia looks to have offset the relapse in Victoria, enabling the economy to grow again in the September quarter. And our Australian economic activity tracker, which combines timely weekly data – such as credit and debit card transactions, restaurant bookings, motor vehicle traffic, requests for directions from Apple and Google Maps and consumer confidence – is up from its April low and, after a Victoria-driven relapse, is on the rise again.

The bad news is that activity – measured by GDP and our Australian economic activity tracker on employment – has likely recovered only around half of its initial fall at best (less so for GDP) and so we have a long way to go to recover to where we were pre-coronavirus, let alone where we would be if growth had continued as normal.

Looked at another way, "effective unemployment" – that is, what unemployment would have been were it not for support measures such as JobKeeper – has fallen sharply from around 15% in May to around 9.5%, but has a long way to go to get back to the 5% of early this year.

The first part of the recovery – which came with the initial reopening in May and June, and which saw shops and restaurants reopen and people go back to more normal lives – was fast and looked a bit like a "deep V". But the remaining part of the recovery to get back to, say, 5% unemployment – such that most of us agree we have recovered – will take much longer and be rather bumpy. It might look more like a "square root" or a "swoosh". This is because many industries and activities will take longer to recover (for example, travel and eating out or immigration) and some may never get back to pre-coronavirus levels (traditional bricks and mortar retailing or activities depending on office work). Companies will also use the coronavirus shock to accelerate cost cutting and automation.

We have likely seen a decade of change (notably the surge in online activity and working from home) in the space of six months.

All of which means there will be a long tail of relatively high unemployment as the economy adjusts to some new, new normal.

So, to fully recover, the economy will need much more help from government.

First, record policy stimulus (in the form of support for incomes, jobs and businesses) has helped avert a worse situation, but it will have to continue in order to support demand and hence the recovery. Hence earlier tax cuts, more infrastructure spending, investment incentives, perhaps more stimulus payments and more industry assistance measures.

Second, bank and landlord forbearance will have to continue for a while yet with government supporting such measures.

Finally, governments will need to undertake structural reform, such as replacing niggling taxes, reducing unnecessary regulation and helping retrain those workers displaced by more rapid technological innovation so that it's easier for companies to start up and employ.

History tells us that the Australian economy has recovered in the past from pandemics, depressions, wars and recessions. Australia's better-than-most track record in managing and suppressing the virus, well-targeted and timely income support measures and lucky country good luck tells us we can do it again. But it will take time and it needs patience.

JO McCREERY director and financial planner, Majella Wealth Advisers

What is your investment roadmap for 2021?

When looking ahead to next year, it's very easy to get overwhelmed by the immediate chaos and uncertainty that the current state of the world presents.

Sharemarkets here and around the world have responded to the government support by posting an extremely fast recovery. However, it has not been consistent across countries or sectors. The Australian sharemarket remains well below where it was in late February before the fall, whereas the NASDAQ 100 is significantly higher. Companies like banks and energy businesses remain under considerable financial stress and their share prices are well below their peaks, whereas IT stocks are higher.

Protect savings

So where do you invest in 2021? For savings you need in the near term, it is worth being cautious and sticking to safe investments. But if you are investing your retirement savings, then you can take a longer-term perspective and take some risk – but well-considered risk. Just because an investment has gone up by 48% over the past 12 months – as the NASDAQ 100 had at the time of writing in early October – does not mean it will do that in the next 12 months.

Mix the investment styles

As always, it is important to remain diversified across assets and countries when you are investing your retirement savings. Also be aware of the style biases in your share portfolio. As the growth-style fund manager Hyperion will tell you, in a low-growth world you need to look for companies offering earnings growth that is not dependent on economic growth. As a contrarian, the value fund manager Allan Gray will tell you that buying companies when they are out favour and trading cheaply is an excellent way to earn good long-term returns.

There will be times when each of these approaches works better – and in 2020 the growth style has definitely been the winner – but be aware that some growth stocks could be in bubble territory now. In times of economic recovery, value often does well as cyclical companies bounce back. My view is that both styles work well over the long term when well executed, but if bubbles worry you then make sure you also have some cheaper shares in your portfolio in 2021.

Listed property is a sector that is still well down on its previous high so is worth watching. Given the cloud that retail properties and offices are under, it may take some time before prices start rising, but patience should be rewarded.

Set aside a cash pool

Where to invest the conservative part of your portfolio in 2021 is tricky. The Reserve Bank cash rate and government bond yields are historically low – the 10-year Australian government bond yield is currently 0.88%. You don't get much return for the risk of owning it: if the yield increases (say due to higher expected inflation in the future), the price of this bond will fall. Corporate debt offers a little more yield, but you need to be careful about what you buy.

With the current level of uncertainty, it will be good to go into 2021 with some cash in your portfolio – both to cushion falls if things take a turn for the worse and also so you can take advantage of any opportunities in a downturn.

WHERE I WOULD INVEST $10K

Given I am a financial adviser, it would come as no surprise that I have a clear plan about where I invest my savings – some invested for retirement, some for nearer-term goals and so on.

So, I will assume that this $10,000 is a windfall that I put into my investment portfolio. This portfolio is invested for the long term and mostly diversified across Australian and global share funds and ETFs.

I would add it to my investments in an area of good long-term opportunity such as Chinese shares.

A China share fund that is designed to capitalise the ongoing growth of China's middle class is the VanEck Vectors China New Economy ETF (ASX: CNEW). It is a passive fund that is designed to track the CSI MarketGrader China New Economy Index, which selects "120 of the most fundamentally sound companies in the consumer discretionary, consumer staples, healthcare and technology sectors" listed on the Shanghai and Shenzhen stock exchanges (China A-shares).

The domestic Chinese sharemarket has historically been very volatile and dominated by Chinese retail investors, but this is changing over time as more institutional investors gain access. I expect it to remain a volatile investment but with good long-term return prospects.

WHERE I WOULD INVEST $10K

If the Covid-19 crisis has taught us anything, it's that life can throw up curveballs when you least expect it. It's also highlighted that not as many of us have our finances in as rosy a shape as we might have thought.

Sure, we could be on a good salary, perhaps have some investments paying us a bit of extra income and might even live in a nice house in a good neighbourhood and drive a high-end car. But when the tide goes out you see who's been swimming naked. And what you see may not be as attractive as you expected it to be.

So, a windfall of $10,000 is about housekeeping and tying up loose ends as much as it is for investing in the future. Is my will in place, are my insurances up to date and have I got the right protections?

Then there are the buffers. If I had no income for a month or two would I be able to put food on my table and cover my bills? Sadly, millions of Australians probably couldn't.

After all that, it's the tech sector that we should be paying more attention to. Today's modern economy is nothing without Big Tech.

ALEX DUNNIN executive director research and compliance, Rainmaker Information

Should I invest my super in an ESG option?

If any section of the superannuation marketplace has had a good Covid-19 crisis, it's been the ESG (environmental, social and corporate governance) sector.

In what has amounted to a de facto real-time grand experiment, ESG investments have shown that not only can they withstand a once-in-a-century market shock, they can come out the other side in better shape.

Latest analysis by Rainmaker Information (publisher of *Money*) confirms that in 2019-20 ESG super funds outperformed regular super funds by almost 2%. Over three years they outperformed by almost 1%.

Reinforcing this, three of Australia's best five MySuper products in 2019-20 and six of the best 10 were ESG products or they were run by super funds heavily committed to ESG investment principles. Over three years, four of the best five were ESG options or were run by ESG funds.

On top of this again, Australia's best specialist ESG superannuation investment products performed even better than ESG MySuper products.

So, it's a resounding "yes": I would invest my super into an ESG option. And I do.

You can invest into ESG through an explicitly ESG investment option or the fund running it can follow ESG principles.

But just because a fund is ESG doesn't make it good. To be a good ESG super fund, it first needs to be a good super fund. This means don't fall for the flipside: there's no such thing as a dud super fund running a good ESG option.

This leads us to some more fundamental ideas: what ESG is and, more crucially, what it's not.

It's not the job of ESG super funds to solve climate change or rid the world of bad things.

If people attack ESG super funds for not being pure enough, for not divesting away from fossil fuel companies fast enough, for not being extremist enough, it means they

don't understand ESG super. They forget it's about balancing ESG with being a good super fund and getting the best investment returns they can. It's not about the fund's trustees grandstanding and chaining themselves to a coal truck so they can get some good footage to post on Instagram.

Their job is getting me the best investment returns they can for the investment and strategic risks they are willing to take on. And if they can do this while trying to do some good, why shouldn't they?

We've already established that choosing an ESG investment option shouldn't cost you money. The surprise is that it might end up making you more money.

And now for the big money question: which are Australia's highest-performing ESG superannuation products? In alphabetical order: Australian Catholic Super, Australian Ethical, Aware Super, CareSuper, Future Super, HESTA, Hostplus, UniSuper and Vision Super.

KATE CAMPBELL founder of How to Money and FIRE aspirant

What has Covid-19 meant for my FIRE plans?

If anything I'm more fired up to work towards my financial independence goals this year! The events of 2020 have certainly given me a much clearer perspective on my goals. I honestly believed FIRE (financially independent, retire early) would be a phase like most things. However, I realised this year that the idea of working towards financial independence was starting to become part of my personal framework. The ability to look after yourself in a time of crisis was hammered home this year, and I want to ensure that I am always able to look after myself and my family.

My mindset towards money has also shifted towards viewing it as a tool, neither good nor bad, but as something that can be used to your benefit with training and practice. It's also encouraged me to always keep learning and investing time in my relationships with my family and friends. I'm glad it's starting to open up more conversations with people around the world about taking control of their finances and setting financial goals.

I've also realised that cutting my expenses to bare bones and removing any discretionary spending is not an approach that works for me – it's all about balance and finding the approach that works for you.

Think about the things in your life you spend money on that bring you joy – are they convenience, travel, health, experiences, freedom, relationships, generosity, luxury, social status, self-improvement? Arrange your finances to maximise your spending where it brings you the most happiness and cut your spending in the other areas of your life.

Your FIRE goals shouldn't be making you miserable, and if they are it might be time to take a step back and work out a better plan.

I've also spent my spare time this year investing in my education, both through tertiary education and increasing my skills at work.

As a young person, increasing your skills and abilities can be the best investment you make, as it helps you to increase the gap between what you earn and what you spend.

I've set myself financial targets at the start of each year with my FIRE goal in mind and have been fairly consistent with reaching them. *M*

WHERE I WOULD INVEST $10K

At the moment my investment strategy is still evolving as I learn and figure out what works for me, but I'm working towards a core and satellite portfolio.

So, essentially 80% of my portfolio is allocated to a diversified selection of ETFs, and then I have some direct investments in shares, managed funds and a few alternative assets making up the other 20%. It's not very exciting at all, but that's exactly the point: the best investment strategy is often the simplest and most hands-off one.

However, right now I'm focusing on investing in myself and my education. This is helping me grow my employable skills and improve my ability to approach new problems.

Ease the heartbreak

STORY
JULIA NEWBOULD

Couples who are financially and legally prepared for a break-up are in a better position to cope and move on

At the beginning of Covid-19, there were predictions that the number of divorces would spike as couples found being forced to spend more time together would deepen any relationship cracks. To date this hasn't happened, although solicitor Fiona Reid, from Reid Family Lawyers, says there has been a spike in inquiries from people who have decided their marriage or de facto relationship has come to an end – probably double the number compared with the same time last year.

"The reason largely for the spike is that financial pressure is one of the big death knells for relationships. The isolation combined with home schooling and the pressures that brought – it highlighted the cracks already present and turned them into massive crevices because people didn't have the escapes they normally have," says Reid.

"Some people have felt unsupported by partners, and also excessive alcohol and infidelity have become more of a problem because it's hard to hide an affair if you're together 24/7. We've seen people who've seen texts pop up from girlfriends or boyfriends, or didn't notice their partner's drinking when they had other things to focus on."

Reid says some of the inquiries have been about fact finding while others have been after the decision has been made. "They need to know what the financial deal and family obligations will be so they go into the process with knowledge," she says. "It's a massive decision and it's an uncertain time."

Splitting the assets

Know what your asset pool is and also have some idea what you brought into the relationship at the beginning. Think about any gifts or inheritances received, and what your income capacity is. Reid says this gives lawyers an ability to give fairly accurate advice on what outcome is likely and whether they need to go to court.

People also need to understand the realities about property and parenting. "It's all about the children and their rights to have relationships with both parents and if you have a very young child it's hard to project how that will look," says Reid.

Typically, when lawyers divide property they follow a formula that identifies the asset pool, the contributions made and the adjustments in terms of future needs (such as personal income or capacity to earn an income). If one partner has lost their job it might lead to an adjustment in terms of the property split.

"Outside coronavirus, if people deliberately run down a business or lose a job, the court would have regard to the person's capacity of income," says Reid.

REACH A SETTLEMENT

About 95% of matters are settled without court intervention, and some are settled during the legal process, says Reid. "Most decent family lawyers put in a huge amount of effort to get a resolution for clients outside court because the costs, both emotional and financial, are awful and delays mean you might not get a final outcome for up to three years," she says.

A settlement can be reached through:

Mediation

In an informal forum, a couple, with the help of an independent third party, can resolve issues arising from a relationship breakdown, such as how to split assets, future financial support and arrangements for children. "The mediator's role is to help couples find some mid-ground and reach an agreement which both of them can live with," says Reid.

Once an agreement is reached they will need a written financial document that sets out how the property will be divided, and for it to be binding each party needs to have their own lawyer who must certify that they have given advice over the effects of the agreement and advantages and disadvantages. This is followed by obtaining a consent order from the court.

Collaborative law

In the traditional adversarial process (spouse versus spouse), couples are given advice about their entitlements by each of their lawyers and then their lawyers take over the process – whether it is on the phone, face to face or in court.

In collaborative law, clients sign an agreement not to litigate or threaten to litigate, and the lawyers sign as well. If the collaboration fails, then the parties need to find new lawyers because the original lawyers can't act in that matter.

Collaborative law starts by talking about the parties' interests, needs and concerns. You can have the assistance of a coach and a number of people who can help you get through the process. You can use a financial planner, who can often do modelling to show how the division of assets might work, particularly if one party hasn't been involved in the finances in the relationship. Typically the financial adviser will have undergone training and understand the practice and what they need to do. The idea is that, as a team, everyone works to meet the maximum number of both parties' needs and concerns.

Not everyone gets everything they want, but a collaborative process gives them a chance to be heard. Parties are very much involved in the discussion and the negotiation because it all happens openly, says Shipton and Associates family lawyer Claire Nielsen.

It doesn't really work if you have a significant power imbalance between the partners, or if there is significant family violence; or if someone isn't committed to the process and they're "sussing out" where the other person stands with a view to litigate. It is also not suitable for anyone who has mental health issues or who is not over the end of the relationship.

Get the most out of mediation or collaborative law

Seek legal advice. Knowing your obligations means you are bargaining with knowledge, which helps you negotiate with confidence.

Try to remain calm. If you are able to remain calm throughout your meeting, people will hear and understand you better. If you feel your blood pressure rising, you are allowed to ask your mediator for a break to cool off.

Stay on track. Now is not the time to shy away from tough topics. When it is your turn to talk, focus on the issues you decided were important when you were preparing for the meeting.

Be understanding of your former partner's feelings. Try to explain things clearly and positively to respect everyone involved.

Wait for your turn to talk. The mediator is there to ensure everyone will have a chance to talk, so don't worry about being heard.

There are no dumb questions. If you don't understand something or you are not sure if you have been clearly understood, ask questions.

FIONA REID, REID FAMILY LAWYERS

> Not everyone gets what they want, but they do get the chance to be heard

ROLE OF THE ADVISER

Mark McShane, a financial adviser at Minchin Moore, says he has had several inquiries about divorce since Covid-19. "Typically, people will come in and say, 'John and I or Mary and I are going our separate ways.' They're still living together and just saying it's not going to be reconcilable, so what should they start doing," he says.

Existing clients who are amicable might come in together to talk through the settlement, he says, but for new clients only one will come to him.

"It's 50/50 whether people see a lawyer or financial planner first. My first piece of advice is to get an appropriate lawyer or accountant to be across what's going on and also an adviser. When you do that, particularly from the legal and financial side, it works better than if you just saw the lawyers, because it's more integrated."

He recommends following these three steps before calling professionals so that you're not paying someone else an hourly fee to get it done:

- Get your personal documents in place – passports, registrations, property deeds, insurance documents – as all will be needed down the track.
- Make sure you have a record of the date you formally separate. If married more than two years, you need to be recorded separated for 12 months for a divorce, even if you are living under the same roof.
- Put together any other financial information, including notes about kids, their schools, your employer, etc. *M*

Make time for a check-up

STORY DAVID THORNTON

If you take a close interest in your super, you stand a better chance of accumulating the funds you need for a decent retirement

Australia's superannuation system is widely lauded. "Many policymakers around the world look at the Australian system with envy," says David Knox, from wealth and retirement consultancy Mercer.

But this good fortune can be taken for granted. And it's made worse by the decades that elapse between when super contributions are made and when they provide benefit.

"Regardless of how much you have – a lot, not much or in between – our compulsory superannuation system here in Australia means everyone who works is effectively an investor," says Kirk McNeill, client services manager at Australian Ethical.

And keeping tabs on your super is easier than you may think.

"It's always tempting to put off dealing with finances, but breaking it down into tasks for one minute, one day, one week and one month is great way of making progress toward a better financial future," says Rose Kerlin, from AustralianSuper.

So we spoke to the experts to get their tips on ways you can make the most of your super now and in the future.

TAKE A MINUTE

Right off the bat, the best thing you can do is simply make the decision to engage with your super. "There's this disengagement with superannuation, especially among younger members, because retirement is a long way away," says Dean Bornor, general manager advice and education at Rest.

You should receive regular statements from your superannuation provider about your account. Make sure you read them and check that you can log into your account online, which can be easily done through your fund's app or website.

There you can review your balance and check that your contributions are being made regularly – your employer should be putting at least 9.5% of your wage into your superannuation.

"You should know roughly how much you have in your account and check it at least twice a year," says UniSuper chief executive Kevin O'Sullivan. "But I wouldn't encourage you to look too often – super is a long-term investment and daily fluctuations in your balance are to be expected."

TAKE A DAY

Getting across your fund's insurance cover can be done in a day.

"Particularly younger people think they're bullet-proof and don't understand what it [insurance] is, how it works, and what you're being charged," says Rest's Bornor.

Insurance through your super can be a cost-effective and easy way to give you and your family financial security through life's unexpected events, such as illness, injury or death, says UniSuper's O'Sullivan.

"When you are reviewing your life insurance arrangements, take the time to understand the level of premiums being deducted from your account, as well as what is – and isn't – covered by the policy," he says.

This can easily be done using the life insurance calculator on the MoneySmart website, where you can determine whether you need life cover and how much is appropriate.

It may be the case that the insurance premium isn't worth the benefit it provides.

> The government's co-contribution scheme is a free lunch everyone should take up if they can

"You may have income protection and I would question whether you need both TPD (total permanent disability) and income insurance," says Colin Lewis, from Fitzpatricks Private Wealth.

"The restrictions on TPD insurance in super are so hard to qualify for, what's the point in paying a premium for that if you're unlikely to get a benefit? If you need it, perhaps have it outside super, where it's easier to qualify for."

Aside from insurance, multiple super accounts are also something you can address and consolidate in one day.

Consider that you've changed employer recently without nominating a preferred super fund. All of a sudden you have two super funds and perhaps excess charges that come with it.

"It's very important to check whether you have multiple super accounts. If you do, it is costing you money," says AustralianSuper's Kerlin. "Consolidating into one account means paying fewer fees and makes managing your super a lot easier."

Before you consolidate, it is important to check for insurance held within any of your super accounts – it will be lost if an account is closed, so if you want to keep the insurance, you will need to keep the super account open, says Ishara Rupasinghe, director and financial adviser at Dixon Advisory. And you may not receive the same cover at your new fund.

Another easy thing to check is lost super.

More than $20 billion in lost and unclaimed super is held by the ATO so it is definitely worth taking the time to check if any of these savings belong to you.

As with all investing, seek professional advice when you're in doubt.

"Most funds will offer financial advice at no additional charge," says Bornor. "So know where it's invested, but also understand where it should be invested. That's a one-hour call with your super fund."

TAKE A MONTH

It's important to understand whether you're in the right investment option for your circumstances.

"When people join a super fund, they're often put into the default option regardless of whether it's the best option for them and their life stage, so check to see that the option you're in is appropriate for your financial objectives," says Australian Ethical's Kirk McNeill.

You want the investment option to be aligned to your age and risk appetite.

"Most superannuation funds let you choose from a range of investment options, with the options having various expected levels of return and risk depending on the underlying investments," says UniSuper's O'Sullivan.

"Your investment choice will usually be based on how much risk you are willing to take. A conservative option, which generally focuses more on fixed income and cash investments, will offer lower risk but likely lower returns over the long term, while a higher growth option with more equity investments may experience more volatile returns in the short term but will usually achieve higher returns over the long term.

"Most funds have a 'default' investment option. This is usually a balanced investment option that has a mix of defensive and growth assets."

It's important, though, to avoid tinkering with your risk setting too much through frequent rebalancing.

"Make sure the asset allocation is appropriate for how much risk you're willing to take over the next five to 10 years. Set it and keep an eye on it, but don't continuously tweak it," says Peter Campbell, senior financial adviser at Merideon Wealth Strategies.

"Ignore the name of the investment option, and look at the actual asset allocation – how much you're exposed to Australian shares, international shares and fixed interest – and think about whether you're comfortable with that investment given how far away you are from retirement."

Bornor also warns against rebalancing until you are ready to shift from the accumulation phase to the retirement or pension phase.

"We position MySuper in a way that allows us to rebalance for you. That's what you pay us for. I don't think people should be thinking about this until it's time to sit down with an adviser and talk about retirement options," he says.

The one-month timeframe is also a good opportunity to consider topping up your balance.

"Some people might not have enough right now to meet their particular retirement goals but can boost their balance with voluntary contributions," says AustralianSuper's Kerlin.

"Extra contributions are one of the best ways to grow your savings and achieve the retirement lifestyle you want, and the great thing is that small amounts over a long period can make a real difference."

Another option is salary sacrificing, where you ask your employer to direct a further portion of your pay into super on top of the SG. This has a double benefit: you pay less tax and it reduces your taxable income.

Top-ups, whether they're voluntary or salary-sacrificed contributions, don't need to be daunting amounts. "Rather than think about this huge financial commitment, start small," says Bornor.

So voluntary contributions can be $5 or $10, and then increase the amount once you know your day-to-day finances can cope.

To boost your savings, the government's co-contribution scheme is a free lunch that everyone should take up if they can. The government gives you a 50% co-contribution up to a maximum of $500 if you earn up to $38,564. You can also get a low-income tax offset if you earn up to $37,000.

Co-contributions are a good way to give your kids a leg-up in life. Parents can give their children money to add to super knowing that the government will do the same.

"If they're earning less than $37,000, you'll get a tax offset," says Fitzpatricks' Lewis. "You're not only boosting your kids' super, you're getting a tax benefit at the same time. It's money for jam."

Partners can similarly make after-tax payments into your super account.

"If your income is less than $40,000, they can contribute up to $3000 a year into your super and receive a spouse contribution tax offset," says Kerlin. "Your partner can contribute more than $3000 but they won't receive the tax offset on anything above $3000." *M*

AT ANYTIME

Also take time to understand whether your fund aligns with your principles.

"People are often horrified to find out that they're accidental investors in companies they wouldn't otherwise support," says Kirk McNeill, from Australian Ethical. "But matching your super to a more responsible fund or option is probably the easiest way to amplify your positive impact in the world."

Many funds use ESG (environmental, sustainable and governance) principles when filtering the companies they invest in, while others, such as Australian Ethical, make it the driving focus of their fund.

"The first step towards ethical investing is figuring out precisely which causes you are passionate about. It might be easier to start with which causes you want to avoid," says McNeill. "Once you know where you're happy for your money to be spent, the next step is asking your own superannuation fund about what it's investing in? Is there an ethical option?"

For instance, Australian Ethical's funds claim to produce 75% less carbon than traditional investments and avoid investing in companies that don't have good human rights or animal welfare records.

"Not all ethical options are made equal and you want to be sure that your fund is walking the walk and not just talking the talk. One way to check is to see how it votes at the AGMs of the world's largest companies. Is it voting for climate action and supporting human rights?"

What's more, sustainable investing doesn't sacrifice investment returns. You can have your cake and eat it too.

The Australian Ethical Super Employer – Balanced (accumulation) retail fund returned 7.6% in the three years to August 31, 2020 while UniSuper's Global Environmental Opportunities industry fund has topped the tables with a 17% return over the same period.

It's still 'borrower beware'

Proposed new laws should make it easier to get a home loan, but that's no reason to throw caution to the wind

Early last year we wrote about how banks had taken lending rules to the extreme when a Netflix subscription could make or break a loan application. In one case, someone had to re-submit their paperwork after the lender found an expense for a pet when the applicant didn't have one (he had bought a gift voucher for a friend who had a pet). One lender even queried a fortnightly expense that went towards swimming lessons.

The government had good reason to impose responsible lending obligations (RLOs) that required lenders to assess a borrower's ability to service a loan thoroughly. In 2019, the average Australian had nearly twice as much debt as income. The stricter RLOs were introduced to make sure people weren't borrowing well beyond their means.

But the latest federal Budget proposes a reversal of those same laws. Consumer protection groups are worried it will lead to a lax lending system that will plunge more people into debt. Here are three things to know about what the Budget announcement means:

1. The treasurer, Josh Frydenberg, spoke about significant reforms to the RLOs in the *National Consumer Credit Protection Act* 2009 (NCCPA). However, there will be a consultation period between now and March next year. The new laws aren't finalised as yet.

2. The biggest proposed change that will come into effect from March next year is that lenders will be allowed to rely on information provided by a borrower unless there are reasonable grounds to suspect otherwise. While this applies to banks and other lenders, the government was not specific about how this affects mortgage brokers. This is a radical departure from existing laws where lenders must take reasonable steps to assess a borrower's true borrowing capacity (this is when lenders have gone to the extreme of checking the borrower's Uber, Netflix and other direct debit expenses).

From March 2021, applying for a mortgage could be less onerous than it is today

3. One of the most promising proposals effective from April next year is to require debt management firms to hold an Australian credit licence. This means consumers will now have recourse to go to the Australian Financial Conduct Authority (AFCA) to resolve any disputes they may have with a debt management provider.

The government is attempting to wind back lending laws that were imposed when the markets were frothy. With the country in recession, it is putting the onus back on the borrower to provide an accurate picture of their lending capacity given the temporary (or permanent) impact of Covid-19 on their finances.

It could reinstate the same strict lending rules again once the economy is on the mend. But starting in March next year, the process of applying for a mortgage could be less onerous than it is today.

But even if it gets easier to get your loan approved, make sure that convenience is not built in as an additional cost to the loan by way of fees and penalties.

And even if lenders are no longer obligated to check your bank statements line by line, borrow responsibly so you don't default on your mortgage and have a massive debt that rests squarely on your shoulders.

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.*

Mind your language

How we talk about money can help us control our emotions and our finances

Before my career as a behavioural economist, I worked in the arts. We were in the last two weeks of rehearsals for a major theatre production of *Romeo and Juliet* and a heated argument broke out between three key people about how the director wanted to stage the fight scene between Romeo and Tybalt. Sensing that the argument had descended into emotional reactivity, I pulled each person aside at an appropriate moment and had three different conversations.

With one I talked about the true meaning and intent of the original Shakespeare text, and how this directorial decision would stay true to the intended meaning (focusing on ideals). For another, I talked about the impact this would have on all the school kids attending the show and how this would help open their minds and impact the way they saw Shakespeare and theatre more generally (focusing on interpersonal connection). To the last person I talked about how many times this had been done before in other productions to great success (focusing on data). Three different people, having a conversation about the same thing, but coming from three different angles. I spoke their art language.

Having money conversations with family and friends works in a similar way. You need to speak each other's language in order to effectively communicate.

No culture in history, when presented with the concept of money, has then rejected it. It makes sense of our lives and stimulates connection and social advancement. But because of its high utility, it also has become a way we represent ourselves to the world. Our finances are one of the major things that express who we are, our values, and what it means to be human. Our finances are a representation of us.

Because of this, money is deeply connected to our emotions. Not only do our emotions affect how we spend, invest or save, but our financial position also impacts our emotional state. Control your emotions and you have a better chance of controlling your finances.

If you struggle to control your emotional reactivity, then it's likely that money is controlling you. The best way to subdue the high emotion of money is to talk about it. However, talking about money is complicated precisely because it has such a strong link to our core identity. So if done incorrectly, it can have the opposite effect – it can raise emotions, not reduce them.

For artists, their "art" is as close a representation of their identity as money is for many of us. If they feel you are attacking their art, it will feel to them as if you are attacking a part of them.

When there was a disagreement in the pressure-cooker environment of the rehearsal room, I needed to communicate well in order to ease the emotion in the room and have a rational conversation.

You need to speak directly to people's emotional side to help calm the reactivity and have a more rational conversation. The key to communication with this emotional side is in understanding what language their emotional side speaks – the language of data, of ideals, or of interpersonal connection.

Avoid falling into the trap of shouting your own language in an attempt to make people understand. Learning other people's money language will help avoid many misunderstandings and opens the door to more harmonious collaboration in all areas of life. In my experience, achieving success without knowing the three money languages, as Shakespeare would say, "stands not within the prospect of belief."

Phil Slade is behavioural economist and psychologist for Suncorp Group, author of Going Ape Sh#!t, *and founder of Decida. He works across digital innovation, strategy and cognitive bias.*

Art of conversation

Listen. Notice what is a sensitive issue for the other person and ask them why it feels as if there is more energy around that topic. Listen to how they frame their own arguments. Often people speak to you in the language they wish to be spoken to. Listen for them to talk about numbers and statistics, personal stories or how things "should" be done.

Practise. Before having a conversation, practise different money languages. Pick a financial decision you need to make together (eg, which streaming service to subscribe to), and ask yourself what decision you would make if you took a pure data perspective, the 'right thing to do' perspective, or an 'impact on people you care' about perspective. Observe how you feel in each scenario to help you choose the right language to use in your conversation.

Mix it up. If you are unsure, practise adding an element of all three perspectives into your narrative. This is helpful when speaking to a group as you will make each person feel as if you understand where they're coming from.

Parental leave catches on

More employers are helping parents adjust to life with a new arrival

When my first child was born, I didn't receive paid parental leave from my employer or the government. But these days a birth mother can qualify for government-funded parental leave of 18 weeks for a newborn.

On top of this, around 50% of Australian employers offer some sort of paid leave – just how much varies from company to company. Typically it is offered to women as paid maternity leave, but some companies are ramping up paid leave to new dads.

About 35% of Australia's top 500 companies offer two or more weeks of secondary carers leave, according to a survey by CoreData for the HBF health fund. It puts together a list of the best workplaces for new dads in terms of paid leave.

HBF found the most generous parental leave is 18 weeks, taken over three years, offered by consultancy firm Deloitte, followed by Telstra with 16 weeks, then Medibank Private and Novartis with 14.

Highly ranked companies at the top of HBF's list have ditched the distinction between primary and secondary carer, replacing it with parental. This means men can apply for the same amount of leave as women, an arrangement that is "more fair and flexible", says Melanie Evans, head of ING's retail bank, which adopted 14 weeks of paid parental leave for both new mums and dads for the first two years of a child's life in September last year.

Evans says using a label such as "primary carer" for the mother at the start of a child's life tends to set it in stone forever, but this doesn't really reflect the way families live these days, with parents swapping roles as circumstances change.

When it was looking at changing its former parental leave scheme, ING surveyed Australian families and found that 76% believed companies should permit equal leave for parents of a newborn. The men surveyed believe there is a stigma attached to being labelled the "secondary carer" if they took time off to care for their baby, with 66% saying they would be judged if they requested leave to look after their baby. By replacing it with parent, it removes the misconception it is only for women.

"But if you are a parent, you are entitled to leave," says Evans.

Since the measure was introduced, the number of ING fathers taking more than two weeks parental leave has quadrupled.

It makes good sense for companies to offer family-friendly policies to attract the best employees.

There are plenty of bonding and emotional rewards for men who spend time raising their kids. Research from the US shows that it can reduce divorce; while research from Sweden shows it improves the mental health of mothers too. Some 18% of new mothers suffer from postnatal depression. The research found mothers are 26% less likely to need anti-anxiety medication and 11% less likely to need antibiotics.

For Blake Walsh, the 14 weeks' leave given by ING meant he could help his partner, Heather Burrows, recover after the birth of their son, Finn. He took six weeks when Finn was born to help establish a routine and some extra weeks when Heather returned to work and Finn was settling into day care.

"It is so hard to put into words how much it means to me," says Heather.

The flexibility and financial support means Blake has been there for Finn's milestones, such as crawling for the first time, swimming lessons and cutting new teeth. "I didn't want to miss out on that," he says.

He is more available for any unexpected illnesses that result in Finn having to stay home from day care. Blake and Heather say their friends are amazed at the level of company support.

Covid-19 magnifies the need for parental leave equality, says Melanie Evans.

A survey of 405 new parents found that 67% of mothers want their partners at home under Covid-19 because they are more anxious and isolated. Limited contact with friends, family or social groups has taken a toll. Family dynamics are changing too with 31% of new dads saying they have taken on more parenting responsibilities in the home.

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

TOP 20 PARENTAL LEAVE EMPLOYERS

1. Deloitte Australia
2. Telstra
3. Medibank
4. Novartis
5. QBE Insurance Group
6. Tabcorp
7. Macquarie University
8. South32
9. Mirvac
10. Australian Securities Exchange
11. Commonwealth Bank
12. AustralianSuper
13. British American Tobacco
14. Australian National University
15. PwC
16. Curtin University
17. SAP Australia
18. EY
19. IAG
20. HBF

Source: HBF, December 2019. Ranked by weeks of leave.

Share in the cash splash

The big-spending budget gives SMEs a better chance of surviving the recession and taking part in a recovery

Faced with an economy battered by lockdowns and border closures, the federal government has delivered a big-spending budget, with plenty of the cash splash pitched at small businesses.

The government has flipped open its cheque book with a program of spending that will see the nation's net debt increase to 36% of GDP this year, rising to 54% of GDP by June 2024. But for small to medium enterprises, the budget delivers much-needed financial support. Here's what's up for grabs for your small business.

Carry-back business losses

A key budget platform is a new loss carry-back scheme, allowing businesses to offset losses incurred to June 2022 against prior profits made in or after the 2018-19 financial year. If your business is eligible, the tax refund will be available when you lodge your 2020-21 and 2021-22 business tax returns.

Loss carry-backs are already in place in a number of other countries. "The government's announcement to allow businesses to restructure their tax liabilities through a temporary loss carry-back to help smooth profits and losses and minimise potential tax debts is essential, especially where businesses are worried about tax debts tipping them over the edge," says Diane Tate, chief executive of the Australian Finance Industry Association.

Tony Kabrovski, director of the family business specialist Harrington Advisory, agrees that the carry-back initiative is a positive measure. "It provides SMEs that were profitable pre-Covid-19 with a reasonable chance for recovery, partly funding the creation of new jobs on the presumption of an optimistic mindset of SME owners.

"SMEs are encouraged to complete their tax returns in a timely manner to access the loss carry-back provisions to provide funds for new jobs and capital expenditure."

JobMaker: $200pw for new hires

The government that brought us JobKeeper and JobSeeker has now unveiled JobMaker. It lets businesses claim a hiring credit for up to 12 months when they take on new employees currently relying on JobSeeker.

JobMaker will be paid quarterly in arrears at the rate of $200 a week for each new employee aged under 30, and $100 weekly for new employees aged 30-35. New hires must work for at least 20 hours a week to be eligible.

While JobMaker is great news for businesses looking to expand their teams (and under-35s relying on a dwindling level of JobSeeker support), it does overlook older Australians. That's a shame because workers aged over 35 often bring valuable experience to a small business, yet they can find it challenging to re-enter the workforce.

The government will also introduce a new 50% wage subsidy for businesses that take on new apprentices between October 5, 2020 and September 30, 2021. The subsidy will be capped at $7000 per quarter for gross wages for new apprentices and trainees.

Tax cuts to encourage spending

While JobMaker is expected to support 450,000 new jobs, Anne Nalder, chief executive of the Small Business Association of Australia (SBAA), isn't convinced that these types of subsidies are effective.

She points out there are 2.2 million actively trading small businesses in Australia. If each one took on just one extra employee regardless of age, we would have zero unemployment. "But businesses will only take on more staff if their sales improve, so businesses need more customers," she says.

Presumably this is where the budget's fast-tracked personal tax cuts come in. Treasurer Josh Frydenberg estimates more than seven million Australians will receive tax relief of $2000 or more this year. However, Nalder says the tax cuts for individuals are welcome "but I am unsure if those amounts will encourage spending".

Figures from the Australian Bureau of Statistics (ABS) suggest she could be right. Household spending fell 2.6% in the 2019-20 financial year, the first annual fall in recorded history. On the flipside, the household saving ratio has soared to 19.8%, the highest since June 1974.

Amid the uncertainty of a pandemic, it's a fair bet many consumers will shunt tax cuts straight into savings accounts rather than injecting the cash into the economy. This puts the onus back on businesses to deliver deals that encourage households to dip into their hip pockets.

Turbo-charged asset write-off

The $150,000 instant asset write-off slated to end on December 31, 2020 has been radically supersized. Businesses with turnover up to $5 billion can claim an immediate writedown until June 30, 2022 for the value of any eligible asset bought for the business.

On one hand, this is a chance for small businesses to invest in new equipment to boost productivity or expand into new product lines or markets. However, as Kabrovski explains, there is a catch.

"The challenge with this continued initiative is that SMEs need funds or access to borrowed funds to buy business assets," he says. "Changes to the responsible lending laws for small businesses are encouraging. However, how likely is an SME to be

approved finance if the most recent financials are showing losses?"

The solution can be to think outside the square. A number of fintech lenders use advanced data analytics to determine loan approvals, and already-online SME lender OnDeck Australia has reported a 35% uptick in loan applications between August and September.

"We know that trading conditions for SMEs have been hugely disrupted by the Covid-19 pandemic. But our 35% jump in loan applications suggests that SMEs are taking positive steps towards recovery," says Cameron Poolman, chief executive of OnDeck Australia.

Support for newcomers

More Australians will get the chance to become their own boss or strengthen their small business through an expanded New Business Assistance with the New Enterprise Incentive Scheme (NEIS) program.

The changes will allow people in part-time work or study to access assistance to launch a venture of their own. NEIS will also be expanded to help existing micro-business owners who may have been affected by Covid-19 and need assistance to adapt their business and keep it running. NEIS provides personalised training and mentoring plus the NEIS Allowance for up to 39 weeks, which is equal to the Newstart Allowance rate for a single person aged 22 or over with no children.

What the budget doesn't do

While the budget delivered a grab bag of goodies for the business sector, it failed to address a number of pressing issues.

Kabrovski says that trading stock, wages and rent are typically among the highest expenses a business can face. The budget addresses some employment-related matters through JobMaker, but he says "it is silent on rentals when the government announced earlier this year a moratorium on landlords evicting tenants".

Calls for a Small Business Viability Review program were also overlooked. Accounting bodies and the Australian Small Business and Family Enterprise Ombudsman had proposed a $5000 subsidy for small businesses to access a tailored 15-month business planning program to help owners decide how to turn around their business – or exit altogether.

No such review or subsidy was included in the budget despite modelling that suggested 500,000 small businesses would take up the subsidy.

"OnDeck's research shows cash flow is critical to the health of small businesses, and even without a subsidy it is good business practice for enterprises to map out their cash flow," says OnDeck's Cameron Poolman. "It allows operators to understand when shortfalls will occur and plan ahead accordingly."

Despite the shortfalls, the budget brings plenty to the table for small businesses. If it can also help to lift consumer confidence, the SME sector may be well placed to plan ahead for a recovery.

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

Through the minefield

STORY JULIA NEWBOULD

With rents drying up and insurers restricting payouts, landlords are finding it doesn't pay to skimp on cover

Landlord insurance, which typically covers the building, contents and loss of rental income, has become a tricky product to navigate, especially when claims are made during Covid-19.

Adrian Kelly, president of the Real Estate Institute of Australia (REIA), says insurers have refused to compensate landlords for loss of income in cases where they had negotiated lower rents with tenants.

However, in cases where a residential tenant was suffering genuine financial hardship as a direct result of Covid-19 and could not fulfil their obligations, insurers agreed they would not pursue the tenant for unpaid rent. This has been widely adopted across the industry and hasn't varied from insurer to insurer, according to the Insurance Council of Australia (ICA).

When governments placed a moratorium on tenant evictions (for six months) in March, most insurers stopped covering tenant-related risks on new policies. However, they continued to honour existing policies.

It's been a difficult situation for everyone. Governments have urged landlords and tenants to negotiate rents and provide non-eviction periods for tenants who couldn't pay. While this means rents are accruing and will need to be paid down the track, it affords little comfort to landlords who are suffering cash flow issues.

It's all about cash flow

Property investment adviser Bushy Martin says property investors achieve sustainable success through positive cash flow.

"Covid-19 derailed this for many property investors, as tenants unable to afford rents were given a moratorium," he says. "What separates the successful [investor] is the ongoing cash flow to fund any speed bumps that occur down the road. It's not the matter of if, it's when. You must have

rainy day reserves to cover issues that might occur on the journey."

One of the other fundamentals is having good insurance, says Martin.

"In our experience, only 5% of property investors achieve sustainable success over 10 to 15 years, while more than 50% of first-time property investors sell properties within the first five years, according to ABS statistics," he says. "Fifty percent of self-managed landlords don't have any landlord insurance, and just under 50% of all claims are for rent loss."

Deal or no deal

Landlord insurance was a problem during the early days of Covid-19 because the rules changed and non-eviction periods were introduced.

"Governments were saying to tenants, if you have lost your jobs and can't pay you won't be evicted," says the REIA's Kelly.

Initially insurers said tenants should be evicted as part of the claims process but that was soon stopped, says Kelly.

"The second issue is that those property owners who may wish to make a claim for unpaid rent are unable to come to a private arrangement with their tenant in terms of a rent reduction because that would void their policy," he says. "That created a problem because the government and media were saying to do a deal, but insurers were saying if you do a deal you can't make a claim. That remains a problem today."

Although insurance companies initially stopped offering products that covered loss of rent, many have reintroduced them, although it's different in Victoria where Covid-19 continues to be a big problem.

"We're grateful that the problem of tenants not paying rent is a lot lower than we thought in March," says Kelly. "We were expecting around 30%-40% of tenants across the country being unemployed or suffering partial unemployment, but we are finding that it's 5%-10% that has been impacted.

"Most regional markets have done well. Covid-19 has mainly affected Melbourne and Sydney. It will be interesting to see what happens when JobKeeper ends."

He says there are three million families in rental properties around Australia and around one in five has been struggling with rents.

"In the early days many tenants just got out. They knew they couldn't afford to stay, many moved in with mum and dad or friends, and that's why vacancy rates in inner-city Sydney went up to 16%."

"The vast majority of property owners wanted to do deals with tenants. We all had the view Covid-19 would be short-term, and many of those owners had a good tenant in their properties and wanted to hang onto them and put up with the short-term pain."

In some states non-eviction has been extended to March or April next year. "Those owners aren't impressed with that and a large volume of them would rather have their properties empty than have a tenant living there not paying rent," says Kelly.

> "Good landlord insurers tend to be the most 'fair and reasonable', and we tend to recommend the larger companies for this peace of mind"

When tenants stop paying

As insurers grapple with Covid-19 implications, there are differences in processes, claims and cover.

According to the insurer EBM RentCover, when it comes to reduced rent, a claim cannot be made for the difference in payments. For example, if you cut rent from $500 a week to $250 you cannot recoup the extra $250 through your insurer. However, if the tenant defaults on the newly agreed amount, you may have a claim.

EBM says that in this situation, if the tenant still has trouble paying the $250 a week, you could submit a claim for rent default. However, it would base the payout amount on the new weekly rent of $250 and not the original $500.

However, the issue can get complicated.

Harry Winston (not his real name) has been trying to negotiate with his tenant since March. She is asking for a 60% rent reduction and says she is not receiving any government support. Winston is not happy with 60% and wants to discuss a more reasonable amount, such as 25% (he is heavily mortgaged for this property). There has been no communication from the tenant for months. The matter moves to mediation and then to arbitration, where it currently sits. The tenant then says she would be prepared to pay the 75%. All the while she has been accruing debt at full rental as no discount has been negotiated.

Winston has not yet spoken to his insurer about what he is covered for, as he isn't sure what he has lost.

According to Allianz, the process for claiming for rent default requires documentation regarding the lease/rental agreement, rent roll, evidence of notices issued and determinations made by authorities (if available) and details of bond money. However, due to Covid-19, the insurer understands landlords may not be able to supply evidence of notices or determinations. But typically it requires the following information (when applicable or available):

- Evidence from the tenant that they are unable to pay rent – for example, redundancy/termination notice, proof of JobSeeker/JobKeeper benefits.
- Any assistance you, as a landlord, have applied for and what financial benefits you are receiving.
- Evidence of any revised/renegotiated rental amount.
- Whether you have agreed to offer any rental deferment periods to the tenant.

What a policy covers

Building and contents. While these can be separate, insuring for both includes fixtures in the home such as light fittings, carpets, oven, stove, blinds, curtains and built-in furnishings.

Rent default or other loss of rent. This could be through default, eviction or even the death of a tenant.

Public liability. This covers accidents and injuries that occur on your property.

Legal costs for evictions, damage, etc. Malicious or accidental damage by tenants.

- If you are receiving savings from reduced real estate agent fees.
- What actions you have taken to mitigate your losses.

You get what you pay for

Despite these issues, Stephanie Davies, investment director at the real estate platform Wealthi, recommends that investors have landlord insurance as an essential part of their investing portfolio – just as they would have a property manager and a cleaner.

"However, the eviction moratorium led most insurers to remove the tenant damage cover earlier this year, and some have not yet added them back to policies," she says.

"I would suggest that landlords do their research and understand exactly what is covered under their policies, as they couldn't claim for lost rent during Covid-19 if the tenant couldn't be evicted, for example.

"My age-old saying is: price is what you pay, value is what you get – it is important not to skimp on this. Good landlord insurers tend to be the most 'fair and reasonable', and we tend to recommend the larger companies for this peace of mind."

Bushy Martin says Covid-19 has really brought home the difference between those who have done the right thing and are resting easy, and those who haven't and are now finding out there is no provision for rent loss or hardship.

What most general insurers call a landlord policy is usually just building insurance perhaps with a bit of contents insurance, he says.

"Most landlords think it's the tenant's insurance that covers contents, but they forget things like the curtains, carpets and stove – all come under contents. If they don't have partial contents or something included in their specialist policy, it puts them at risk."

> "Governments expect tenants to pay some rent where funds are available"

What has changed

Landlord insurance commonly covers building and contents provided by the landlord and may also cover rental income – but not always. "Post-Covid, most insurers put an embargo on new policies, but they were allowing renewals," says Campbell Fuller, spokesperson for the Insurance Council of Australia (ICA).

"Many insurers are now reviewing the tenant default component. These policy adjustments are occurring due to the financial uncertainty created by the economic downturn, and the various government announcements about tenant protection measures and the impact on landlords, tenants and insurers."

State and territory government efforts to encourage landlords and tenants to negotiate on rent reductions or deferrals will affect the rental component of a landlord's policy. But the ICA says it will not affect the rest of the policy, including the building, contents and liability protection.

"Governments expect that tenants should continue to pay some rent where they have funds available, especially when they are receiving taxpayer-funded support such as JobKeeper, JobSeeker or rental assistance," says Fuller.

"Insurers are treating landlord claims on an individual basis. In cases where a residential tenant is suffering genuine financial hardship as a direct result of Covid-19 and cannot fulfil their rental obligations, insurers will not pursue the tenant for unpaid rent. Insurers will pay out on a case by case basis."

Tenant protection returns

Around the end of September, landlord insurance provider Terri Scheer re-entered the market with higher premiums at various levels across its policies. The increase depends on factors such as the type of property and its location.

The insurer says the fees were increased to maintain comprehensive levels of coverage in this current environment of heightened risks, including the potentially higher likelihood of tenants defaulting as a result of widespread job uncertainty and property damage due to people spending more time in their homes.

"Terri Scheer does not take price increase decisions lightly," it says in a letter to clients. "Our current pricing reflects key factors including the heightened risks involved with owning rental property without reducing your level and quality of cover. This means that when you renew your Terri Scheer Landlord Preferred or Landlord Preferred Self-Managed policy, you will continue to be covered for loss of rent, tenant damage and other listed events in your policy." *M*

What insurers are doing

AAMI

AAMI is offering tenant protection, which includes protection against unpaid rent, theft and malicious damage by your tenants and their guests.

Allianz

The optional rent default and theft by tenant cover is unavailable to new customers until further notice. Allianz is offering help to customers who are struggling to meet financial obligations for premium payments, excess payments, fast-tracking refunds, waiving fees and other support.

CGU

CGU is not offering cover for rent default and theft by a tenant on new policies at present, so you can't have it as an optional extra. If you already have a landlord insurance policy that includes this extra, there will be no change to this cover.

QBE

Landlord insurance currently covers your investment property and, if it's furnished, your contents. For extra protection add the tenant theft/vandalism option. The rent default option is not available.

Terri Scheer

Landlord insurance covers you for tenant-related losses, such as loss of rent due to a tenant breaking their lease or being evicted, or damage caused to your contents by a tenant (for example, drink spills on carpets).

Road to a dream retirement

Putting extra money into super rather than the mortgage could pay off

We should all aim to have a fully paid off home at retirement. A family home doesn't just provide shelter, it also gives us options to raise extra cash to live the life we want in our retirement.

If you're a few years away from quitting the workforce and still have a mortgage, you're likely juggling extra home loan payments with socking away as much as you're allowed into super.

Conventional wisdom dictated we were better paying off our home loans and only then should we turn our attention to building up super. But with interest rates at record lows and many super funds potentially offering a higher rate of return, that may not be the right strategy now.

Jenny, for example, is 10 years away from retiring. She earns $100,000 a year, has an outstanding mortgage of $175,000 at a rate of 3% and the return from her super fund has averaged 7.5%. Jenny is on track to clear her home loan by the time she retires as she is paying $20,280 a year.

An alternative strategy would be to switch to an interest-only loan at the same rate, reducing her yearly repayments to $5256. Jenny could then use the money saved to salary sacrifice into super, adding $15,500 a year. This, combined with her super guarantee levy, means she is putting $25,000 a year into super, the maximum concessional amount allowed.

This will also have the benefit of reducing Jenny's tax bill by close to $6000, as her concessional super contribution will be taxed at only 15% and her disposable income, after mortgage and super contributions, will rise by about $5000. Jenny will have an additional $13,175 invested into her super fund each year. If the fund earns 7.5%pa after tax, her super will grow by an additional $213,000 in 10 years.

When Jenny retires at 65 she can cash out $175,000 from her super tax-free to pay off the loan and be more than $38,000 ahead.

No matter how you get there, having a mortgage-free home in retirement gives you options to raise extra cash to enjoy your work-free years.

And many will need extra funds to pay for a comfortable retirement, which requires an annual income of about $44,000 for a single person and $62,000 for a couple, according to the Association of Super Funds of Australia (ASFA). To achieve this ASFA estimates single people will need $545,000 in retirement savings and couples will need $640,000.

Average super balances of $332,700 for men and $245,100 for women aged between 55 and 64 in 2017-18, based on ABS data, mean many will fall short of these targets.

There are several ways you can use your fully paid-off home to make up the shortfall. Three of the main options are:

- **Downsizing.** This can be a good option for those looking to move to less expensive areas, such as regional centres. A big downside is the cost, including selling costs and stamp duty on your new property, which can eat into any gains. If you're over 65 and have lived in your home for more than 10 years you may be able to take advantage of the downsizer contribution to put up to $300,000 each into your super from the proceeds of the sale, regardless of how old you are and without passing any work tests.
- **Pension Loan Scheme.** This is a reverse mortgage-style loan offered by the federal government that allows borrowers of age pension age to receive a tax-free fortnightly income stream by taking out a loan from the government against the equity in their home. You are allowed to choose your fortnightly loan payment amount, up to a maximum of 150% of your maximum pension entitlement (including supplements).

Self-funded retirees can get the whole 150% of pension as a loan. The amount you can borrow under the PLS is limited so you do not end up owing more than your home is worth.

At present there is a lower interest rate (4.5% per year compound) for PLS loans than for comparable reverse mortgages. Interest is added to the outstanding loan balance fortnightly until the loan is fully repaid, which normally occurs when the property is sold or comes from the borrower's estate.

- **Reverse mortgages.** These especially suit those who would prefer a lump sum, although you can also choose regular payments. Typically the mortgage is limited to 15%-20% of your home's value and it is only available over property in selected postcodes – many suburbs of major cities. Interest rates currently range from 5.15% to 5.8% for the main products in the market.

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.*

Lifeline for retirees

STORY DAVID THORNTON

Equity in the home can be released to top up retirement funds – but there are catches

Reverse mortgages may be the lifeline that cash-strapped retirees need during this global pandemic and beyond, but they should proceed with caution.

Sometimes referred to as "lifetime loans", reverse mortgages use the equity in your property as security for a loan. In contrast to regular loans, reverse mortgage interest is added to the loan principal and the whole lot is paid off when you sell your home or die.

The amount you can borrow is a function of your age and the value of your home. The loan to value ratio (LVR) starts at 15% at age 60 before increasing in roughly 1% increments every year. So if you're 80, you'll be able to borrow up to 35%.

If your accumulated interest and principal reach the value of your home, you won't get kicked out due to a forced sale, nor have debt continue accumulating. The negative equity protections legislated in 2012 prohibit both of those scenarios. And if the home is sold for less than the amount of the principal and interest owed, the bank will be left holding the bag.

With fixed-income assets paying out next to nothing these days, reverse mortgages may be a useful way to fund everyday living expenses. They can be paid out in lump sums, flexible drawdowns or, for those with a dangerous spending appetite, regular instalments similar to an annuity.

"In my experience, reverse mortgages are for people who carry debt or day-to-day expenses," says Bob Budreika, director and reverse mortgage specialist at Smooth Retirement. "The typical market is people who don't have enough liquid capital and don't find their income stretching far enough."

But cash-strapped doesn't mean asset poor.

"Australian retirees own over $1 trillion in home equity, and we need to find ways to allow them to access that to fund their retirement," says Household Capital chief executive Josh Funder.

Retirees lean on the pension and superannuation, but the billions of dollars tied up in property sits idle when they need it most.

"Baby boomers and retirees are among the wealthiest in the world," says Funder. "They've been great investors and savers and most of the capital they've accumulated is in the home.

"[But] they don't feel wealthy because our system's focused on superannuation and the pension, and those are only two of the three pillars of retirement funding." [The third pillar is voluntary savings, including the home.]

With appropriate research, retirees can have their cake and eat it too – in their own home.

"We have to help Australia realise that the home is the best place to live and part of their retirement funding – it can be both those things during retirement," says Funder.

What reverse mortgages cost

BANK	VARIABLE RATE	COMPARISON RATE
Household Capital	5.15%	5.21%
Heartland Seniors Finance	5.80%	5.82%
G&C Mutual Bank	5.22%	5.28%
P&N Bank	5.40%	5.40%
IMB Bank	5.57%	5.61%

Source: Infochoice, August, 2020

However, reverse mortgages come with significant risks that are often underappreciated.

The main risk is that your loan principal increases as the interest payments are added to it (or compounded), and interest rates for reverse mortgages don't come cheap. At the time of writing, Household Capital had reverse mortgages with a variable rate of 5.15% and a comparison rate of 5.21% (see table).

"If you borrow $50,000 on October 1, 2020 at a fixed interest rate of 5% per annum, your interest payment for the month of October will be about $208," says Tony Mitchell, from Stacks Law Firm.

"This means that on November 1, 2020 your loan principal will have increased to $50,208. Interest for the month of November will be calculated not on $50,000 but on $50,208. By the end of the 20 years, the principal will have grown to $135,632.01, comprising your initial loan principal $50,000 and compounded interest of $85,632.01."

Risk of family disputes

Eroded equity can also ignite estate disputes.

"Lawyers don't like giving advice on reverse mortgages because there's a degree of risk not just to the customers but also to their kids," says Mitchell. "There have been cases where lawyers have been sued by deceased estates: 'Mum and dad said we'd get the house, they'd never have signed up for this if they knew what they were doing, so we're going to sue the lawyers.' "

This is to say nothing about the costly red tape involved.

Lenders require customers to get the green light from accountants, financial advisers and lawyers. This takes considerable time and money.

Financial advisers, for instance, need to model possible scenarios that show what will happen to the client's equity over different timeframes, and this can set you back several thousand dollars.

Taking out a reverse mortgage can also impact your existing retirement income streams because the principle will be considered an asset (your primary residence is usually exempt from the assets test), which could reduce, or disqualify you from, the age pension.

"If a relationship breaks down or a partner dies, pensioners could find themselves needing an additional source of income because the asset limit on a single pensioner is much lower than a couple, and if they have $500,000 in super then the pension is gone," says Budreika.

The reverse mortgage may leave you with far less money to live out your life when it does come time to sell up. "If you have to sell your home some years after you have taken out a reverse mortgage loan and move into an aged care facility, your obligation to repay the reverse mortgage loan when you sell your home will reduce the amount you have available to contribute to an ongoing contribution for an aged care facility," says Mitchell.

Big banks pull out

There is also a lack of market competition among reverse mortgage providers. The industry has contracted significantly in recent years, which may partly explain why interest rates on these products are so high. The big four banks have left the market completely, leaving only Household Capital, Heartland Seniors Finance, G&C Mutual Bank, P&N Bank, and IMB Bank.

"Reverse mortgages are heavily regulated," says Mitchell. "One of the effects of that is to take players out of the market because the cost of compliance is so high. Reverse mortgages are very boutique products these days."

Nicole Pedersen-McKinnon, author of *How to Get Mortgage Free Like Me*, says there was a huge contraction in the market after the GFC. Banks became increasingly risk adverse, and the open-ended nature of reverse mortgages equates to risk they don't want to warehouse on their books, she says.

"They don't have a set date for repayment, so a lot of providers disappeared."

As with all financial decisions, learning about the risks and how they impact you is the best precaution against unwanted surprises down the road. Financial advisers, accountants and lawyers worth their salt should be across this, but it doesn't hurt to go through some obvious questions before you engage professional help.

Some things to consider:

- Calculate how much you may need for aged care.
- Is downsizing or selling down super a better option?
- Does the contract permit alterations to the home?
- What are the contract clauses?
- Do you want a fixed or variable rate?
- Are there residents in the home aside from your spouse who will be forced out by a sale if you die?

It's also worth considering what may happen to property prices. "If property prices drop, equity will be subsumed more quickly," says Pedersen-McKinnon.

The MoneySmart website has a useful reverse mortgage calculator that shows how much of your home you'll own after different loan durations based on factors such as age, home value, interest rate and fees.

The market for reverse mortgages is small and equity can be unknowingly eroded if you're not careful, but for those who are well informed these products could provide the key to the retirement you deserve. *M*

The billions of dollars tied up in property sits idle just when retirees need it most

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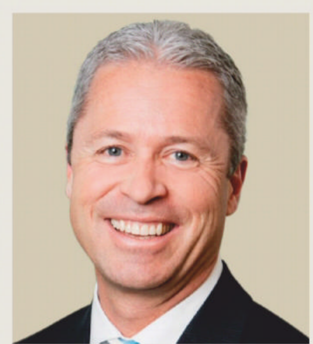


Brett Mennie
head of managed portfolios, HUB24

Eylem Kamerakkas
head of managed accounts product, Macquarie Banking and Financial Services

Put yourself in control

The cost--conscious investor can benefit from the greater efficiency and transparency provided by increasingly popular managed accounts

10 MOST-ASKED QUESTIONS

Q What is a managed account?
It is a professionally managed portfolio of investments. It provides investors many of the benefits of direct ownership, while having an investment manager actively review and rebalance the portfolio based on the strategy and investment decisions of the chosen portfolio manager.

A managed account may be comprised of domestic equities, exchange traded funds (ETFs), managed funds, international equities or a combination of asset types.

An important distinction of managed funds is that when investing in a managed account, the investor has beneficial ownership of each of the underlying assets rather than a unit in a trust, which is effectively an amalgamation of the value of all the underlying assets into a single holding. This entitlement to the underlying assets adds certain tax and other benefits.

Managed accounts are available to investors via a number of platforms, including superannuation and investment platforms. A managed account can form part of a larger portfolio alongside other assets, such as direct equities, term deposits or managed funds.
MATT HEINE

Q There are several types of managed accounts. What are the differences?
Common to all managed accounts is that the portfolio or model is managed by an investment provider. Managed accounts that are offered as a product with a product disclosure statement (PDS) are typically called separately managed accounts (SMAs). Similarly, those that form part of an investment platform's managed account investment menu are SMAs or product-based managed accounts. Managed discretionary accounts (MDAs) are a service and can be applied to a portfolio where the assets are legally held by a platform; or MDA services can be offered for a portfolio where the legal ownership of the assets remains with the investor.

Under both an SMA and MDA, the discretion on changes to the portfolio are put in someone else's hands (ie, not the investor's authority). The investor gets regular reporting on any changes to the portfolio, income and expenses.
SHANNON BERNASCONI

Q How are fees structured in a managed account?
They are charged based on the amount invested and how it is invested. Fees usually have four inputs:

- Platform administrator – a fee for services administering the funds on the investment platform.
- Portfolio investment manager – a fee for the professional management of your portfolio.
- Transactions – think trading and buy/sell costs.
- Supervision (depending on the managed account structure chosen) – this might include a fee for the responsible entity, superannuation fund, MDA operator, trustee and custodian.

BRETT MENNIE

Q Do you have to invest for a certain time?
While there is no restricted timeline of how long a managed account must be held, the investment manager will provide guidance on an appropriate investment time frame, so the investor is best positioned to achieve the objectives outlined in the managed account investment strategy.
MATT HEINE

Q Who should invest in a managed account?
Managed accounts are suitable for anyone wanting more transparency and control when managing their portfolio. They are a great option for anyone who is time-poor because the transparency of a managed account means an investor doesn't need to be involved in every portfolio decision. Managed accounts also provide greater efficiency for financial advisers, enabling them to have more high-value conversations with clients.
EYLEM KAMERAKKAS

Q Would a managed account suit a self-managed super fund (SMSF)?
Yes. SMSFs are typically owned by investors who value control, transparency and flexibility in the way they invest, and these

characteristics are consistent with what managed portfolios can provide.

Managed portfolios also provide SMSF investors with access to leading professional investment managers, investment diversity and a broad choice of professionally managed portfolio options.

Further, there are managed portfolios that can be tailored to suit specific needs of SMSF members. For example, you may wish to swap out one or more securities for another, or for cash. This flexibility (not available on all managed portfolios) allows an SMSF to implement investment strategies reflecting individual member preferences, and can help when applying ethical, social or other important factors.

BRETT MENNIE

Q Why would you choose a managed account over a managed fund?

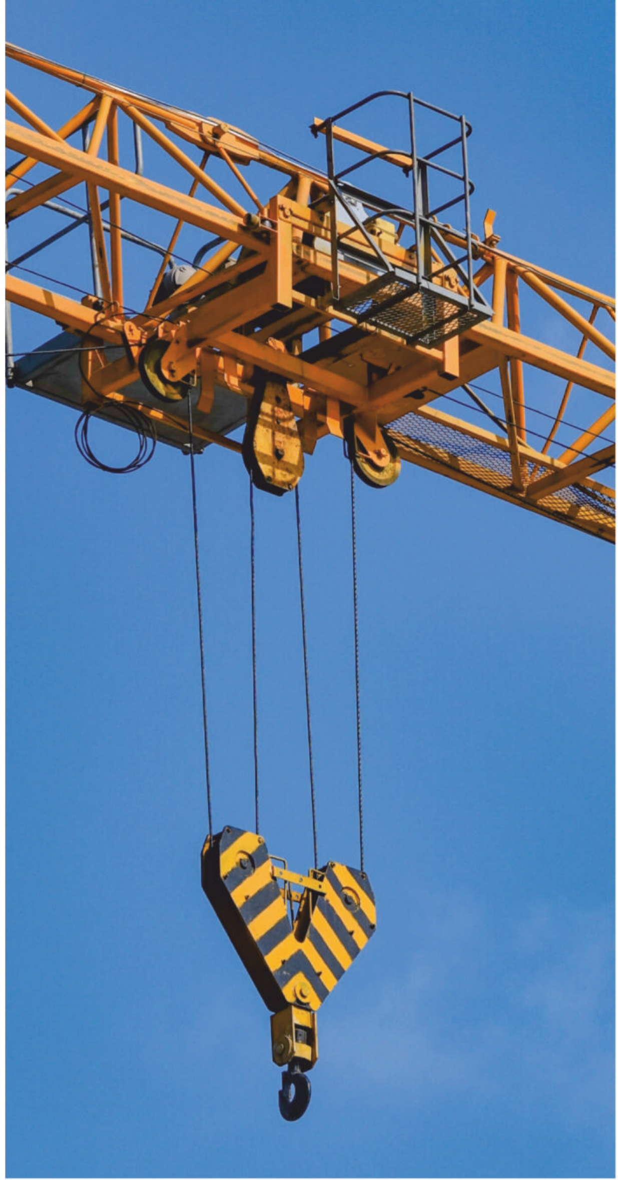
One reason managed accounts are beneficial is their tax effectiveness (franking etc), which comes from the ownership of the assets as compared to a pooled unitised structure of a managed fund (ie, the franking credits of the investor's assets are directly attributed to them). Capital gains tax (CGT) is another factor, as the gains are attributed to the assets held, not the pooled managed fund.

Managed accounts provide greater transparency than some of the pooled investment options. Investors in managed funds share in the gains/losses accumulated and distributed within the managed fund's unit trust, which can cause inequality as the distributions will often include a CGT liability regardless of the timeframe the client has invested.

SHANNON BERNASCONI

Q How is risk handled in a managed account?

One of the benefits of managed accounts is that they serve to assist advisers in providing financial services, and in particular advice, in a more streamlined and compliant manner. The cumulative effect is that advisers are empowered to focus on what they do best – providing strategic advice, building client financial literacy and delivering client outcomes. So from a risk-management perspective, one of the key benefits of the managed account structure is its responsiveness – advisers have the flexibility to swiftly align a client's investment to not only changing market conditions but also to the client's changing needs and risk appetites, whether it be in their SMA portfolio or a core-satellite holding.



EYLEM KAMERAKKAS

Q What are the tax implications when investing in a managed account?

Tax can be more actively managed in managed portfolios. This means with investment platforms your adviser may have the ability to manage tax outcomes in a way that better suits your needs and circumstances. This may save you money and in turn help you grow more wealth over time by saving and reinvesting what may have otherwise been paid in tax. As with any investment, managed portfolios are subject to capital gains tax, which will be different depending on whether you are investing in managed portfolios through your superannuation account or as an individual.

BRETT MENNIE

Q What are the main pros and cons of managed accounts?

PROS:

- In some cases, the ability to customise the managed account with rules and exceptions. An investor can choose to override the investment manager's asset selection with exclude, substitute or lock features. For example, the investor may like to substitute Rio with BHP or remove non-ethical stocks from their managed account.
- Transparency. An investor can see exactly where their money has been invested and what decisions have been made on their behalf to better understand the makeup of their portfolio and how each asset contributes to its performance.
- Tax efficiencies. Investors do not buy into any embedded tax liability, which may be the case when investing in some managed funds. Also investors can leave a managed account without having to sell the underlying investments, thus providing more control over realisation of gains.
- Access to specialist and professional investment managers.
- The investments held by the managed account are generally actively monitored and rebalanced on a systemised, consistent and timely basis.

CONS:

- Not all asset classes are available via a managed account.
- As assets are owned by the investor at an individual level, and are not pooled with other investors (as in a managed fund), some of the benefits are lost, such as diversification or access to certain investments, including property and infrastructure.
- In some instances, the timing of when a managed account is purchased might be sub-optimal – for example, if an underlying asset was at full value and was just about to be sold by the investment manager. This reduces the ability for the investor to effectively time their investment decisions.
- Managed accounts should not be purchased in small amounts, to ensure all the underlying assets can be bought and sold in an efficient manner.
- As with managed funds, managed accounts have associated fees. In some instances, there are layers of fees, for example if the managed account is made up of managed funds with their own costs.

MATT HEINE

Fidelity Global Emerging Markets Fund (Managed Fund) ASX:FEMX

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Join the activities

ETFs with active managers are gaining ground, though it pays to take a close look at the costs

STORY SUSAN HELY

Active ETF

Our hand-picked investments in global emerging markets in **one trade** ASX: FEMX

As the investment climate seesaws on a resurgence of Covid-19 cases and unreliable company earnings, investors are favouring active exchange traded funds (ETFs). Active ETF assets grew 46% to reach $4.9 billion in the year to the end of June, according to Rainmaker Information (publisher of *Money*), compared with a 23% increase in ETFs that use a market-cap index.

Active ETFs appeal to investors who believe that fund managers have an ability to outperform the benchmark index by picking shares or fixed-income securities, sectors and weightings.

"Active ETFs can be selective about what they invest in, which brings with it the potential to outperform the broader market, as they don't have to hold every security in the index or market," says Matt Gaden, head of Australia at Janus Henderson Investors.

The 36 active ETFs listed on the ASX and Chi-X exchanges include investment managers such as Magellan, eInvest, Intelligent Investor, Fidelity, Janus Henderson, Legg Mason (paired with BetaShares), BetaShares, K2, AMP and Antipodes.

They cover Australian and global shares, global bonds, emerging markets, infrastructure, and ethical and hedge funds. Many of the active share funds hold a concentrated, smaller number of companies than an index fund.

Active ETFs make up 9% of the Australian ETF market, worth around $70.7 billion at the end of August. The ETF market worldwide is a massive $US7 trillion spread across 73 stock exchanges in 59 countries.

Most money (82%) is in ETFs that track a broad, diversified index, a commodity or an industry. Another 9% are smart beta ETFs. The first ETF in Australia, which started 19 years ago, is the SPDR S&P/ASX 200, which had attracted $3.7 billion at the end of August, according to BetaShares. It is the second biggest in the Australian market, behind the Vanguard Australian Shares Index ETF with $5.8 billion under management.

Originally, ETFs were a low-cost, transparent, diversified investment alternative to high-fee managed funds that often failed to beat the index. At the start, index managers such as Vanguard argued that stock pickers failed to outperform the index continuously and it made better sense to pay lower fees and stick with the index. ETFs resonated with investors, particularly after the GFC, and they became hugely successful.

Passive index ETFs have been a big threat to active managed funds. For many years, it had been hard for them to compete.

But fund managers that don't follow an index have hit back by listing their managed funds as active ETFs in an attempt to claw back lost ground. Australia was one of the first countries to offer active ETFs, says Chris Brycki, founder and chief executive of Stockspot, a robo investment group.

Magellan was one of the first managers to launch its now popular Magellan Global Equities Fund (MGE) on the ASX in 2015. Magellan now has five active ETFs and has acquired Airlie Funds Management, which launched an Australian ETF last year.

Even the colossal index managers have a suite of active ETFs. Vanguard has many overseas and in recent years launched three active ETFs on the ASX: Global Multi-Factor Active (VGMF), Global Value Equity (VVLU) and Global Minimum Volatility Active (VMIN).

In broad terms, managers of active ETFs and their corresponding managed funds make the same discretionary investment decisions, but there are differences between the two vehicles.

The advantage of being an ETF is that investors have a simpler way of buying in.

"With a managed fund, every time you want to purchase units, you have to fill in an application form and go through anti-money laundering [forms] and know your customer documents for each fund manager," says Alva Devoy, managing director of Fidelity International in Australia.

But with an active ETF, you don't have to fill out any of this paperwork; instead you buy through a broker – either online or full-service. An online broker is often the cheapest way to go.

Managed funds often have minimum investment amounts, typically around $10,000 up to $25,000. But there is no minimum amount for an ETF. This means ETFs are more suitable for investors with smaller amounts.

By trading on the sharemarket, investors can see the price of their investment in real time every day, but this isn't available for managed funds.

Instead of buying a managed fund through a platform and paying platform fees, investors can simply buy and sell active ETFs on the ASX, just as they would buy and sell direct shares in real time.

"It gives investors an ease of access," says Devoy.

Many of the active ETFs provide a straightforward entry to overseas shares and fixed-income investments, two asset classes that have been in investors' sights in coronavirus times. The biggest ETF inflows in August, amounting to $722 million, went to overseas ETFs, both index and active.

"Buying global ETFs on the ASX can provide an easy,

> **Because there is no minimum, ETFs suit people with smaller amounts to invest**

TAKE THE FEES INTO ACCOUNT

While passive ETFs usually have low fees, active ETFs are more expensive. They justify that by pointing out they have teams of researchers to analyse companies and securities as well as the economy.

But look carefully at the cost of an active ETF. For example, Magellan charges a fee of 1.35%pa for the Magellan Global Equities ETF (MGE) plus a 10% performance fee above a hurdle. Rainmaker says that total management fees made by Magellan for the global equity ETF reached $21.8 million for the year to June this year, a rise of 21% from the year before. The Magellan High Conviction Trust (MHH) charges 1.5% plus a 10% performance fee.

K2 charges 1.3% for its Australian Small Cap Equities Fund (KSM) plus a performance fee of 15.38% if it exceeds a hurdle. The Antipodes Global Shares ETF (AGX1) charges 1.1% plus a performance fee of 15% of the net return above the benchmark.

As well, you have to pay brokerage when you buy and sell your ETFs. You must also be aware of the bid/ask spreads on active ETFs, which can blow out in times of market stress.

low-cost way to gain exposure to equities in other regions and sectors," says Devoy. "An active manager leverages research and portfolio management and optimises valuations."

Australian investors typically have a concentration of risk because they hold a high exposure to Australian investments such as local property and shares, says Devoy. While investors may think they have a mix of investments, a typical Australian portfolio includes a house, investment properties and shares, particularly bank shares because of the excellent dividends that banks have delivered.

"The need for diversification is exceptionally high. Active ETFs are another way to help investors diversify their holdings and reduce this risk," says Devoy.

Peter Foley, a certified financial planner from Thirdview, agrees that the Australian sharemarket is fairly narrow with its large exposure to mining companies and banks.

He prefers to use a combination of indexed ETFs and themed global ETFs that target companies in industries that are largely absent in Australia and have strong growth potential, such as cybersecurity and technology.

"I believe that cybersecurity is an ongoing thematic that will garner a growing long-term future with all the security breaches, cybercrime and hacking going on," says Foley. He uses the BetaShares Global Cybersecurity ETF (HACK), which invests in global cybersecurity companies set to profit as more households, businesses and governments need to be vigilant against fraud and hacking.

Foley also likes ETFS Morningstar Global Technology (TECH), which invests in 25 to 50 global technology companies, and ETFS Battery Tech & Lithium (ACDC), which invests in energy storage, including companies involved in the supply and production of battery technology and lithium mining.

Foley is keen on international emerging economies with a ballooning middle class such as India and invests in the ETFS Reliance India Nifty 50 ETF (NDIA), which offers exposure to 60% of the Indian stockmarket.

"The downside of passive investments is that there is no research. You take 100% of the volatility on the way up but you also get 100% of the volatility on the way down," says Devoy.

One of the reasons active ETFs were slow to start up is that historically ETFs publish their holdings, usually on a daily basis. Many active managers didn't want to adhere to this transparency requirement and show their holdings in real time, because they argued that their shareholdings are their intellectual property. As a result, active ETFs received an exemption and only publish their holdings every quarter, often with a two-month lag.

Listed investment companies (LICs) are also available through the ASX. But they differ from active ETFs because they are closed-end, not open-end, investments. This means that ETFs typically trade at a tight spread around the net asset value (NAV), but LICs can trade at a significant discount or premium to the NAV.

Brycki says current LICs are trading at an average discount of 8%. "What this means is that you can never guarantee you can get out at fair value," he says. **M**

This report was sponsored by Fidelity International but was independently researched and written.

NOT EVERYONE IS A WINNER

One of the biggest dilemmas for ETF investors is which active manager to choose. While some active funds have performed strongly in the past, Stockspot CEO Chris Brycki says you can't count on that continuing.

He says an Australian share index ETF like Vanguard Australian Shares (VAS) beat 80% of active Australian share ETFs, while a global share index ETF like iShares Global 100 (IOO) beat 87% of its active rivals.

Active managers often justify their high fees by claiming they can protect investors during market corrections. But he says this is something of a myth.

"Morningstar data shows that it's a flip of a coin whether active managers beat the market index during down markets. Forty-eight percent of active managers were beaten by the market index during the March 2020 sell-off."

While some active ETFs invest in a straightforward way, some use hedging and other complicated strategies that can devastate a portfolio. For example, the BetaShares Australian Equities Strong Bear Hedge Fund (BBOZ), which is designed to magnify gains when the sharemarket falls, notched up some big losses. Over one year, it dropped 21.22% compared with a 5.08% fall in the S&P/ASX 200. Over three years, while the S&P/ASX 200 rose 6.1%pa, the ETF is down 22.9%.

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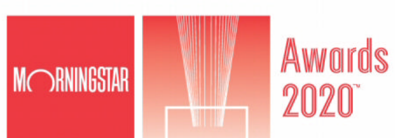

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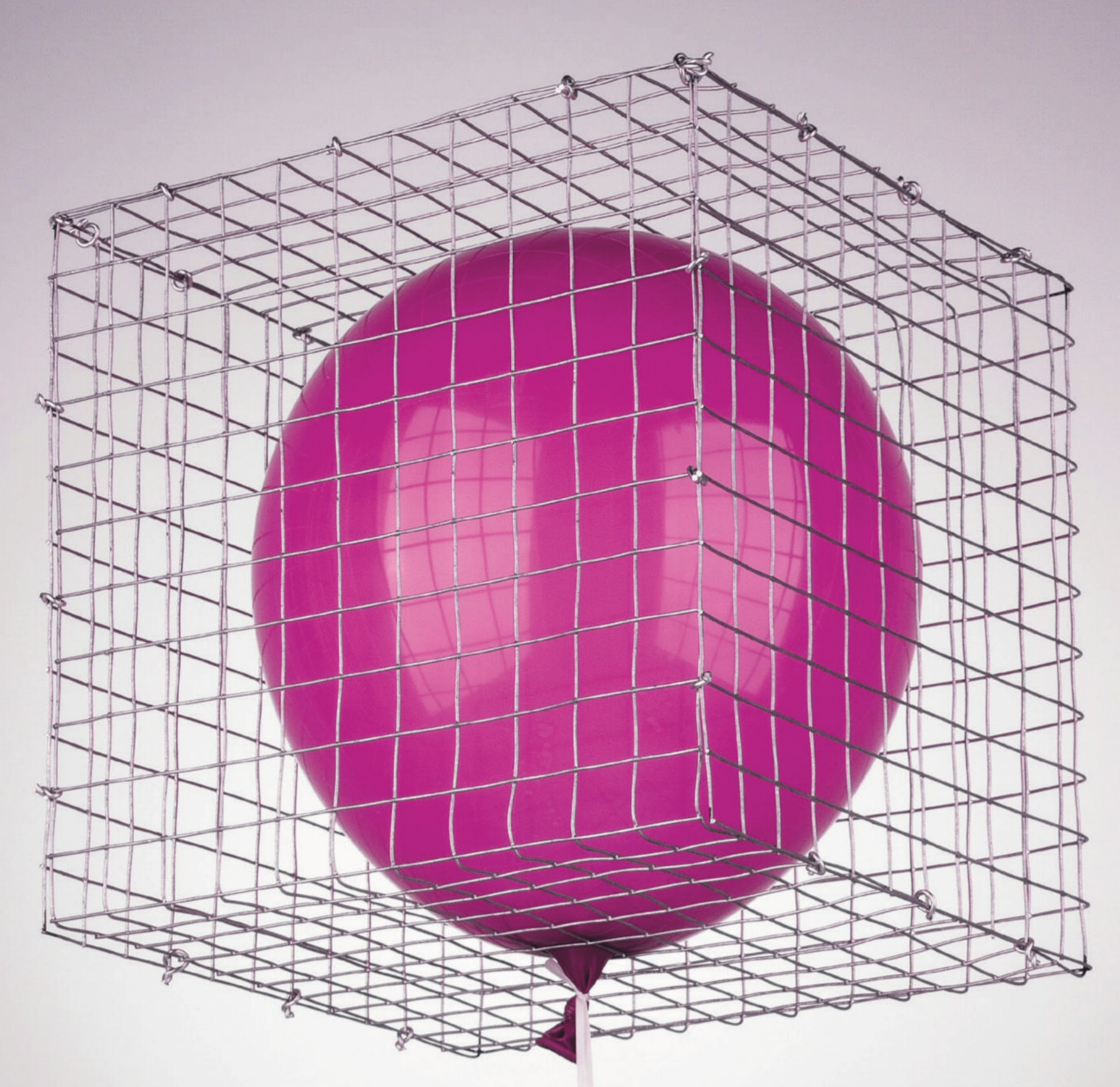


Say goodbye to the duds

Industrial agreements that restrict choice of fund will soon be a thing of the past

Super members are regularly encouraged to check their fund's performance and ensure their hard-earned savings are being maximised.

If it turns out the fund is a dud, the advice is to switch to a better fund. But for 1 million employees that's not an option at present. They are locked into a fund chosen by their employer and union as part of an enterprise agreement.

This is not the case for all enterprise agreements and industrial awards. Most employees have the right to choose their own fund. If they don't exercise that choice, their contributions go into their employer's default fund. The employee is free to remain with it or switch to another fund.

Last year the Fair Work Commission threw out Kmart's union deal, in part because it forced employees to use the retail industry fund Rest, ruling such restrictions left workers worse off.

Xavier O'Halloran, head of campaigns and advocacy at Super Consumers Australia, says barring employees from picking their own fund has no place in a modern super system.

"Rest is an okay fund but there are funds that have performed better out there and [the deal] denied people the ability to choose. I can't see any situation where that kind of trade-off and hard rule makes any sense. Consumers need to be given that choice," says O'Halloran.

He says denial of choice has left members accumulating multiple super accounts, multiple fees and multiple insurance premiums. It also undermines competition.

The Productivity Commission inquiry into the efficiency and competitiveness of the super system calculated a cost to the system as a whole: a third of MySuper default accounts, about 10 million, are unintended multiple accounts that collectively erode members' balances by $2.26 billion a year in unnecessary fees and insurance.

"Holding multiple accounts can reduce a typical worker's balance by about 6%, or $51,000, and an underperforming MySuper product can reduce a typical member's balance by 45% or $502,000 by the time they retire," the commission reported.

O'Halloran says it's not known on what basis employers and unions have mandated

a particular fund. "It's not clear that it is necessarily based on merit," he says. "In some cases it has led to good outcomes but in others it hasn't. Basically, it has denied members choosing a far superior fund."

"Good super funds haven't sought to deny their members choice, or the choice to leave. They've fought to keep that membership on side and that's a good discipline all funds should have. They shouldn't be getting them through force."

Thanks to legislative changes called Your Super, Your Choice, this restrictive practice is about to end. From January 1, 2021, all employees covered by new enterprise agreements will have the ability to choose their own super fund.

"If you already have choice of fund, then that will continue. If you don't have choice then the law change only applies to new workplace determinations and enterprise agreements made on or after January 1," says O'Halloran. That means existing arrangements may take a few years to work their way out of the system.

However, there's no point in jumping ship just because you can, he says. Some restricted funds perform consistently well.

"Employees may well be in one of the better funds already. So it's not necessary to switch if you're in a good fund already."

The federal Budget released in October also introduces the proposal that, from July 2021, if an employee does not nominate an account at the time they start a new job, employers will pay their superannuation contributions to their existing fund.

Super Consumers Australia estimates about 200,000 people have been defaulted into poor performers and it is a problem the default system could do much more to prevent.

"If you are checking your fund, a good starting point is usually fee costs. The average across the industry is around 1%. There are funds that are lower than that and are probably on the better side," says O'Halloran.

To do comparisons, look at the different funds' MySuper dashboard. It provides an invaluable snapshot of how the fund is performing, plus other key information. Funds are obliged by law to provide it.

It's a different matter for choice of investment options. "There are higher-risk options which may mean the returns are more volatile over time," says O'Halloran. "If that's something that affects you, and you might be calling on some of those funds in the near future, or you are near retirement, you need to weigh up whether a higher-risk, higher-return trade-off is right for you."

CHECK YOUR INSURANCE BEFORE YOU SWITCH FUNDS

If you are not joining by default, your super fund may require you to go through medical tests to underwrite you for a new insurance product, says Xavier O'Halloran, head of campaigns and advocacy at Super Consumers Australia.

"You need to ask about that before switching funds," he says. Otherwise you risk losing your old insurance only to find you are not eligible for the same type of insurance in the new fund.

"The alternative way to do it is to set up a new fund elsewhere and basically maintain two funds: one for the insurance and the other for investments. That's an option if you can't get insurance with the new fund."

Once people are out of their 30s, underwriting becomes common, he says. "It's definitely one to look out for older people."

Roy Agranat, co-founder of Fairbridge Financial Services and a risk specialist, has drawn up this checklist to assist fund members to navigate the traps when switching funds.

New fund

- Check the cost of cover of the new fund and what definitions apply to disability cover.
- Your health could have changed since cover was originally taken out, resulting in possible exclusions, loadings or even a decline in cover.
- Do not cancel cover under the old fund until satisfactorily accepted into the new fund.
- There may be no automatic acceptance limit under the new cover, leaving you with less cover than before and requiring you to be underwritten for the additional cover.
- Update the beneficiary nomination as it does not carry across when changing funds.

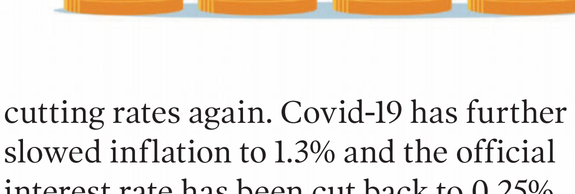
Existing fund

- When members decide to switch funds and retain the old fund for insurance purposes, unless they elect in writing to retain the cover, or make a contribution within 16 consecutive months, their cover will automatically be cancelled. It is good practice to make the election in writing.
- Check if the old fund will allow you to remain insured if you no longer receive contributions.
- Ensure there is enough money in the old fund to pay the premiums.
- Some funds automatically cancel cover when the balance drops below a certain level. This will occur even if you elect to keep the insurance, as it is a rule of that fund.

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

Inflation's moving target

A significant shift in US monetary policy has implications for risk assets such as equities



The US Federal Reserve recently pivoted its monetary policy framework in what is viewed as a milestone announcement. In simple terms, it is seeking to push inflation above 2% (read as seeking to accelerate nominal GDP growth) for an undefined period without pre-emptively pulling the handbrake on growth by increasing the official interest rate.

The Fed has termed this new policy as average inflation targeting (AIT), which is likely to be the biggest shift in US monetary policy since the introduction of quantitative easing (QE) at the end of the GFC. Our hypothesis is that this change of tack by the Fed will have significant long-term implications for macro-calls and investment asset allocation.

When you dig a little deeper into the reasons for this announcement, you will find that the Fed has been in a bit of a bind over the past 10 years. It wants interest rates to normalise to higher levels because a properly functioning credit market would need to generate adequate income for investors.

The issue has been that through its previous monetary policy framework it wished to achieve full employment in the US (which it did successfully) and keep inflation at 2% (which it did somewhat successfully), but it also wanted to start raising the official interest rate back to a normalised level of around 5.5% (which to date hasn't quite worked out).

For example, the Fed managed to raise rates from 0.25% to 2.5% over the two years to early 2019, trying to keep up with rising inflation at the time. It did work up close to 3%pa in 2018, but the rate hikes proved too much for the economy to bear and slowed inflation right back again in 2019 to around 1.5%, forcing it to start cutting rates again. Covid-19 has further slowed inflation to 1.3% and the official interest rate has been cut back to 0.25%.

The Fed has learnt from its experience of 2016-19 and will now let inflation run above 2% for a while without catching up with it in tandem with official rate hikes. This means there is a higher likelihood of falling fixed real yields and the US dollar is likely to be volatile as investors seek relatively better real yields in other currencies.

Moreover, with the US coming out of a much deeper unemployment hole (7.9%), compared with full employment in 2016-18 (less than 4% unemployment), and with monetary policy back to where it was in 2009, the Fed again has its work cut out for a number of years.

It needs to firstly work down the high unemployment level to full employment and once it gets there to wait for inflation to then work its way up to well over 2% and stay there for a number of years before it starts to raise rates again.

So you are looking at three to five years of interest rates at or near 0%, which will continue to favour risk assets (also in non-US dollar denominations) and blow bearish winds on the US dollar, which is positive for global equities outside the US.

Max Riaz is an investment manager and director at Banyantree Investment Group, with responsibilities across equity and multi-asset strategies. See banyantreeinvestmentgroup.com.

3 FUNDS TO WATCH

1 Franklin Global Growth Fund

It aims to achieve long-term capital growth by investing in equity securities of companies in both developed and emerging markets, and across market capitalisation. The fund employs a bottom-up philosophy to build a concentrated portfolio of high-quality growth companies.

2 Ardea Australian Inflation Linked Bond Fund

Ardea is a fundamentally driven value investor with a focus on liquidity and diversification. Its approach is driven by fundamental analysis with a focus on disciplined risk management. By utilising multiple and diversified investment strategies, the manager aims to add value over the medium to longer term.

3 Vanguard Australian Inflation-Linked Bond Index Fund

The fund aims to track the return of the Bloomberg AusBond Inflation Treasury 1+ Yr Index before expenses. It invests in high-quality, inflation-linked bonds issued by the federal government and is a low-cost way of gaining protection against long-term effects of inflation.

(Some funds with a high minimum investment may also be available through platforms.)

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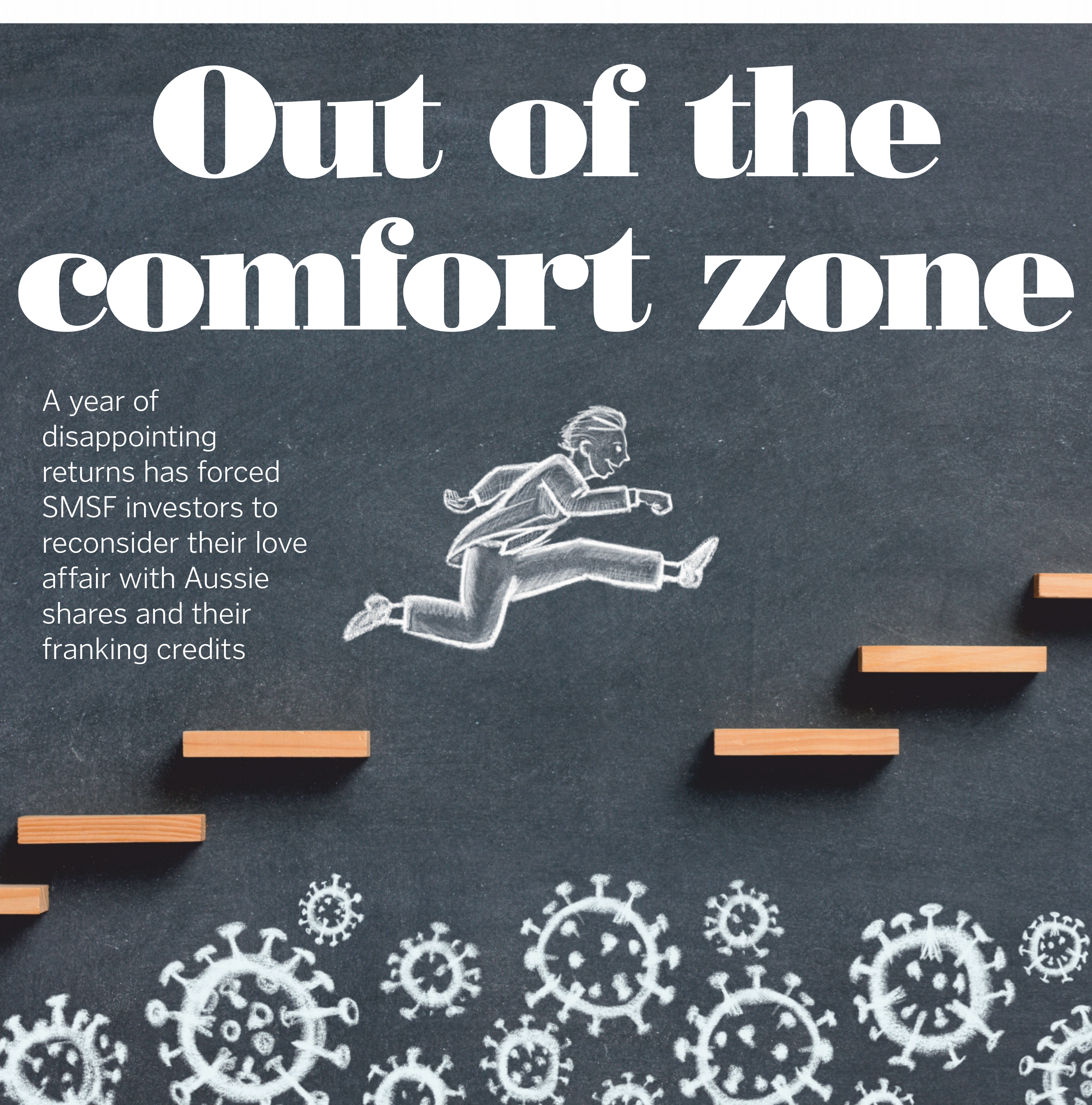


Out of the comfort zone

A year of disappointing returns has forced SMSF investors to reconsider their love affair with Aussie shares and their franking credits

STORY
DAVID THORNTON

Self-managed super funds (SMSFs) are in some ways the hermits of retirement investing due to their strong preference for staying at home and avoiding the rest of the world. But is all as it seems, and how have they fared during Covid-19?

SMSFs are the do-it-yourself alternative to retail and industry funds, a flexible investment structure that allows you to invest in virtually anything, from direct property to collectables, subject to various rules.

But their popularity is waning. Only 20,028 SMSFs were set up last year, which may seem like a lot but it's far less than the 2012 peak of 42,033.

Trying to lump them all together is a fool's errand. "It's hard to pigeonhole SMSF investors because they're so diverse in views," says Jonathan Philpot, from HLB Mann Judd.

Notwithstanding the flexibility SMSFs have to invest across asset classes, they have a long-held love affair with Australian shares, and for the most part still do.

According to the Australian Taxation Office, SMSF portfolios had a 41% direct allocation to Australian equities as at December 2019. Admittedly, the home bias has a lot going for it.

"The franking credit benefit is massive," says Philpot. "It's 1.5% of your return. You don't get that via regular superannuation funds. That return will always be a good reason why SMSFs have the bias towards Aussie rather than international shares."

But SMSFs may be slowly changing their ways. Fixed-income yields are low and corporate dividends have been cut across the board.

"SMSFs, meaning their members, are likely to be badly hit by companies paying much lower dividends this year," says Alex Dunnin, director of research at Rainmaker Information, which publishes *Money*.

"While this may seem unfair, dividend payments are not contractually locked in. They could also be hit by lower franked credits, remembering that companies are likely to have paid less tax this year."

Trustees are increasingly looking abroad as a result. A recent survey by researcher Investment Trends finds that while 37% of respondents are looking to increase their allocation to Australian shares, 23% are looking to grow their stable of international shares. Indeed, the preference for Australian shares over international equities may fail to show the complete picture.

WHERE THEY INVEST

SMSF asset mix

Jun 13, Jun 14, Jun 15, Jun 16, Jun 17, Jun 18, Jun 19, Mar 20

50%, 40%, 30%, 20%, 10%, 0%

Aust. Equities | International Equities | Property | Aust. Fixed Interest | Cash | Other

Source: ATO, analysis by Rainmaker

While direct investment in international equities sits at about 1%, that doesn't factor in the listed investment companies (LICs), exchange traded funds (ETFs) and managed funds that have exposures far greater than a mere 1%.

"ETFs are getting a lot more popular with SMSF investors," says Philpot. "And there's been massive growth in ETFs that give greater overseas exposure."

At least from an investor's point of view, the most important thing is returns and the risk you take to achieve them. That really is where the rubber meets the road. And on this point, all but the top portion of SMSFs underperform.

"While smartly run SMSFs no doubt achieve competitive returns, the fact remains, based on official data from the Australian Taxation Office, that generally SMSFs do not achieve the returns they should, given how they've invested," says Dunnin.

"Investment sectors that have done well in 2019-20 are international shares that earned almost 6%, bonds that earned about 4% and corporate bonds that earned about 10%. Technology stocks, however, have scored stunning returns. SMSFs that invested most of their money into traditional Australian equities, cash and property are likely to have experienced a poor 2019-20."

SMSFs are not known for their nimbleness to adapt to changing markets, and they may have missed out on making the most of this situation.

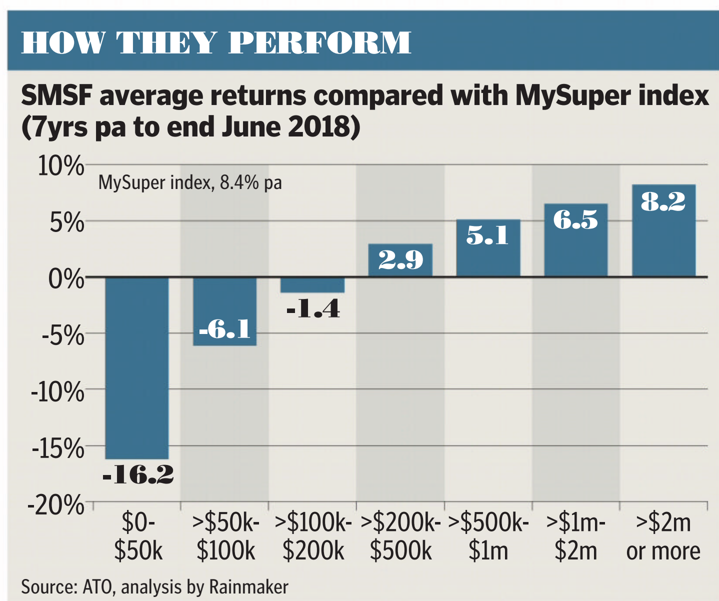
"SMSFs haven't adapted as quickly to the new-economy tech stocks," says Rob Edgley, from SelfWealth, a share brokerage platform that also tracks SMSF portfolios via its SMSF Leaders Index.

"Amongst our SMSF clients, Afterpay is around the 20th largest holding, but among our millennial customers it's in the top five. Even the best-performing SMSF portfolios seem to be slower at adopting new-economy stocks. That's probably contributed to their underperformance over the last few months."

Going back to the difficulty of broad-brushing SMSFs, their performance differs greatly depending on their size.

"SMSFs are invested differently on average as they get bigger," says Dunnin. "They hold more managed funds, less cash and are generally better diversified. That is, they invest like regular, serious

Slow-moving SMSFs may have missed out on the stunning returns from tech stocks



investment funds. As the SMSF sector matures and the funds get bigger, it's reasonable to expect that their average returns should increase along the lines of these trends."

The proof is in the pudding. Over the seven years to June 2018, SMSFs up to $50,000 in size returned on average an underwhelming -16.2%. This gradually improves as the funds increase in size. Those with more than $2 million in assets returned 8.2%. That's good but still comes up short against MySuper products over the same timeframe (8.4%).

But the spread in performance between assets of different sizes needs to be understood in context.

"Many SMSFs are in pension phase and so have a conservative tilt to their investments," says Dunnin. "In theory this means they should perform better in market shocks but underperform when markets recover."

"The fundamental point is SMSFs are just structures. SMSFs only get the returns the assets in them earned. Just having an SMSF is not the point; how trustees deploy its assets is."

So where to from here for SMSFs?

According to a survey by Investment Trends, only 5% say they plan to increase their allocation to fixed-income assets. This shows that SMSF trustees may be moving up the yield curve.

Hybrid securities, which combine debt and equity, remain the most popular fixed-income product. But their defensive reputation may be overrated.

"Investors should want their defensive assets to be truly defensive, especially when the market swings as wildly as it did earlier this year," says Robin Bowerman, head of corporate affairs at Vanguard Australia." Hybrid securities do not provide the same level of safe-harbour stability as high-quality bonds do because they still have equity-like features, and in times of market stress may not provide true diversification across asset classes.

"As ASIC warned in its May 2020 report on retail trading activity, investors are taking more risk in the fixed-income space as a result of low interest rates and declining yields. For a better chance at securing steady retirement income and safeguarding returns in periods of volatility, SMSF trustees need meaningful portfolio diversification."

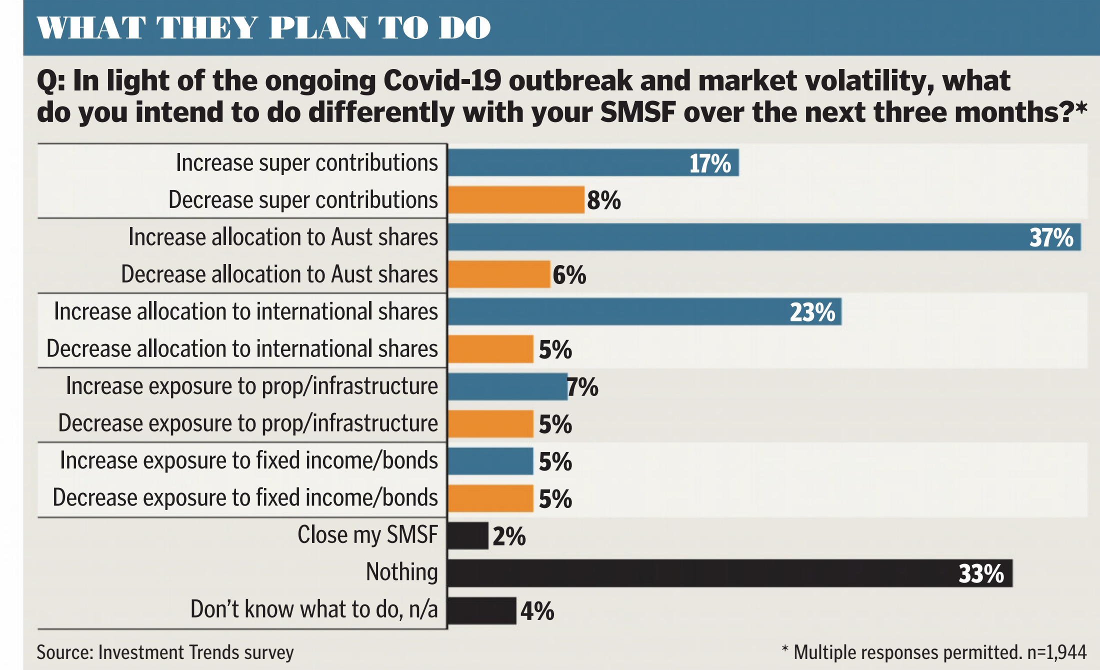
Also of note is the increased SMSF appetite for property. The survey found that respondents had on average 16% of their fund invested in property.

This seems a peculiar choice, given the nature of the Covid-19 lockdown.

"There is speculation that SMSFs may be tempted to jump into higher-risk investments to chase returns," says Dunnin. "Perhaps. But SMSF trustees need to be guarded. Chasing returns rarely ends well for anybody."

Bowerman says for pension phase trustees, who make up nearly half of all SMSF investors in Australia, these are very unsettling times with real concern about low yields and returns and how that will impact income.

"Rather than focusing on an income-oriented strategy, a total-return approach – where an investor makes withdrawals from the full return of their portfolio – coupled with a spending strategy, can assist investors to take back control of their income stream," he says. **M**



When ETFs are far too ‘clever’

Active income funds that make unrealistic promises are likely to destroy capital

As passive investments that represent an underlying index, exchange traded funds (ETFs) are great. Access to the passive replication of something that would be very hard for individual investors to do alone is a real service. Where they go wrong is when an issuer creates an “active” ETF because of some fad-like and often momentary demand for one particular investment theme.

The most obvious ones to me are some of the capital-destroying income-focused ETFs that make unrealistic promises about beating the market yield. Many of them add no value to the total return and make up that extra income by effectively returning your capital to you while pretending they have some miraculous income-generating formula that simply doesn’t exist.

ETF providers are not shonks and charlatans; in a world of hyper-disclosure, they are not hiding anything, bamboozling anyone, or being “bad” fund managers. Any ETF does exactly what it says on the box and the performance will always be in line with logic, based on the structure of the fund. Where you will go wrong is to simply believe the marketing without reading the detail, which is clear as day if you bother to look for it.

“Action” has its cost

In the income ETFs there is no way of genuinely delivering higher than average equity yields without money being lifted from somewhere else, so what are they doing? Get reading. Odds are you will quickly come to understand that there is no genius, there is a process, and the outcome is predictable.

In any active ETF there is a cost of “action”: the transaction costs, the spread costs, the management costs of buying and selling stocks. An ETF that isn’t passive costs more to run.

And that’s before we come to synthetic ETFs, or ETFs that include some hedging or derivatives. They all nibble away at the total return. Derivatives cost money. Hedging costs money. Spending money on options to reduce volatility, for instance, costs money; options cost money.

Then, of course, there are the fees for management of the fund, and the more active, or less passive, the fund, the more the management costs are going to be. Take off those costs of activity and active ETFs are never going to achieve an average return, let alone an above-average return without some genius or luck, and that’s not why most people come to ETFs.

The point is that you have to separate active ETFs from passive ETFs, and if you invest in active, or “clever”, ETFs you have to read beyond the marketing to the detail.

Ask these questions

The requirements in a product disclosure statement (PDS) mean all ETF products are very upfront, honest, even if the structure is flawed and the marketing line emphasised above the detail. It’s all there for you to read, but you do have to read it to understand what you’re getting into. Anyone promising you something for nothing has got their fingers crossed behind their back.

So ask yourself with every ETF: is this plain vanilla, or has this been created for marketing purposes, or because there is a demand for it in the middle of a fad?

An easy filter is to ask whether the ETF has some discretionary/active/non-passive element to it. Look at whether its construction is straightforward. Does it represent physical assets like gold, for instance, or is it synthetic, created out of or including some smarty pants options or futures positions that are designed to somehow replicate the real thing or hedge something or make something safer (which usually does the opposite).

Does it use derivatives? Whenever a fund uses options or futures, those contracts cost money. They detract constantly from the return, and over the years can do vastly more damage than they do good for investors.

And does it use leverage? You can write a lot of fabulous marketing lines about leveraged products using examples of when it goes in the right direction .But when it doesn’t? They don’t write about that.

In the end, there are ETFs and then there are ETFs. The ETFs that very efficiently, at low cost, without any bells and whistles, replicate something like an index, without brains, without active management, coming from a major issuer, can be easily understood, trusted and invested in.

It’s not hard to spot the safe ones; just make sure you go past the first page of the marketing document.

Marcus Padley is the author of the daily stockmarket newsletter Marcus Today. For a free trial of the Marcus Today newsletter, please go to marcustoday.com.au.

Top 5 stocks

Among the recession's dark clouds, there's a bright spot: the homegrown businesses that continue to make strong profits and reward shareholders

STORY MARTIN ROTH

The 2020 year was like no other in the 27-year history of *Top Stocks*. It makes for difficulty in assessing each company's latest financial results and making predictions about the future. Certainly, few of the companies in the book, when announcing their latest financial results, were prepared to give guidance on revenues and profits for the 2021 financial year.

A large number of the companies saw their operations affected by the Covid-19 pandemic. Some of them actually benefited. They included retailers like JB Hi-Fi and Harvey Norman, each of which saw a rush of business for home appliances and electronics goods from consumers stuck at home in lockdown. Harvey Norman noted that, with many Australians unable to spend on restaurants and travel, it was gearing up for a buoyant Christmas period.

There were a few surprising beneficiaries as well. Computer wholesaler Dicker Data – in the book for the first time – saw a surge in demand for computer equipment and software from people forced to work from home. Ansell enjoyed buoyant sales of its single-use gloves and personal protective equipment. Telecommunications services provider MNF became a pandemic beneficiary, thanks to its role in providing the temporary telephone numbers needed by companies such as Zoom for video conferencing purposes.

But many companies suffered – from either the pandemic itself or the ensuing economic downturn – with profits falling. Consequently, no fewer than 28 companies from *Top Stocks 2020* were excluded from this latest edition, most of them because their return on equity ratio fell below the 10% threshold for the book.

These included the three travel companies from *Top Stocks 2020* – Corporate

for 2021

Travel, Flight Centre and Webjet – each of which saw profits plummet as global travel restrictions came into force.

Other victims of falling profits – and excluded from the new edition of the book – were some companies that had provided investors with impressive long-term gains. These included natural healthcare products manufacturer Blackmores, construction and engineering specialist Monadelphous and global winemaker Treasury Wine Estates.

Yet despite the economic pain, no fewer than 13 new companies qualified for the book. It is a requirement for *Top Stocks* that a company be listed on the ASX for at least five years, with a record of profits and dividends for each of those five years. Consequently, six of the new companies were listed only in 2015. They are retailers Adairs and Baby Bunting, software provider Class, educational services specialist IDP Education, healthcare services provider Integral Diagnostics and automotive products company PWR.

The result is that *Top Stocks 2021* comprises 90 companies. So as our country entered its first recession in 29 years, we learnt something of importance – that Australia boasts many companies of very high quality. These are companies that make solid profits year after year, that have just moderate levels of debt and that pay regular dividends to their shareholders. Most importantly for readers of the book, they are exactly the kinds of companies that are found in *Top Stocks*.

Adairs (ASX: ADH)

Melbourne-based home furnishings specialist Adairs dates back to 1918 and the opening of a store in Chapel Street, Prahran, in Melbourne. It has since grown into a nationwide chain of stores specialising in bed linen, bedding, towels, homewares, soft furnishings, children's furnishings and some bedroom furniture. It has also expanded to New Zealand, and it operates a flourishing online business.

The company manages popular brands with high levels of customer recognition and loyalty. With an addressable Australian home furnishings market of some $12 billion it sees enormous scope for growth. It has become a significant beneficiary of what could be a structural trend towards online shopping, induced by the Covid-19 pandemic, and also of rising demand for homewares, as people are forced to spend more time in their homes. It believes its online operations could see significant further growth, and it plans to invest heavily in this business. It is fast-tracking an expansion of its warehouse facilities to support this.

It also continues to open new retail out-

lets, with an emphasis on larger stores, which generally are more profitable than smaller ones. During the June 2021 year it expects to open three to five new stores and enlarge a similar number. It is also building a new national distribution centre in Melbourne, and expects this to generate annual cost savings of around $3.5 million from the June 2022 year. Adairs imports much of its product range and it can benefit from any appreciation in the value of the dollar.

Baby Bunting Group (BBN)

Melbourne retailer Baby Bunting started in 1979 with the opening of a store in the suburb of Balwyn, in Melbourne. It has since grown into a nationwide chain of stores specialising in some 6000 lines of baby and nursery products, including prams, car seats, carriers, furniture, nursery items, safety goods, babywear, manchester, toys, feeding products and maternity wear.

The company occupies a strong position in the $2.4 billion Australian baby goods retail market. With the demise of some competitors, it is now the only specialist baby goods retailer with a national presence, and its major rivals are stores such as Kmart, Target and Big W.

It has numerous strategies for growth. It plans to open some four to eight new stores each year, with an eventual target of more than 100 throughout Australia, up from 56 at June 2020. It has started shipping online orders to New Zealand, and is investigating an entry to the New Zealand market.

It is experiencing strong growth and high margins for its private-label and exclusive product ranges, which have grown from 28% of total sales in June 2019 to 37% in June 2020, with a long-term target of 50%. The company is also moving into new product areas and it is streamlining its supply chain, with a new distribution centre set to open in 2021.

Codan (CDA)

Adelaide electronics company Codan was founded in 1959. It is a leading world manufacturer of metal-detecting products, including metal detectors for hobbyists, gold detectors for small-scale miners and landmine detectors for humanitarian applications. A second division produces high-frequency communication radios for military and humanitarian use. A smaller business, the company's Perth-based Minetec subsidiary, provides electronic productivity and safety devices and services for the mining industry. Codan sells to more than 150 countries, and overseas sales represent around 90% of company revenues.

The company is a significant force in three niche high-tech product areas. When demand is high, and the company can get the product mix right, there is the potential for strong profit growth. Its high-margin metal detectors dominate the African artisanal gold mining market, with a new model to be released during the June 2021 year, and Codan is a significant beneficiary of a rising gold price. In the recreational market it has achieved success with its new Vanquish detector, along with continuing strong demand for the Equinox model. Sales seem set to expand as the company moves into new markets.

The communications division is seeing continuing interest in tactical communications systems. These are aimed especially at militaries in Africa, Latin America, the Middle East and Asia, and in September 2020 the company announced a significant $US10 million contract with an unnamed African government.

It expects the Minetec unit to return to profitability in the June 2021 year as Codan transitions this business into a software systems operation that delivers supporting technology to the US giant Caterpillar, with which Codan has a global licensing agreement.

Dicker Data (DDR)

The Sydney-based technology distributor Dicker Data dates back to its establishment by David Dicker in 1978. Today it is a leader in Australia and New Zealand in the wholesale distribution of computer hardware, software and related products to more than 5000 customers, with a particular focus on small and medium-sized companies.

It has a strong position in Australia's IT distribution sector, with an approximate 27% market share in the corporate and commercial segment. Though this is a low-margin business,

it has grown to such a scale that it has become very profitable. The company is unusual in that David Dicker, the chief executive, takes no salary. In addition, its policy is to pay out its entire profits in dividends, and these are generally distributed quarterly.

It has become a major beneficiary of the digital transformation of businesses in Australia, and believes the remote-working trend will continue, with people's homes becoming sub-branches of their offices. It expects the rollout of 5G digital connectivity to have a radical impact in accelerating the development of artificial intelligence and machine learning technologies, leading to increased demand for both hardware and software.

To support future growth and to help streamline its operations it is building a major new $55 million distribution centre in Sydney with 80% more capacity than its current facility.

Dicker Data has expressed a desire to expand offshore. As the distribution business depends heavily on strong relationships with IT vendors, the company expects to move overseas by acquiring an existing corporation that has already built these relationships.

PWR Holdings (PWH)

Based on the Gold Coast, automotive products company PWR got its start in 1987. It specialises in cooling systems, including aluminium radiators, intercoolers and oil coolers. It has a particular specialty in the supply of cooling systems to racing car teams. Other customers include the automotive original equipment manufacturing sector and the automotive after-market sector. It operates from manufacturing and distribution facilities in Australia and the US, with a European distribution centre in the UK. It owns the American cooling products manufacturer C&R Racing. More than 85% of company sales are to customers overseas, mainly in Europe and North America.

PWR supplies its cooling systems to most Formula One racing teams, as well as to teams in other leading motor sports around the world, including Nascar and Indycar. It stands to gain as these sports resume.

It spends heavily on research and development to maintain its market-leading position. It is also working to move into other market areas with high growth potential. In particular, it is achieving success as an original equipment manufacturer supplying bespoke cooling systems to high-performance automobile companies that include Porsche, Pagani and Aston Martin. In the June 2020 year this business grew 60% to represent 15% of total company turnover.

The company also sees strong growth prospects through diversifying into cooling technologies for applications such as storage batteries in the energy sector, high-powered drones, electric cars and aerospace. In the June 2020 year sales of products based on these emerging technologies grew 62%, to represent 6% of company turnover. *M*

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Now in its 27th year, *Top Stocks* is the stock-picking guide every Australian needs. Martin Roth provides the most up-to-date data on public Australian companies to help you determine where to put your money. The book includes company information, latest business results and the outlook. From the All Ordinaries index and beyond, this book cuts through the hype and filters out the noise to show you the best in Australian investing for 2021.

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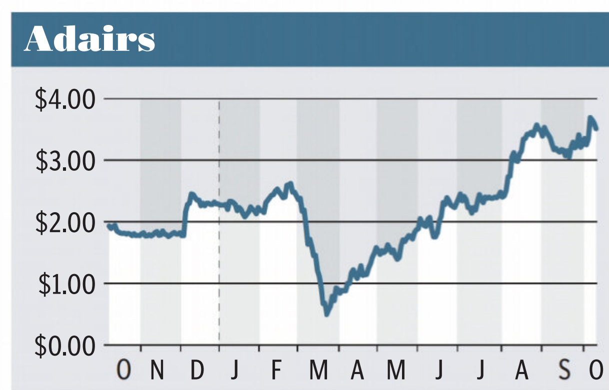

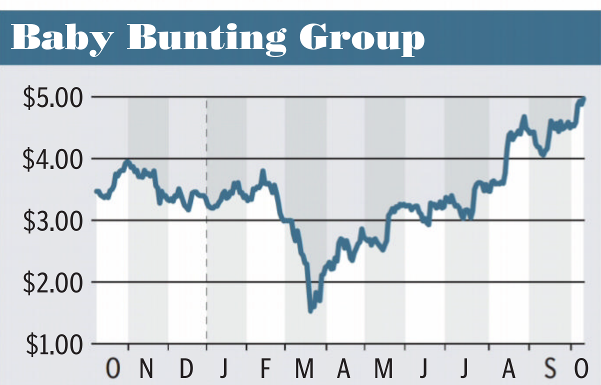

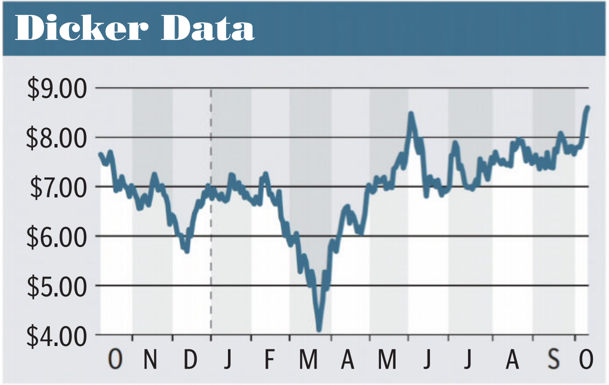

Profit from the upheaval

Drastic changes in behaviour by consumers, governments and central banks have created both opportunities and questions

STORY GREG HOFFMAN

"If somebody from 2019 had time-travelled here, would they notice anything different?" I asked my wife Janine, while out at a funky restaurant/bar recently. We were spending a few days in Sydney's glitzy eastern suburbs during a house swap with some friends.

Apart from the mandatory hand sanitiser and QR code check-in upon entry, the only other noticeable change for someone who'd never experienced Covid-19 would be the spacing of the tables. Instead of being jammed in elbow-to-elbow in the narrow terrace building, the tables were comfortably spaced, which we enjoyed.

Wearing the poo-brown face mask Janine had bought for me (matches my beard, she says), I visited a nearby grocery store the next day. A few other people were wearing face masks and one older gentleman had a full face shield. That might have been more puzzling for our imagined time traveller. But to those of us who've lived through 2020, it's understandable.

We've all learnt to adapt to the changes Covid-19 has wrought upon our daily lives, but what about the implications for our investments?

Obvious beneficiaries

As people became nervous about leaving their homes, or were ordered to stay there by lockdown restrictions, they sought to do more online. This turbocharged the growth of online retailers like Kogan.

com (ASX: KGN) and Temple & Webster (TPW). Their share prices have shot up correspondingly, with Kogan up fivefold from its March low and Temple & Webster up almost eightfold since then.

The trick for sharemarket investors is that you generally don't get great returns by chasing what has already become obvious to most others. Better to look for areas where the market may have under-reacted to a company's improved prospects.

On that front, Frontier Digital Ventures (FDV) is of more interest to me. The company has benefitted from the pandemic and seen its shares rise but perhaps not by enough.

Frontier Digital owns stakes in online classifieds businesses in a number of emerging economies. Apart from its crown jewel of a 30% stake in Zameen (the number one property website in Pakistan), the company has investments in a number of promising businesses, most of which are leaders or strong players in their markets.

Shaun Di Gregorio, Frontier Digital's founder and chief executive, was extremely upbeat about the way the world was moving in favour of his company on a conference call in late August.

"We have seen a preparedness of consumers to go 95% of the process of buying a car online. Pre-Covid might have been closer to 50%, half of the process," he said.

He continued: "If you are a market leader and you have a really strong brand, you are probably going to come out of this as an even more dominant market leader and an even stronger brand because of this flight to safety around consumer choice.

"We have been really encouraged ... at the pace at which consumers have returned to use these platforms to look at houses and cars. We thought it would take a bit longer."

Clearly many of the businesses Frontier Digital has stakes in have benefitted strategically from the pandemic.

Frontier's share price has been hitting new highs in October but my view is that the best probably still lies ahead for the company and its share price. That said, I keep the stock at a relatively modest percentage of the portfolios I manage due to the risks of the "frontier" countries it is invested in.

Bank sector blues

I'm more downcast when it comes to banks. One of the industry's main money-makers is the "spread" between what it pays to access money (mostly through deposits) and the rate at which it lends that money out. But rates on most deposit accounts hit zero years ago and official rates continued to fall. This has led to the banks lowering the rates they charge borrowers while not being able to lower deposit rates below zero (though arguably they are when fees are taken into account). This situation is screwing down the banks' interest rate spread.

The other thing to watch in a precarious economy like today's is bad debts. These could come from households or businesses over the coming years depending on how the economy performs.

With profits under pressure from an economy in recession, lower interest rate spreads and increasing online competition, I'm not enticed to dive in to bank stocks in a big way. Throw in the potential for bad debts to blow a further hole in otherwise dwindling profits and I'm convinced that better opportunities lie elsewhere. I'll take another look if it turns out I'm wrong on a number of these factors or the banks' share prices have a serious correction to reflect these challenging fundamentals.

Political change

At the political level we've seen conservative governments radically change their attitudes. Previously focused on balanced budgets, many are now embracing enormous fiscal deficits after quickly implementing widespread support measures for their economies.

A year ago, who would have predicted that a government led by Scott Morrison and Josh Frydenberg would implement policies like JobKeeper and JobSeeker? Not me.

On the whole, the measures appear to have served their purpose. Although we're in a recession, we have so far avoided what many feared could have been a catastrophic collapse in the Australian economy.

Central banks around the world are also increasingly adopting what were once fringe ideas. Zero, or close to zero, interest rates are now the rule rather than the exception in developed economies. And some countries (such as Denmark, Japan, Sweden and Switzerland) have even begun experimenting with negative interest rates.

So we've seen extraordinary changes in philosophy and approach at the government and central bank levels around the world. The effects of this on future elections, national accounts and economies will be felt for years to come. Many are questioning whether these policies might be sowing the seeds of future inflation or, despite weaker economies, drive a further rise in asset prices by making alternatives like government bonds or cash deposits unattractive compared with shares, property or other types of assets.

Another factor is the impact of a lack of immigration on the Australian economy. There's been talk of the effect on areas like agriculture and nursing, which traditionally employ many immigrant workers. But for investors, perhaps the biggest query is the impact of the effective closure of Australia's international borders on the property market. Will that work in the opposite direction to the stimulus provided by the Reserve Bank and various governments? And if so, what will the final outcome be?

These are difficult and important questions to which I don't have clear answers. I see a wide range of potential future pathways for the property market. On the pessimistic side, the lack of immigration, an economy in recession and risk-averse lenders could combine to create lower prices. On the other hand, low interest rates, further government support (especially in an election year) and a potential V-shaped economic recovery could underpin higher prices. I'm watching it all with interest.

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 Frontier Digital.

World-class balancing act

The numbers look scary, but Australia is comparatively well off when it comes to national debt

The amount of money, in Australian dollar terms, that the federal Treasury is unleashing into the economy comes to $98 billion in "response and recovery support", including $25 billion under the Covid-19 response package and $74 billion under the JobMaker plan.

This is "to responsibly deal with the greatest challenge of our time" and "rebuild our economy and secure Australia's future ... to ensure the Australian economy recovers strongly by targeting additional temporary support measures to boost household incomes, bring forward business and infrastructure investment activity, and drive the unemployment rate back down".

There's more money for every sector of the economy – well, almost, as "winners and losers" (the mainstay of annual budget reveals) pepper the headlines. Can't please everyone, hey?

Budget 2020-21 winners will be singing hallelujah and losers crying "please sir, could I have some more", but the ultimate effect would be a boost – or a mitigation of the depth of the contraction – to the domestic economy due to multiplier effects of the Treasury's cash splash.

This is underscored by the budget estimates. While the underlying cash deficit would erode from 4.3% of GDP in the 2019-20 fiscal year to 11% this year, the government's largesse would enable Australia's fiscal balances to improve in the years thereafter – to minus 5.6% of GDP in 2021-22, minus 4.2% on 2022-23 and minus 3% the following year.

As the budget 2020-21 papers reveal, the government would need less deficit spending – tax cuts, business incentives, welfare expenditure – in the coming years as this year's budget reverses a predicted economic contraction of 1.5% this year to an expansion of 4.75% in 2021-22 and continued positive growth thereafter.

This is also predicated on the Treasury's forecasts that the unemployment rate would steadily come down from 7.25% in 2020-21, to 6.5% in 2021-22, to 6% in 2022-23 and to 5.5% in 2023-24.

To be sure, this largesse would send Australia's gross level of indebtedness up to more than $1 trillion next year (based on Treasury estimates), which equates to 50.5% of GDP (from 44.8% in 2019-20) before stabilising at 51.6% of GDP the following year and the next.

But, hey, Australia's debt to GDP ratio is way better than its peers, even before accounting for their respective fiscal spend. As at the end of 2019, the US had a debt-to-GDP ratio of 107%, Japan 237%, the eurozone 84.1%, the UK 80.7%, Canada 89.7% and China 50.5%.

And then there's the Reserve Bank, which still has relatively more firepower than many of its counterparts and is "committed to do what it can to support jobs, incomes and businesses in Australia".

But wait, there's more.

Despite the diplomatic tensions between Beijing and Canberra, China is still supporting Australia's economy through trade. The recent Australian Bureau of Statistics' preliminary international merchandise trade report shows it remains our top export market, accounting for nearly 42% of our total goods exports in August.

Rounding up Australia's top five export markets: Japan, our second biggest export market, buys much less at 11.1%, South Korea 5.7%; the US 5.4% and India 3.7%. China even purchases more "Made in Australia" goods than the OECD group of nations put together (33.2%).

While Australia also buys most of its imports from China (27.7% of total imports), it has a bilateral trade surplus with Beijing ($5.2 billion as at August).

With the Chinese economy dodging the pandemic-induced global recession and expected to expand by 1.8% this year and by 8% in 2021 (OECD economic outlook, interim report, September 2020), it will go shopping for more of our exports, not only goods but also services when the Australian economy re-opens its borders.

Of course, the final outcome depends on the coronavirus. But again, as Australians, we should rejoice because we have relatively better monetary and fiscal balances than our peers.

Benjamin Ong is director of economics and investments at Rainmaker Information.

SECTOR US STOCKS

Think big and head offshore

The performance of the US's greatest companies has been phenomenal – and it's not over yet

This year has been one for the ages, in so many different ways. Far less important than the health and economic shocks, but still notable, it had the fastest bear market in history followed by the fastest recorded exit from a bear market.

And yet there's been a notable difference in performance on different sides of the Pacific. Here in Australia, the All Ords was still down 9.5% (including dividends) for the first three quarters of the year. Across the ocean, though, the S&P 500 was up 5.6%. Yes, up. In the middle of a pandemic – and one that the US, objectively, has done a worse job of dealing with than we have.

It is, at least in part, thanks to the sorts of companies that dominate the US bourse. Tech businesses – software, ecommerce, social media, entertainment – are not only prevalent but huge. And they're precisely the types of businesses that were either resilient or thrived through the pandemic.

The US isn't just different, though. It's big, which we all know. But did you know just how big?

Foolish takeaway

I have no beef with some of our more expensive "premium" ASX-listed companies. I've recommended some and own others. My argument isn't that we should abandon our shores for brighter lights elsewhere.

Yet, if some of the best US companies traded here, they'd be in almost every single portfolio. With US trading being so accessible today, it makes no sense not to own them – and I'd start with this year's Best in Breed: the company formerly known as Google and now called Alphabet.

Best in Breed's tips so far

SECTOR	STOCK	ASX CODE
Discretionary retail	Kogan	KGN
Consumer staples	Treasury Wine Estates	TWE
Resources	BHP	BHP
Financials	Insurance Australia	IAG
Healthcare	Cochlear	COH
Technology	REA Group	REA
Fintech	Xero	XRO
Utilities	APA Group	APA
ETFs	BetaShares NASDAQ 100	NDQ
US stocks	Alphabet	*GOOGL

*Listed on NASDAQ

The two US exchanges – the New York Stock Exchange (NYSE) and the NASDAQ – together make up more than half of the value of all of the listed companies in the world. Compared to our measly 2%, there's a reason it commands attention.

There is no financial adviser alive who'd suggest you constrain your real estate buying to just 2% of the suburbs in your state that are closest to where you live, so the same should apply to your share portfolio.

And it's hard to go past some of the biggest and best companies on the US markets. The likes of Apple, Facebook, Netflix, Amazon and Google (I own shares in the latter two) remain dominant and still have plenty of growth runway in front of them. Google and Amazon alone, pre-pandemic, were valued in the hundreds of billions of dollars, yet were still growing revenue by 15% and more.

Compared with some of the companies on the ASX trading at nose-bleed valuations, well, let's just say that the US stocks are pretty attractive options. That's not to say some of our companies aren't worth paying up for, but it's worth comparing the multiples.

CSL shares changed hands recently for 45 times earnings and REA Group, the home of realestate.com.au, for 140 times (depressed) profits; Afterpay is a $25 billion business with no profits at all.

Meanwhile, you can buy Apple for 35 times earnings. Or Google's parent company, Alphabet, for 33 times earnings. Amazon, the most expensive of the large US tech companies, changes hands for 122 times earnings. That's a lot, until you realise its $US321 billion ($447 billion) in annual revenue is still growing at almost 28% a year, after compounding north of 25% for the past five years straight (and it is expected to grow sales at more than 30% this calendar year).

Scott Phillips is The Motley Fool's chief investment officer. He owns shares in Alphabet and Amazon. You can reach him on Twitter @TMFScottP and via email ScottTheFool@gmail.com. This article contains general investment advice only (under AFSL 400691).

Now for the bad News

STORY
JAMES CARLISLE

While the digital side of the media conglomerate is powering ahead, the print business is a big drag on profits

The story of News Corp in recent years has been a struggle to evolve from old media to new – from print to digital. Most obviously, that's been seen in the online property classifieds business REA Group, where News holds a 62% stake. When we first upgraded News in 2013, that stake had a market value of $2.5 billion – about a quarter of News's then market capitalisation of $10 billon. Now it's worth $9.3 billon – around $16 per News Corp share, or 80% of the company's $11.5 billion market cap.

The evolution has also been seen in books, where the higher margins from digital books has helped increase the EBITDA margin (earnings before interest, tax, depreciation and amortisation) from 10.4% in 2013 to 12.8%, thereby converting 3% annual revenue growth into a 6% annual EBITDA growth.

The shift to digital has been just as pronounced in what the company used to call its News and Information Services (NIS) division, but which this year has been split into Dow Jones and News Media, housing the company's oldest, "printiest" media titles like *The Australian* and *The Courier Mail* in Australia, *The Times* and *The Sun* in the UK and the *New York Post* in the US.

Dow Jones, by contrast, comprises a string of assets better suited to the digital age, including *The Wall Street Journal*, *Barron's*, *MarketWatch* and the eponymous Dow Jones professional information businesses.

News Media managed a dismal $US53 million ($74 million) in EBITDA in 2020, on revenue of $US2.8 billion, for a tenuous margin of less than 2%. These assets have some purpose in their promotion of News's other businesses, but we'd tentatively ascribe them a value of zero and say no more about them.

It is Dow Jones making the lion's share of profits in the old NIS division, which is the reason for splitting it out. Dow Jones has successfully embraced the digital world where News Media has largely failed.

The utility of these businesses makes their value clear and people are happy to pay. News has been steadily increasing the price of a digital subscription to *The Wall Street Journal* and it is now twice the price of *The New York Times*. The market appears to be expanding, with the average age of a *WSJ* subscriber falling from 56 in 2016 to 49 in 2020.

The value offered is clearer still at the Dow Jones risk and compliance business, which provides data and services to help customers stay compliant with the complex rules and regulations around money laundering, corruption, sanctions and trade regulation.

This business has increased revenue from about $US60 million in 2016 to almost $US160 million in 2020, 95% of which is from long-term contracts. With increasing regulation around the world, there's no obvious reason why this rate of growth shouldn't continue.

The weakness has been advertising, where a small increase in digital advertising revenues hasn't offset a larger fall in print advertising. Overall advertising

revenues have fallen by 6% a year over the past couple of years, to $US359 million.

This has been more than offset by subscription revenue, however, which has risen by 6% a year to reach $US1.2 billion, driven by digital-only subscriptions, which have grown by 53% since 2018. Digital revenue first overtook print in 2016 and now contributes two-thirds of the total.

In total, Dow Jones revenue has risen by 6% over the past couple of years, while expenses have risen 4% a year, so that the EBITDA margin has expanded from 13% to 15% and EBITDA has risen 22%.

The business now has 3.8 million subscribers in total, but management sees plenty of room for further growth, with a target pool of 12 million within the US, which it believes are "likely or very likely" to subscribe. There's an even bigger opportunity outside the US, which currently contributes only 10% of subscribers.

The most obvious comparison to Dow Jones is The New York Times Company, which is listed on the New York Stock Exchange with an enterprise value of $US6.3 billion – a somewhat baffling 26 times its 2019 EBITDA of $US240 million.

Excluding the Dow Jones professional information businesses, both the *NYT* and Dow Jones have revenues that are split about 50/50 between print and digital – but, including the professional information businesses (arguably the best of the lot), Dow Jones's print share falls to a third. Against that, the *NYT* is growing subscriptions more quickly and probably has more unused pricing power. Analysts are expecting its EBITDA to double by 2024, which is comfortably more than we'd expect for Dow Jones.

Overall, we'd struggle to justify an EBITDA multiple for Dow Jones of more than 12, which would give it a value of around $US3 billion. Still, that's double the value we put on the entire News and Information Services division a couple of years ago, and translates to about $4 billion, or about $7 a share. It could be worth more than this, but we're unwilling to push the boat out given the limited disclosures.

> **Dow Jones has embraced the digital world where News Media has largely failed**

We'll stick with our valuation of Move, the US real estate classifieds business, of about $US1.4 billion, or about $3 per News Corp share. Putting it all together we arrive at a value of just over $30 a share for the attractive businesses within News. From that, we need to deduct $5 a share for corporate costs (which came to about $US1.9 billion in 2020).

We'll also make the convenient but not unreasonable assumption that News Media and Foxtel are worth nothing, which leaves a few remaining items, including net cash and investments and some pension obligations, which net off at around $3 a share.

Sum of the News Corp parts

	$US value	$A value	Per share value ($A)
REA Group	$6.6bn	$9.3bn	$16
Move	$1.4bn	$2.0bn	$3
Book Publishing	$1.7bn	$2.4bn	$4
Dow Jones	$2.8bn	$4.0bn	$7
News Media	0	0	0
Foxtel	0	0	0
Cash/investments	$1.3bn	$1.9bn	$3
Corporate costs	$1.9bn	$2.7bn	$5
Total			$29

Source: Intelligent Investor

That gets us to a value of about $29 per News Corp share on a reasonably conservative basis, although it takes for granted the current market valuation of REA Group. With the latter's share price of about $115 sitting near the middle of our hold range, we're happy to do that, although it creates a big swing factor.

Applying a conglomerate discount (accounting for complexity and potential tax charges should the thing ever be broken up) and "leaving something for the next man", that $29 value explains our $25 sell price.

We'd now need a much bigger discount to persuade us to buy News. If you want exposure to REA Group then, in the absence of a very cheap price for News, we'd recommend buying it directly (although we note that it is currently well above our $90 buy price). For existing holders, though, there's enough value to continue to hold.

James Carlisle is a senior analyst at Intelligent Investor..

DATABANK

The tables on these pages contain data and information to help you compare managed funds, which are pooled funds managed professionally by investment experts.

Managed funds displayed in these tables are multi-sector or asset class specific. Multi-sector managed funds invest across a diversified mix of asset types spanning equities, property, bonds, cash, infrastructure, private equity and alternatives.

Managed funds are normally set up as unit trusts. You may be able to invest in them directly or through a platform.

Top 5 Multi Sector funds by size

Name	APIR code	Mngmnt fee %pa	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Vanguard Growth Index Fund	VAN0110AU	0.29%	20/11/2002	$5,559m	2.5%	11	7.3%	8
Vanguard Balanced Index Fund	VAN0108AU	0.29%	20/11/2002	$5,465m	2.5%	10	6.5%	15
Vanguard High Growth Index Fund	VAN0111AU	0.29%	20/11/2002	$3,193m	2.4%	13	8.0%	5
Vanguard Conservative Index Fund	VAN0109AU	0.29%	20/11/2002	$2,658m	2.4%	14	5.4%	32
MLC Wholesale Horizon 4 Balanced	MLC0260AU	0.85%	22/01/1998	$1,896m	0.0%	53	5.6%	29
AVERAGE*		0.75%		$481m	-0.2%	106	4.9%	94

Top 5 Australian Equities funds by size

Name	APIR code	Mngmnt fee %pa	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Vanguard Australian Shares Index Fund	VAN0002AU	0.16%	30/06/1997	$12,999m	-4.8%	64	7.6%	47
Fidelity Australian Equities Fund	FID0008AU	0.85%	30/06/2003	$5,197m	-2.3%	39	8.4%	36
Dimensional Australian Core Equity	DFA0003AU	0.28%	3/07/2006	$2,732m	-5.2%	73	8.2%	39
Bennelong ex-20 Australian Equities Fund	BFL0004AU	0.95%	2/11/2009	$2,711m	19.9%	1	15.2%	5
Investors Mutual Australian Share Fund	IML0002AU	0.99%	30/06/1998	$1,925m	-11.9%	101	4.5%	86
AVERAGE*		0.80%		$529m	-3.2%	113	7.8%	99

Top 5 International Equities funds by size

Name	APIR code	Mngmnt fee %pa	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Vanguard International Shares Index Fund	VAN0003AU	0.18%	30/06/1997	$16,135m	6.8%	49	9.8%	33
Magellan Global Fund	MGE0001AU	1.35%	1/07/2007	$11,834m	5.8%	53	11.5%	18
Platinum International Fund	PLA0002AU	1.35%	30/04/1995	$7,901m	-2.8%	106	5.4%	84
MFS Global Equity Trust	MIA0001AU	0.77%	24/04/1997	$5,387m	-0.8%	95	9.6%	37
Walter Scott Global Equity Fund	MAQ0410AU	1.28%	28/02/2005	$3,893m	5.6%	55	12.4%	8
AVERAGE*		0.92%		$704m	3.8%	142	8.6%	102

Top 5 Multi Sector funds by 5-year return %pa

Name	APIR code	Mngmnt fee %pa	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Fiducian Ultra Growth Fund	FPS0014AU	1.45%	1/09/2008	$201m	3.3%	6	8.2%	1
Macquarie Balanced Growth Fund	MAQ0048AU	0.70%	31/01/1994	$729m	5.6%	3	8.1%	2
Fiducian Growth Fund	FPS0004AU	0.99%	1/02/1997	$150m	2.5%	12	8.1%	3
IOOF MultiMix Growth Trust	IOF0097AU	0.96%	29/04/2008	$625m	2.6%	9	8.0%	4
Vanguard High Growth Index Fund	VAN0111AU	0.29%	20/11/2002	$3,193m	2.4%	13	8.0%	5
AVERAGE*		0.75%		$481m	-0.2%	106	4.9%	94

Source: Rainmaker Information. Data sourced as at August 31, 2020. *Numbers stated here depict averages, other than the Rank column, which is the total number of funds in the category. For any queries on these tables, please contact info@rainmaker.com.au.

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**

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Top 5 Australian Equities funds by 5-year return %pa

Name	APIR code	Mngmnt fee %pa	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Bennelong Concentrated Aust Equities	BFL0002AU	0.85%	30/01/2009	$1,041m	17.1%	4	17.4%	1
Selector Australian Equities Fund	DDH0002AU	1.41%	7/12/2004	$72m	2.7%	21	17.0%	2
Fidelity Future Leaders Fund	FID0026AU	1.20%	22/07/2013	$794m	3.5%	18	16.6%	3
Australian Unity Platypus Aust Equities	AUS0030AU	0.76%	28/04/2006	$157m	18.4%	2	15.2%	4
Bennelong ex-20 Australian Equities Fund	BFL0004AU	0.95%	2/11/2009	$2,711m	19.9%	1	15.2%	5
AVERAGE*		0.80%		$529m	-3.2%	113	7.8%	99

Top 5 International Equities funds by 5-year return %pa

Name	APIR code	Mngmnt fee %pa	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Fiducian Technology Fund	FPS0010AU	1.36%	1/05/2000	$155m	31.9%	4	19.3%	1
T. Rowe Price Global Equity Fund	ETL0071AU	0.94%	15/09/2006	$3,696m	24.6%	7	16.4%	2
Franklin Global Growth Fund	FRT0009AU	0.90%	1/10/2008	$327m	24.4%	8	16.3%	3
Evans and Partners International Fund	ETL0390AU	1.25%	18/02/2014	$53m	1.5%	82	14.1%	4
Nikko AM Global Share Fund	SUN0031AU	0.99%	30/11/1995	$104m	13.1%	21	13.7%	5
AVERAGE*		0.92%		$704m	3.8%	142	8.6%	102

Top 5 funds by 1-year performance

Name	APIR code	Mngmnt fee %pa	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Loftus Peak Global Disruption Fund	MMC0110AU	1.20%	15/11/2016	$117m	37.1%	1		
CC Marsico Global Fund – Institutional	CHN0001AU	1.03%	10/12/2015	$33m	32.4%	2		
Fiducian Technology Fund	FPS0010AU	1.36%	1/05/2000	$155m	31.9%	3	19.3%	1
Lakehouse Global Growth Fund	OMF1140AU	1.30%	1/12/2017	$212m	29.5%	4		
Forager International Shares Fund	FHT0032AU	1.29%	8/02/2013	$178m	29.3%	5	10.0%	45
AVERAGE*		0.82%		$619m	0.6%	328	7.2%	275

Bottom 5 funds by 1-year performance

Name	APIR code	Mngmnt fee %pa	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Lazard Select Australian Equity Fund	LAZ0005AU	0.92%	7/06/2002	$156m	-19.8%	363	3.3%	277
Schroder Global Recovery Fund	SCH0095AU	0.98%	18/08/2017	$1m	-18.4%	362		
Allan Gray Australia Equity Fund	ETL0060AU	0.75%	4/05/2006	$1,444m	-17.7%	361	9.0%	76
Montaka Global Access Fund	FHT0038AU		6/10/2015	$44m	-15.8%	360		
Investors Mutual All Industrials Share Fund	IML0004AU	0.99%	5/01/2002	$186m	-15.6%	359	3.1%	283
AVERAGE*		0.85%		$625m	0.4%	363	7.2%	297

WHAT THEY MEAN

Performance after investment fees. Investment returns after investment fees annualised to describe each fund's returns per annum. But if your managed fund achieves a high return and charges you an extra "performance fee", Rainmaker has not taken this into account. Past performance is not an indicator of future performance.

Rank. Funds are ranked against all managed funds in each segment, not just those included in each table.

Indices and averages. Arithmetic average investment returns or average fees for all fund investment options within each category, that is, not fund size weighted.

YOUR GUIDE TO SUPER DATA

The table on this page contains data and information to help you compare superannuation funds. It showcases MySuper investment options offered by some of Australia's biggest super funds.

MySuper options are default superannuation products that employees choose or are allocated by their employers.

The performance results displayed are the annualised investment returns each MySuper option has delivered after taking account of all taxes and fees. Past performance is no indicator of future performance.

The table also lists each fund's SelectingSuper Fund Quality Rating. Funds that achieve these quality standards are designated AAA. Research was prepared by Rainmaker Information, which publishes *Money* magazine. For more info, see **www.selectingsuper.com.au**.

DATABANK

Best Super Funds: Top 20 MySuper – August 31, 2020

RANKED BY 3-YEAR RETURN

FUND & INVESTMENT OPTION NAME	Fund type	Strategy	1-year return	1-year rank	3-year return (%pa)	3-year rank	5-year return (%pa)	5-year rank	Quality rating
Australian Ethical Super Employer – Balanced (accumulation)	Retail	S	2.5%	7	7.6%	1	7.2%	6	AAA
AustralianSuper – Balanced	Industry	S	2.6%	6	7.5%	2	8.0%	1	AAA
Virgin Money SED – LifeStage Tracker 1974-1978	Retail	LC	1.3%	20	7.3%	3			AAA
TASPLAN – OnTrack Build	Industry	LC	1.8%	13	7.2%	4			AAA
Vision Super Saver – Balanced Growth	Industry	S	4.1%	1	6.9%	5	7.3%	5	AAA
smartMonday PRIME – MySuper Age 40	Retail	LC	-0.8%	39	6.9%	6	7.1%	8	AAA
Cbus Industry Super – Growth (Cbus MySuper)	Industry	S	3.0%	4	6.8%	7	7.8%	2	AAA
Aware Super Employer – Growth	Industry	LC	3.0%	3	6.7%	8	7.1%	7	AAA
Media Super – Balanced	Industry	S	1.3%	19	6.5%	9	7.0%	9	AAA
LGS Accumulation Scheme – High Growth	Industry	LC	1.4%	17	6.5%	10	7.4%	4	AAA
IOOF ESE – IOOF Balanced Investor Trust	Retail	S	0.8%	25	6.5%	11	6.5%	24	AAA
VicSuper FutureSaver – Growth (MySuper)	Industry	S	2.4%	8	6.3%	12	6.8%	14	AAA
HESTA – Core Pool	Industry	S	1.3%	18	6.3%	13	6.7%	16	AAA
GuildSuper – MySuper Lifecycle Growing	Retail	S	1.7%	14	6.2%	14	6.3%	27	AAA
QSuper Accumulation – Lifetime Aspire 1	Government	LC	-1.1%	42	6.1%	15	7.0%	10	AAA
StatewideSuper – MySuper	Industry	S	0.8%	24	6.1%	16	7.0%	11	AAA
Mine Super – Aggressive	Industry	LC	1.2%	21	6.0%	17	6.5%	23	AAA
NGS Super – Diversified (MySuper)	Industry	S	0.8%	26	6.0%	18	6.6%	20	AAA
Equip MyFuture – Equip MySuper	Industry	S	2.8%	5	6.0%	19	6.5%	22	AAA
Mercer CS – Mercer SmartPath 1974-1978	Retail	LC	-0.2%	35	6.0%	20	6.0%	29	AAA
SelectingSuper MySuper/Default Option Index			0.8%		5.7%		6.3%		

Rankings are made on returns to multiple decimal points.

SelectingSuper Benchmark Indices – Workplace Super

INDEX NAME	Performance to May 31, 2019		
	1-year	3-years pa	5-years pa
SelectingSuper MySuper/Default Option	1%	6%	6%
SelectingSuper Growth	0%	6%	6%
SelectingSuper Balanced	1%	5%	6%
SelectingSuper Capital Stable	0%	4%	4%
SelectingSuper Australian Equities	-3%	6%	7%
SelectingSuper International Equities	5%	8%	8%

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.

Need help?

Useful numbers and websites

Australian Communications and Media Authority
1300 850 115
acma.gov.au

Australian Competition and Consumer Commission
1300 302 502
accc.gov.au

Australian Financial Complaints Authority
1800 931 678
afca.org.au

Australian Securities and Investments Commission (ASIC)
1300 300 630
asic.gov.au

Australian Securities Exchange
131 279
asx.com.au

ASFA
1800 812 798 (outside Sydney)
9264 9300 (Sydney)
superannuation.asn.au

CPA Australia
1300 737 373 (within Australia)
+61 3 9606 9677 (outside Australia)
cpaaustralia.com.au

Do Not Call Register
If you want to reduce telemarketing calls
1300 792 958
donotcall.gov.au/contact-us/contact-details

Fair trading/ consumer affairs
ACT: 132 281
NSW: 133 220
NT: 1800 019 319
QLD: 137 468
SA: 131 882
TAS: 1300 654 499
VIC: 1300 558 181
WA: 1300 304 054

Financial Counselling Australia
1800 007 007
financialcounsellingaustralia.org.au/contact

Financial Planning Association
Listing of financial advisers
1300 337 301
fpa.com.au/about/contact-us

Human Services (formerly Centrelink)
Families: 136 150
Older Australians: 132 300
humanservices.gov.au

illion
For a copy of your credit report
132 333
illion.com.au

Legal Aid advice (free)
ACT: 1300 654 314
NT: 1800 019 343
NSW: 1300 888 529
QLD: 1300 651 188
SA: 1300 366 424
TAS: 1300 366 611
VIC: 1300 792 387
WA: 1300 650 579

My Credit File
For a copy of your credit report
138 332
mycreditfile.com.au

myGov
Track down lost super
1300 169 468
my.gov.au

Seniors Card
ACT: (02) 6282 3777
NT: 1800 441 489
NSW: 137 788
QLD: 137 468
SA: 1800 819 961
TAS: 1300 135 513
VIC: 1300 797 210
WA: (08) 6551 8800 (metro) or 1800 671 233

Superannuation Complaints Tribunal
1300 884 114
sct.gov.au

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"I had to fumble and bumble my own way through money"

Ronni Kahn

Ronni Kahn is best known as the founder of the food rescue charity OzHarvest. Born in South Africa, she lived in Israel for many years and came to Australia in 1998, starting an events management business. Seeing large amounts of food go to waste, she decided to do something about it, eventually setting up OzHarvest, which became her life's passion. She is an officer of the Order of Australia and an Australian Local Hero. She has just published her autobiography, *A Repurposed Life*.

Q

What was your first job?
When I was 14 I worked in the equivalent of a supermarket, like Big W, on Saturday mornings and I wasn't very good at it. I don't think I lasted very long. I wanted pocket money and I tried a few things. I think I would have stayed, but I wasn't offered a permanent job.

What's the best money advice you've ever received?
It was from my mother. She said whatever you earn, for each $1 put away 10¢ first and live on 90¢ and you will be amazed. I've shared that so many times and people have said years later it was the best thing you ever told me. But do you think I took my mother's advice? I'd be in a better position if I had.

What's the best investment decision you've ever made?
Purchasing my first house – there's no doubt. When my mother married my father she got a cheque book and she was writing cheques. One day the bank manager called her in and said, "Sylvia, we need a conversation because you are overdrawn on your account", and my mother said, "That's not a problem, I'll write you a cheque." I think the grounding I got in money was not exactly grounding. I had to fumble and bumble my own way through money. I think financial education and financial literacy are important. There is a need to learn how to manage money.

What's the worst investment decision you've made?
I bought an apartment that my children saw and thought was really brilliant. I was overseas and didn't see it and the auction was before I came back. I trusted them and bought it and it turned out to have many challenges. It had great bones but cost me much more than it would have had I seen it and done my homework.

What is your favourite thing to splurge on?
Food. Good food that has taken a lot of time to create and procure tastes so beautiful. And eating out where people have taken so much time and energy to turn that produce into beautiful food.

If you had $10,000 where would you invest it?
In an ethical fund – something that is good for the planet and good for people.

What would you do if you only had $50 in the bank?
I'd probably share some and use the rest to have a beautiful meal and invite some people to share it with me.

Do you intend to leave an inheritance?
I absolutely hope that I do, but I have shared meaningful things with my children, such as experiences, and I wish we had shared more, so I could enjoy their pleasure rather than knowing they would only get it after I die. I certainly believe in reaping the fruit of the work that I've done.

How fulfilling has your work been in OzHarvest?
Giving is so much more than getting. OzHarvest is precious to me as my legacy because it has a far-reaching effect. There's a beautiful expression in the Jewish religion: If you have saved one person you have saved the world because none of us knows what that one person multiplies into. I've got hundreds of stories that people have shared of the difficulties they experienced before they had food. I'm secure in the knowledge I've touched one person.

Would you like to see changes in the way people look at money post Covid-19?
Money should be used and shared. If we realise that things can get taken away in a flash, that life can change so fundamentally out of our control, perhaps it would give us a different viewpoint on how to use our money. Nobody should live without the joys that money can bring, but there is a limit to how much we all need for our personal pleasure and survival.

Finish this sentence: money makes ...
the world of difference when it's shared as widely for good.

HUGH STEWART

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