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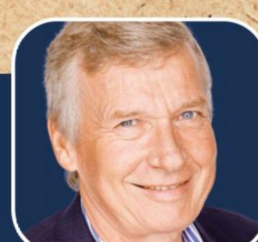

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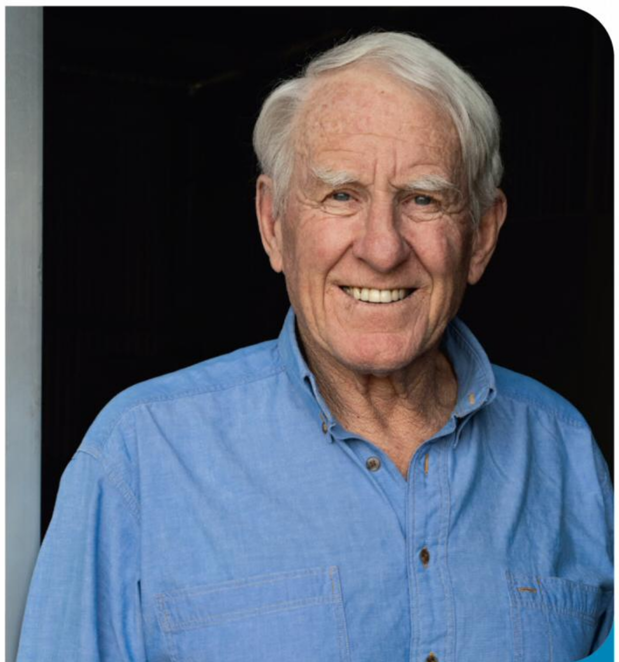

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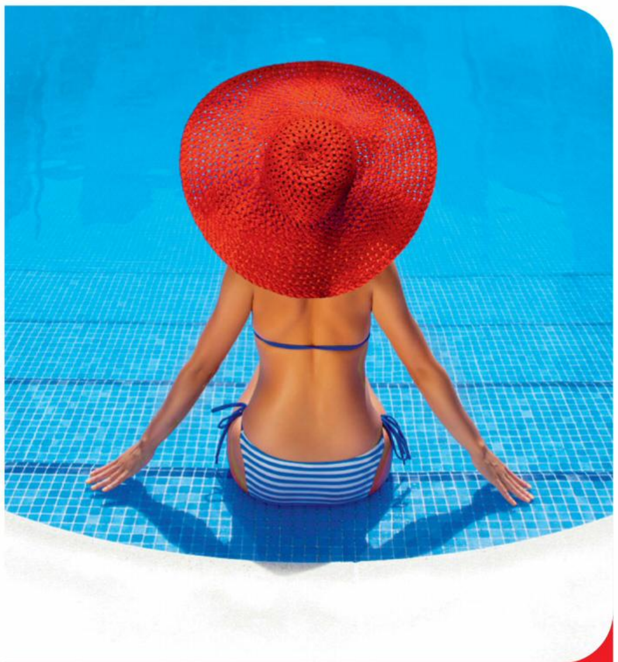

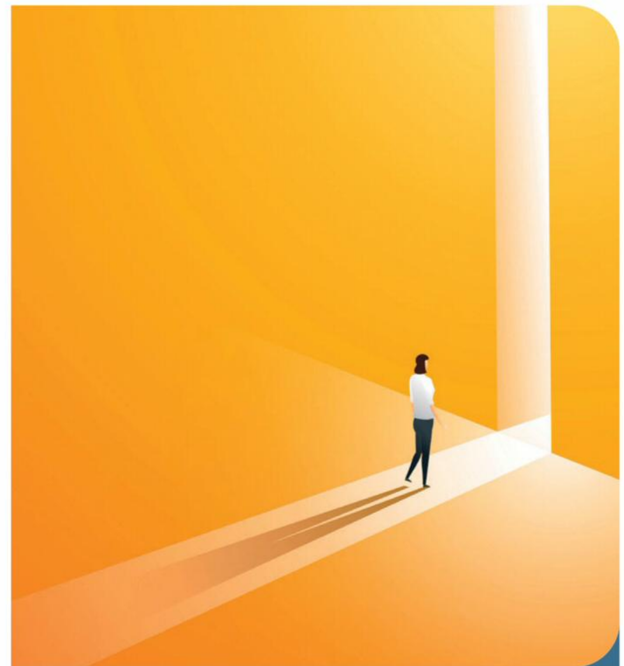

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EDITOR'S DESK

The shape of things to come

Economists are debating what shape the economic recovery is going to be post-pandemic. The most optimistic is a "V" shape bounce while others believe we are in for a "W" down-up-down-then-up-again market.

But there are rumblings on Wall Street that we might be heading for a K-shape recovery, where fortunes diverge for the haves and the have-nots. It's a scenario where the rich get richer and the poor get poorer.

When I think of my family and friends, I doubt that they think of the shape of the economy at all. We all just want the situation to turn a corner.

If I were to measure the temperature of the room based on our readers' letters in the past three months, especially for the "Ask Paul" section (see pages 24-27), it's comforting to see that many of our readers are thriving and are well positioned to take advantage of some of the opportunities that have emerged because of Covid-19.

That said, we empathise with our reader Erin (this page) who writes of her despair about what's ahead. It is to her and other readers like her that we have put together our cover story and a series of articles designed to help those who can only set aside small amounts of savings at a time.

This issue kicks off our two-part Super Booster series, our annual can-do campaign to help our readers build their nest egg. You can start reading part 1 on page 60, and check out our website for more articles over the next two months.

No matter how the economy plays out in the next couple of years, we'll be here to help you keep your finances in good shape.

Michelle

Michelle Baltazar, Editor-in-chief

Feedback

Letter of the month

Words of wisdom that can build wealth

I thought I would share some wisdom that was once given to me and that I still pass on to people today regardless of their age. I jump up and down in the one spot and tell them they must, must pass this on to their kids and grandkids. So what is it?

It's from a book, *The Richest Man in Babylon*, published by the American George Clason nearly 100 years ago. He writes about laws of wealth building that go back more than 2000 years and still apply today.

Save 10% of what you earn and live off the rest – no matter what. If a kid starts their first part-time job at, say, 15 and gets into the habit of saving $5 out of every $50, and does the same as they get a full-time job and are earning $500, they will be rich probably by their mid-40s, especially if they get good help with investing.

We all know compounding will do the trick, as Peter Di Natale found with his first property in Redcliffe ("Kickstart your wealth", April), but young people need to be taught this stuff so it becomes part of their daily thinking.

Tony

Future looks bleak for younger generations

I'll be honest, I'm struggling to see much of a future for my generation. We will be crippled working to pay off the debt currently being incurred. We face no or low wage growth. The federal government even wants to remove our superannuation increase of 0.5%.

This is against an already stressful background of unstable income, meagre super funds, high unemployment, the rising cost of living and the impossible dream of owning a home. We're tired and we haven't even started.

I'm tired. As a teacher, employed full time and in demand, I thought I'd be fine. Even if I need to support my ageing parents (soon possibly made redundant), I could probably manage ... that is, until I found out about the NSW freeze on the salaries of public workers. That's right! The doctors, nurses, paramedics, teachers and police who have been working at 200% during Covid-19 will have our wages frozen.

Is it too much to ask that we could have some hope offered to us? I can only see a long, steep financial road before me and I'm not sure I'm strong enough to drag the demands of the economy and politicians with me. Already I feel too similar to Sisyphus.

Erin

Student exploitation harms Australia's reputation

The story "Students bear the brunt of widespread wage theft" (August) really struck a chord with me. I have been teaching English to migrants, refugees and international students for more than 30 years, and have heard some terrible stories from them.

Many arrive here not knowing much about their rights as workers. Because there is so much competition for jobs, they usually approach a labour hire firm to find work as cleaners or restaurant staff. These firms do deals with large companies such as supermarkets and fast food restaurants, then take a large cut, while the students generally get $10-$12 an hour, even for working late at night or on weekends.

This type of exploitation gives the students a bad impression of Australia, and when they go back to their home country they are likely to warn their relatives and friends to reconsider studying in Australia.

I really wish the federal government would do more to stop this exploitation, both for the students and also to protect Australia's reputation overseas. I do my best to inform my students about their rights, and try to help them to find suitable work, but there are so many more who are on their own and will put up with low pay and unsuitable working conditions because they feel they have no choice.

Marianne

Prize worth winning

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Should the proposed super guarantee increase to 10% go ahead in July 2021?

KANIKA SOOD

Kanika is a senior journalist at *Financial Standard*, also published by Rainmaker. She says: "Intuitively, yes, the SG needs to rise to replace the billions Australians have pulled from their nest eggs. But we are still missing key answers on how super works: are we already saving enough to retire comfortably and does a rising SG trim wages. If the answer to either is a yes, then we probably should hold at 9.5% and reassess later."

SUSAN HELY

Susan, a senior writer at *Money*, says: "Super gives retirees not only income but it also pays for aged care. The SG rise due next year is the first since July 2014. Lots of people end up with inadequate super, such as women with broken employment histories and people working in the gig economy. Yes, the economy is weak, but this means it is even more important that employees don't miss out."

BENJAMIN ONG

Ben is a director at Rainmaker Information, which publishes *Money*. Ben says: "The question is more about the trade-off between the now (mitigating the impact of the recession) and the future (having sufficient savings on retirement). The SG has been frozen before with no significant upheaval in the domestic economy. On the contrary, it may have helped our 29-year recession-free run."

ANNETTE SAMPSON

Annette is a contributing writer to *Money*. She says: "It is a tough call but past experience has shown forgone super increases do not result in higher wages. Next year's rise was originally delayed after the GFC and we can't keep putting it off if we are serious about lifting the SG to 12%. A small increase now could also help to rebuild savings that have been withdrawn in the Covid-19 crisis."

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Keep the ball rolling

This is an opportune time to confirm we're on course to achieve financial freedom

Creating financial freedom by making the most of your money and setting yourself up for a comfortable retirement along the way is what *Money* magazine is all about.

As we go to print this month, the release of the federal government's retirement income review is imminent. It might tackle the issue of whether Australia can afford to meet the legislated increases to the super guarantee (SG), from 9.5% to 10% on July 1, 2021 and reaching 12% by 2025. On page 8 of this issue, our experts share their thoughts about the proposed 2021 increase going ahead when the country is in the throes of a recession.

Of course, retirement income isn't just about superannuation. Many of us would like to retire before the pension age (67) and super preservation age (60).

Economics has always been an inexact science and Covid-19 has confirmed this. Some people may have been forced into early retirement, thanks to the high level of unemployment. In many cases, this would have taken place long before they were financially prepared to stop working. This should prompt us to rethink the way we look at our retirement incomes.

If you've factored an inheritance into your retirement plan, it might be a good idea to take into account the fact that Australians are living longer – in the past 100 years our life expectancy has increased by more than 20 years. So there's a good chance mum and dad might not have much to leave behind. A 65-year-old man can now expect to live for another 20 years and a woman of the same age can clock up another 22½ years. A fact that throws another variable into the mix.

We might be living longer but those extra years often come with their fair share of disease or injury. The costs of healthcare and aged care can exceed tens of thousands of dollars a year, and many aged care facilities require an accommodation bond, which at the lowest end of the scale may be $200,000 and in excess of $1.5 million at the higher end. Average aged care bonds in Sydney range from $350,000 to $500,000. The bonds are refunded when the resident dies, with the fees and charges deducted. There may still be a considerable inheritance left, but the timing and costs could seriously disrupt your retirement plans.

> Many are questioning what we can and can't live without

It's clear that retirement is a puzzle with many pieces, and as you approach the end of your working life it pays to talk to a financial adviser to get a clearer picture of where you are.

Also, in this issue and the next, *Money* is running its annual Super Booster campaign and I encourage you to take a close look at these articles – they could well be the key to a better retirement.

Covid-19 and the lockdowns have made many of us question what we can and can't live without, leading to less mindless spending and more savings, if we're lucky.

A clever way to save is the simple "bucket" method. Distributing extra dollars into different accounts for short-term, medium-term and long-term savings works well for many. You can add more buckets as needed – perhaps for a private school fund, renovations fund or holiday fund. Some home lenders offer multiple offset accounts to help you manage your savings while reducing your mortgage payments.

If you're tempted to invest, remember that experts predict the sharemarket will remain volatile over the next few months. But you can take advantage of dollar cost averaging by drip-feeding your money in regular increments. This way you'll automatically be investing across a range of prices, but on average you will be riding the sharemarket on an ever-rising curve over the long term.

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

NEWS & VIEWS

THE BUZZ

Banks' huge compo payout fails to restore trust

Twenty months have passed since the release of the final report from the financial services royal commission and its effects are still being felt. In the first six months of 2020, for example, our six largest banks paid $296 million in compensation to people who were incorrectly charged for financial advice they didn't receive.

This brings the total compensation bill from these six banks to more than $1.05 billion ... and counting. We say counting because at the end of August the regulator ASIC announced it was bringing civil action against BT Funds Management and Asgard Capital Management (both owned by Westpac) over fees for no service.

Westpac accepted ASIC's allegations that the subsidiary companies inadvertently charged adviser fees to 404 customers for a total of $130,006 after a request had been made to remove the financial adviser from those customers' accounts.

You can argue whether the BT and Asgard actions were an accident, but either way ASIC clearly found behaviour that warranted questioning and was not honest and fair. Westpac says it self-reported the 404 cases in July 2017, and customers have been contacted and remediated.

But is this enough? Monetary compensation is one thing, but it is unlikely to improve trust in the banking and super sectors.

Not helping the situation in August was ASIC entering a separate civil court case with State Super Financial Services (StatePlus) for charging 36,592 members for advice that no one received. StatePlus has already paid remediation of more than $100 million but, again, I'm not sure it's enough to resolve any trust issues.

ASIC has now launched four court cases over fees for no service. The other two – against NULIS Nominees and MLC Nominees; and NAB – and are still going through the court system.

What's helpful in all of this, though, is that ASIC has indirectly told super members what to look for when it comes to fees for no service. Here are two tips:

- If you're promised an annual financial planning review (and are to be contacted for it), put a reminder in your diary. If the review hasn't happened by then, call your super fund to arrange it. If you don't want a review, make sure you're not paying for one.
- Watch for fees that are no longer charged on one section of your super but turn up somewhere else under another name.

DARREN SNYDER

ON MY MIND

How to find an adviser

A few people have recently asked me about the financial planning process and how it works, so here's an introduction.

Discovery meeting. This involves that crucial moment in which both adviser and client gauge whether they are the right fit for each other. In most cases, the first meeting is complimentary. We will explain how we charge for our services and offer you an estimate of the cost.

Client commitment meeting. We develop recommendations and explain our strategies to help you achieve your goals and aspirations. Once agreement is formalised, we will start working on your plan – your statement of advice (SOA).

Strategy meeting. We will recommend detailed strategies and products. If you accept the adviser's recommendations, we will help you to implement the plan, which may take up to a few months.

Initial progress meeting. This helps you understand where we are up to in implementing your plan and we answer any questions and concerns.

Regular progress meetings. Depending on the life stage you are in and the complexity of your financial plan, you may decide to have regular progress meetings annually, half-yearly or more often.

Helen Nan, principal adviser and author at Plan for Your Future

CALENDAR OF EVENTS

Monday, October 5
NAB business confidence

Tuesday, October 6
RBA interest rate decision

Wednesday, October 14
Westpac consumer confidence index

Thursday, October 15
Unemployment rate

NEWS BITES

AMP has committed to building a "respectful and inclusive" workplace, following a spate of internal scandals. Symmetra, a consultancy specialising in inclusion and diversity, has been tapped to conduct a review into the financial services company. "The review will objectively assess conduct at AMP, and make recommendations covering policies, leadership, governance and behaviours. Symmetra will then work with AMP to implement and embed the recommended changes," says AMP.

The Australian Small Business and Family Enterprise Ombudsman, Kate Carnell, is calling on the government to defer superannuation guarantee increases and to cut taxes on super payments. In a letter to the treasurer, Josh Frydenberg, Carnell also proposes cutting the 15% tax on compulsory employer contributions to 7.5% during the next two years. "These increased costs would put small business owners under even more financial strain, placing jobs and businesses at risk," she says.

Up to September 6, super funds had made payments to 4.3 million members via the early release scheme. The payouts amounted to $33 billion since the scheme was first introduced in April. Since inception of the scheme, 98% of applications had been paid out.

Key numbers for retirement

There is one question I'm asked all the time. How much money will I need to retire comfortably? There is a rule of income that will dramatically help determine how much you'll need to remain comfortable. You need at least 70% of your pre-retirement income to maintain your current standard of living as you enter retirement.

For example, if someone has a household income of $250,000 gross, this is roughly $175,000 net. This means they would need about $125,000 in retirement income.

Based on the nest egg of $3 million in super at a 4% return rate, this would generate $125,000 a year for you in retirement. However, many people are well short of the $3 million nest egg (excluding your family home). Therefore, they end up being very underprepared for their retirement and can't afford the usual standard of living they're used to.

So if you plan to slow down with work soon, it's important to accurately break down your figures in order to secure the life you've always wanted when you retire.

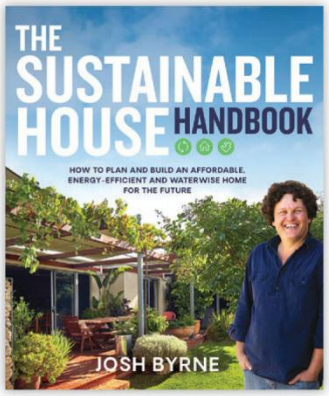
Mike Sikar, founder and principal adviser at Delta Financial Group

62%

of experts and economists feel positive about housing affordability, according to the latest Finder RBA cash rate survey. "The drop in prices, rock-bottom rates and increased competition for non-investment buyers combined with government stimulus will likely get a lot of the next generation onto the housing ladder for the first time," it says.

NEWS & VIEWS

BOOK OF THE MONTH



THE SUSTAINABLE HOUSE HANDBOOK
By Josh Byrne
Hardie Grant, RRP $39.99

Gardening Australia presenter Josh Byrne has released his comprehensive guide to building an affordable green home for the future – all from personal experience. He shows how to ditch the air-conditioning; integrate solar power; reduce water use; incorporate organic food production; and design spaces to improve your wellbeing.

The GreenSmart tables show you how Josh's house addressed the Housing Industry Association GreenSmart objectives, but they could easily be a checklist when you build your own home. He also works through the different materials and fabrics you will need to construct a better-performing home.

Ten readers can win a copy.

In 25 words or less tell us your best green renovation idea. Enter online at moneymag.com.au/win or send entries to Money, Level 7, 55 Clarence Street, Sydney, 2000. Entries open on September 28, 2020, and close on November 2, 2020.

APP OF THE MONTH

LIBBY
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This is an excellent app for book, audiobook and magazine lovers alike. Access the same titles you would at your local library but from this easy-to-use tool.

Before you begin borrowing you will need your own library card (if you don't have one already). Libby, the in-app personal assistant, can help you join your local library with a few easy taps of the fingers.

Once your library card is active on the app, it's a good idea to then set up your preferences for the formats you prefer. You can also set preferences for language and the way searches are sorted.

Browse the newly added titles, learn what's popular or go exploring through the thousands of titles or hundreds of subjects. There are also helpful guides and filters for many different categories – for example, my local library has guides and filters for kids and teenagers to assist with selections.

DARREN SNYDER

TAX TIP

How virus support grants are taxed

As well as JobKeeper and JobSeeker, there are numerous other Covid-19 government support programs for businesses and individuals. A question that often crops up is how payments are treated for tax.

Business support

Grants are taxable, whether provided as a one-off lump sum or a series of payments. Examples include: NSW small business support grant; South Australian $10,000 emergency grant and job accelerator grant; Victorian business support fund; Northern Territory survival fund and improvement grant; Western Australian small business grant; Queensland Covid-19 adaption grant.

Leave payments to individuals

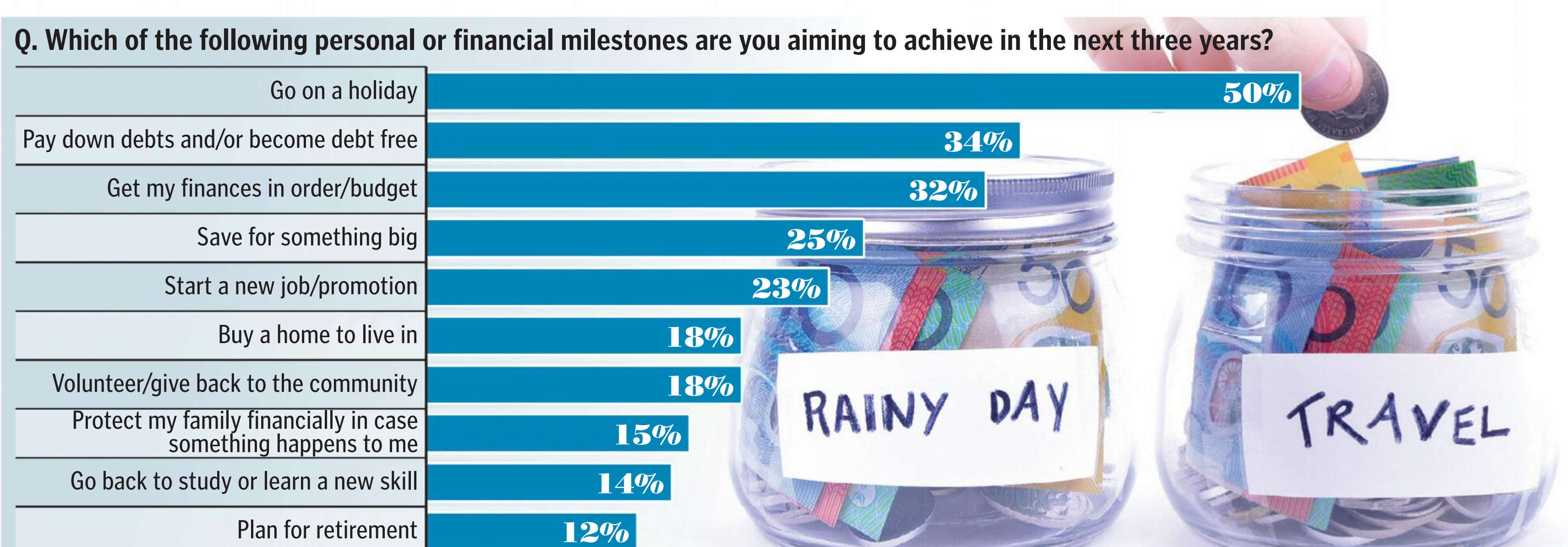
The leave payment – a lump sum of $1500 – is available to help people during the 14 days of self-isolation. Paid by Services Australia, it replaces Victoria's $1500 worker support payment. You need to include it as income in your tax return.

The payment is for people in Victoria and Tasmania (at the time of writing) who can't earn an income because they must self-isolate or quarantine. They must be directed to do this by a health official or department. Individuals may also be able to get it if they are caring for someone with Covid-19.

Victorian workers can also apply for a $300 payment while they self-isolate to wait for the results of a Covid-19 test. This is paid by the state government and is also taxable.

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

SNAPSHOT What we want to achieve

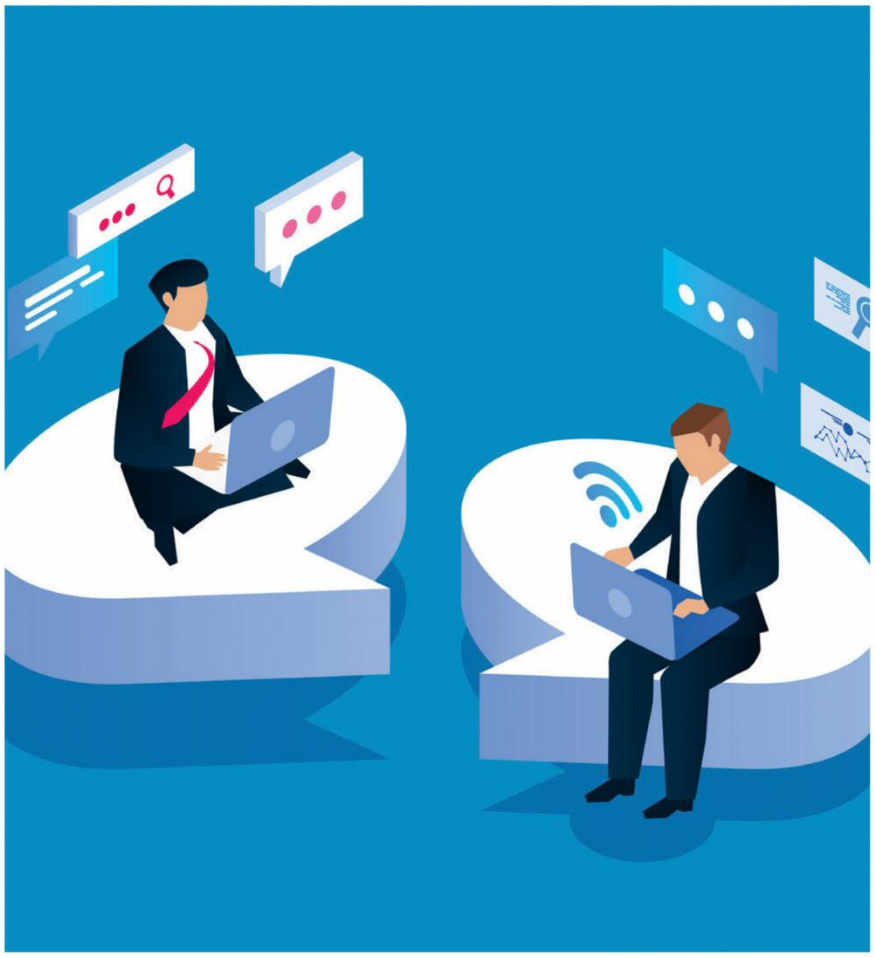


Source: ASX n=5,509 respondents

MY MONEY

▶ MORE MONEY STORIES ON P42-51

FINANCIAL PLANNING



Uncertainty boosts business for advisers

Communication between financial planners and their clients has been given a boost by the Covid-19 lockdowns.

Research by Investment Trends has found that three in four clients have been in contact with their financial planner to discuss the impact of the pandemic.

"Most financial planners have proactively engaged with their clients during this period of volatile markets, and clients themselves acknowledge these efforts," says King Loong Choi, from Investment Trends.

"As the lockdowns persist, all planners must take the opportunity to engage more closely with their clients through the most in-demand channels. In light of the lockdowns, just a third of advised clients still insist on receiving face-to-face review meetings – down from 48% in 2019 – while appetite for alternative, socially distanced regular reviews has substantially increased."

The latest findings add to a five-year trend, over which time demand for financial advice has doubled.

"Against a backdrop of economic uncertainty and volatile markets, a record number of non-advised Australians realise they need professional financial advice. Among these potential advised clients, the pandemic has been a major catalyst, with 44% saying the Covid-19 situation had increased their likelihood of seeking advice," says Choi.

Fuel retailers enjoy big profits

While petrol prices in this year's June quarter fell to a 21-year low in inflation-adjusted terms due to the pandemic, gross retail margins are still at record highs.

According to the Australian Competition and Consumer Commission (ACCC), average annual gross indicative retail differences (GIRDs) – the difference between retail prices and terminal gate prices – in 2019-20 were 14.7 cents per litre, 2.7 cents higher than last year's average.

"Many Australian motorists benefited from lower petrol prices over the first half of this year, but we have some concerns about the higher gross margins that petrol retailers seem to be holding onto," says ACCC chair Rod Sims.

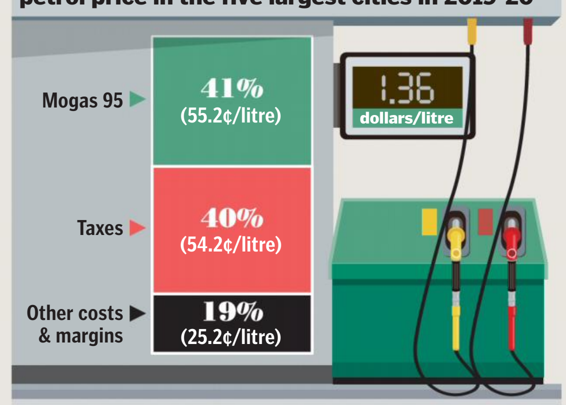
"While less petrol being sold during Covid-19 restrictions may be a contributing factor to the record high gross retail margins, we're not convinced that this fully explains the levels we're seeing."

The 28.8 cent fall in the average retail price of a litre of petrol from the March to June quarter was largely a factor of a 22.3 cent drop in the price of Mogas 95, which is the benchmark for refined petrol in the Asia-Pacific region. "Mogas prices are influenced by global crude oil prices, and as well as concerns about the Covid-19 pandemic it was the breakdown in talks between the OPEC cartel and other major oil producing nations in March 2020 that caused oil prices to collapse," says Sims.

"Lower crude oil prices are one of the few positives from current world events and drivers in Australia have enjoyed lower petrol prices on the back of it."

While global crude prices are a big factor in fuel prices, the federal government has its hand deep in the motorist's back pocket, with tax accounting for a whopping 40%.

Components of the annual average retail petrol price in the five largest cities in 2019-20



Source: ACCC calculations based on data from FUELtrac, Argus Media, OPIS and RBA

COMPILED BY DAVID THORNTON

HOME LOANS

5% deposit helps young buyers

One in eight first home buyers was supported by the federal government's First Home Loan Deposit Scheme between March and June, according to the latest National Housing Finance and Investment Corporation (NHFIC) Trends & Insights report.

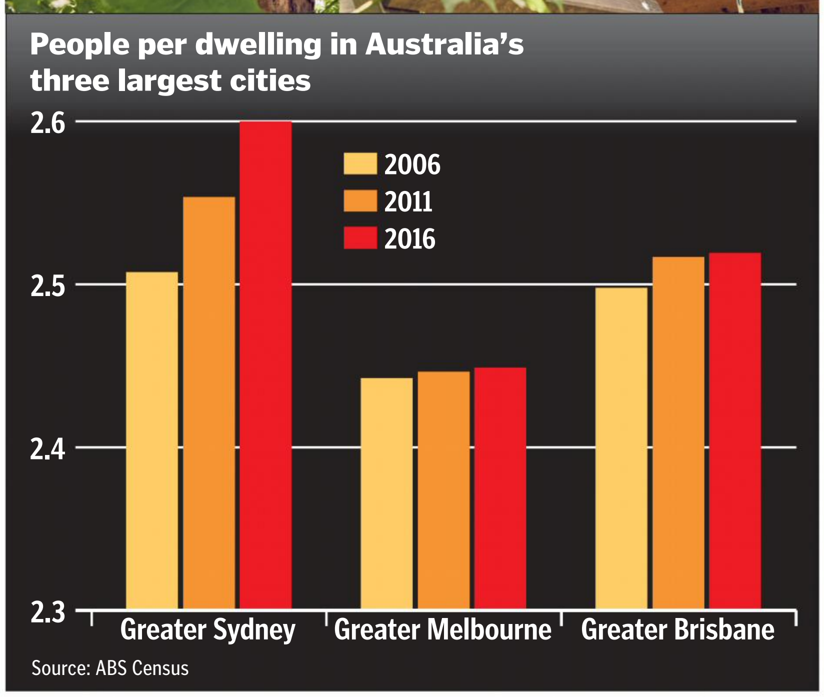
The scheme guarantees a lender up to 15% of the purchase price of the home, meaning first home buyers are only required to put down as little as 5% for the deposit. Ten thousand scheme places were released to participating lenders from January 1, 2020 with 10,000 additional places released from July 1 for the 2020-21 financial year.

Most participants, both singles and couples, were aged between 25 and 35. The majority of singles earned $60,000 to $80,000 while couples typically earned $90,000 to $125,000. About 10% of participants were over 40.

Nathan Dal Bon, chief executive at the NHFIC, says analysis of the scheme's first six months of operation found it had broad appeal.

"Demand for the scheme in the six months to June 30 continued despite the onset of the Covid-19 pandemic," he says.

"First time buyers across age and income spectrums around the country accessed the scheme, and we saw strong interest from buyers in outer metropolitan and regional areas."



MORE PROPERTY STORIES ON P52-57

Higher population density proposed for Sydney

Productivity NSW has called for a re-think about population density. "The planning system has failed to deliver enough housing [in Sydney] and failed to deliver housing where demand is highest," it says.

Demand for property in Sydney has led to high prices, yet it has low population density compared with its global peers. While the City of Sydney has 9212 people per square kilometre, Manhattan and Paris have densities of 27,300 and 20,300 respectively.

The City of Sydney is only marginally more dense than Ashfield, Burwood and Canterbury.

"In a market with less restricted supply, high prices would attract a greater amount of development and lead to higher dwelling density, allowing more NSW citizens to enjoy the convenience and amenities they offer," the organisation says.

A more densely populated city may also save on infrastructure expenditure and boost economic activity.

"As the city spreads, households need to commute further, reducing their time for work (contribution to gross state product), leisure (contribution to economic welfare) or both."

COMPILED BY DAVID THORNTON

MANAGED FUNDS

Ethical focus pays dividends

Responsible investment funds are breaking away from the pack and delivering returns above their peers, according to the Responsible Investment Association of Australia (RIAA).

In 2019, Australian and multi-sector responsible investment managed funds outperformed mainstream funds over one, three, five and 10 years.

Responsible investment uses ethical, social and corporate governance (ESG) to construct portfolios that, in addition to financial returns, generate a positive social and/or environmental benefit.

"The Covid-19 pandemic has resulted in significant economic turmoil, severely impacting many people's livelihoods and financial markets globally. However, it's become clear that responsible investors are ahead of the game," says RIAA chief executive Simon O'Connor.

"They are identifying the key themes influencing markets and returns, which help them to better navigate turbulent times, avoid the biggest risks and capture more opportunities."

Responsible investments lifted 17% from 2018 to 2019, with $1149 billion in assets under management. They now account for 37% of Australia's professionally managed assets, reflecting their cemented place in the mainstream.

"Consideration of environmental, social, governance factors is now the expected minimum standard of good investment practice, with $1 trillion of Australia's assets under management using ESG integration as a primary approach. This approach is closely followed by corporate engagement and shareholder action," says O'Connor.

▶MORE INVESTING STORIES ON P60-71

More workers given super choice

Enterprise bargaining agreements will no longer force employees into a superannuation fund after the Treasury Laws Amendment (Your Superannuation, Your Choice) Bill 2019 passed through the Senate.

The bill will enable around 800,000 Aussies, or 40% of all employees, bound by enterprise bargaining agreements to select a super fund of their choice.

The reform follows a Fair Work Commission finding that it's detrimental to prevent employees from choosing their own super fund, helping avoid situations where employees are saddled with multiple funds, and the extra fees that come with them, due to changing jobs.

"These changes also build on the government's earlier reforms, which protect superannuation accounts from being eroded through the capping of fees on low balance accounts and requiring insurance to be provided on an opt-in basis for new members under 25 years of age," the assistant minister for superannuation, financial services and financial technology, Jane Hume, and the treasurer, Josh Frydenberg, said in a joint statement.

Sally Loane, chief executive of the Financial Services Council, says it has strongly advocated for removing restrictions on choice in superannuation as there is no justification for preventing Australians from choosing a fund.

"This legislation finally ends the anachronistic practice of enterprise agreements locking workers into a specific fund and is a solid win for up to a million consumers who previously didn't have the freedom to manage their retirement savings as they wish," says Loane.

"Many workers have been forced to choose between moving their superannuation into their employer's specified fund or paying duplicate fees to keep multiple accounts open when they start a new job with an employer who does not offer choice – neither is a good consumer outcome."

COMPILED BY DAVID THORNTON

SHARES

▶MORE SHARES STORIES ON P72-85

PERFORMANCE

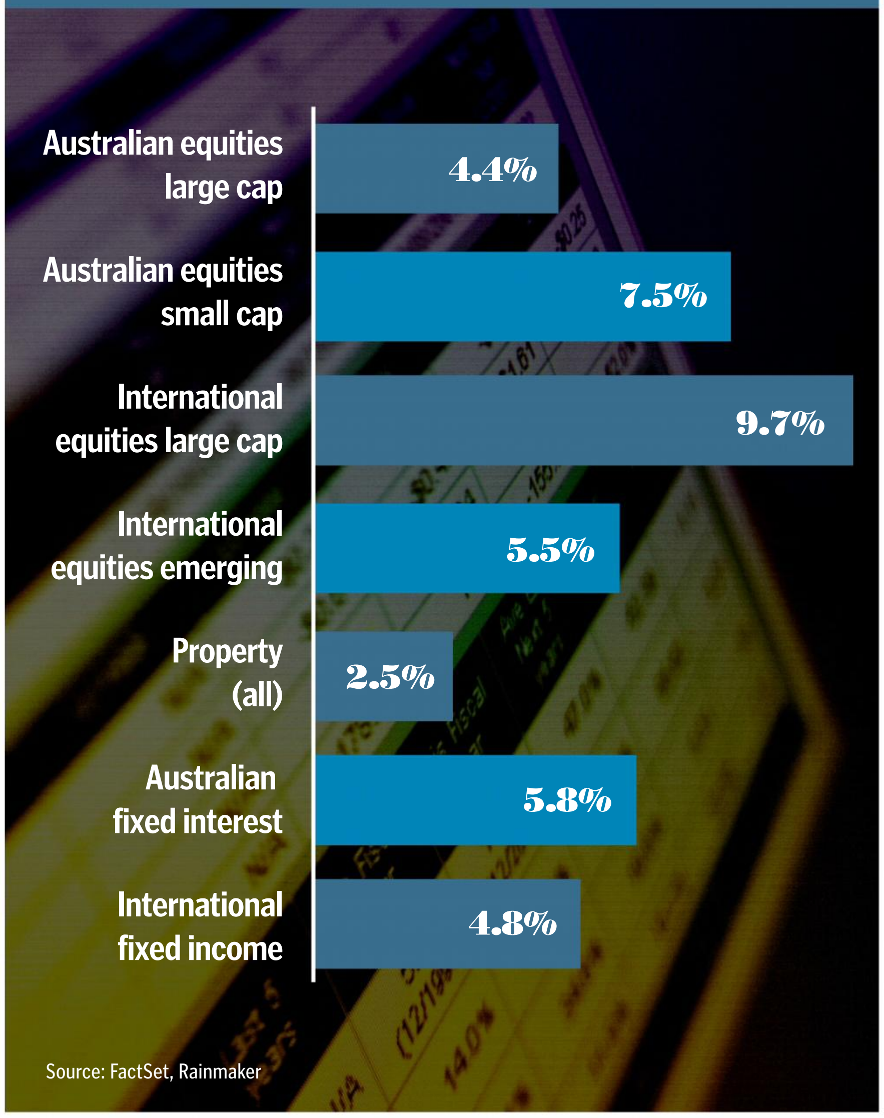
Small caps deliver the big returns

Small-cap managed funds are streaking ahead of the competition, according to research by Rainmaker Information, which publishes *Money*.

While the ASX Small Ordinaries Index returned only 6.5%pa over a three-year period, Lakehouse Small Companies Fund grew 26.2%, closely followed by the SG Hiscock Emerging Companies Fund at 19.1% and the OC Micro Fund with 18.6%.

That's not to say that leading big-cap companies have underwhelmed. Bennelong's Australian equities fund generated a 13.6%pa return over the three years, followed by its Concentrated Australian Equities (12.4%) and Greencape's Broadcap Fund (11.2%).

MEDIAN 3-YEAR SECTOR GROWTH TO JULY 2020



Source: FactSet, Rainmaker

BUY

United Overseas Australia (UOS)

The Intelligent Investor Mickey Mordech

RECOMMENDATION

Source: Intelligent Investor; price as at September 11, 2020 close of business

Few companies had balance sheets better prepared for the pandemic than United Overseas Australia, a property group operating mainly in Malaysia but listed on the ASX.

Its interim result saw profits fall by 39%, thanks largely to lower occupancy in its hotels, a slowdown in residential sales and the closure of its corporate offices. The Malaysian hotels were the worst hit. Catering largely to expats and business travellers, they suffered as occupancy plummeted, functions were cancelled and borders closed. It's going to take a few years for things to recover.

Progress on residential projects was delayed, while pressure on commercial rents and occupancy saw the company write down the value of its properties by $17 million (less than 1% of property assets).

Many of UOS's properties are carried on the books at original cost or conservative valuations, and management largely eschews debt so, unlike many other property businesses this reporting season, valuations held up strongly and it's under no pressure to sell assets or raise capital.

In fact, net assets actually grew fractionally, while the company generated $103 million in operating cash flow over the half. With the cancellation of the interim dividend, founders CS Kong and Jimmy Kong now have $448 million in cash at their disposal – a huge sum relative to the $1 billion market capitalisation.

With Malaysia's property industry under pressure, distressed selling is a possibility and a few golden opportunities could set UOS's shareholders up for a decade of significant development profits.

With a 30-year track record of compounding shareholder wealth at over 20%, we're backing the Kongs to use the pandemic to find them.

Mickey Mordech is an analyst at Intelligent Investor.

COMPILED BY DAVID THORNTON

HAYDEN BROTCHIE

STORY **KANIKA SOOD**

From paddock to Pitt Street

Fact file

Robert Millner

Chairman of the investment company Washington H. Soul Pattinson. Aged 70, married with three children and eight grandchildren; lives in Sydney and has a property in Cowra.

He is the fourth generation of the extended Pattinson family leading the business, and son Tom is also now involved. He sees himself primarily as an equity investor. Millner and family regularly feature on Australia's rich lists and in 2020 he was 101 on the The Australian's *list of the 250 richest Australians. Spending time on a farm in rural Australia gave Millner a taste of how tight things could be, which he says helped him avoid a sense of entitlement.*

Robert Millner exercises immense influence in corporate Australia as the chair of Washington H. Soul Pattinson (WHSP), whose holdings totalled about $5.5 billion as at December 2019.

The 118-year-old company is a conservative investor with diverse holdings, ranging from coal and resources to telecoms and pharmacies and many other sectors. The Millner family's net worth is reportedly more than $1.1 billion.

When our photographer showed up at his property one Saturday afternoon in June, Millner met him in mud-stained blue jeans, a chambray shirt and Blundstone boots that look as if they could use a good scrub – a far cry from sharp city suits.

The two drove across the property in an all-terrain vehicle, passing cows, a dam, tall silos and a shed where a tractor idled.

"It's a very intense farm; we've got irrigation and we run cattle. So I've got three-and-a-half men that look after that for me," says Millner. "[We] predominantly grow lucerne hay [alfalfa]. We tried poppies but we didn't grow any last year. I didn't have enough water for it.

Millner is the fourth generation of the extended Pattinson clan to lead the business. His son, Tom Millner, also sits on the board and is a partner and co-portfolio manager at Contact Asset Management, an Australian equities investment manager owned by WHSP.

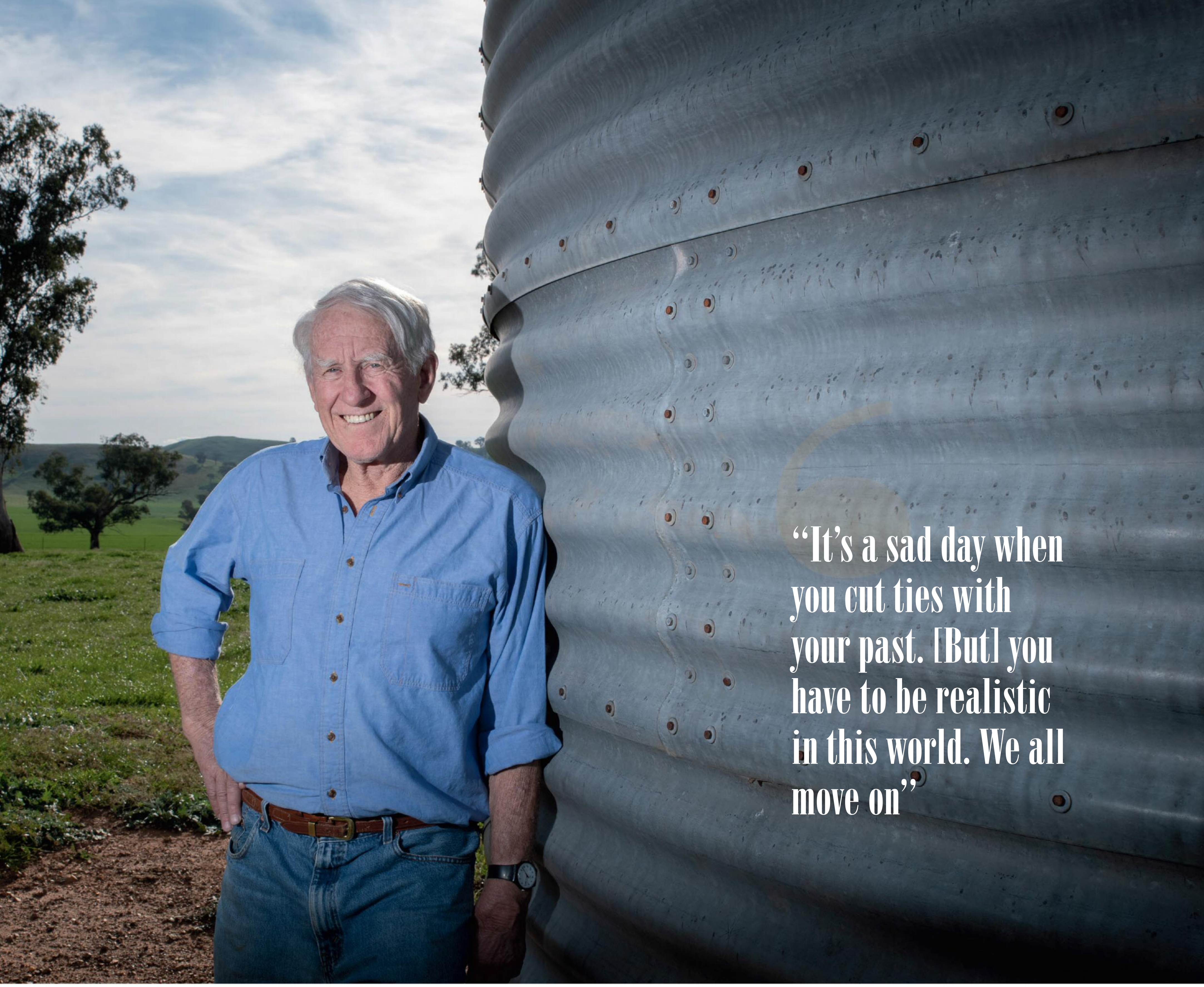
Highfield, as the farm is called, was initially bought by Robert's parents when he was nine years old (he later expanded the holding).

He attended boarding school at Sydney's inner-west Newington College, and after a brief career as a stockbroker returned to work on the farm, which sells its produce, until the age of 34.

WHSP started life in 1902 as a pharmacy when Robert's great-grandfather, Lewy Pattinson, bought the business of fellow pharmacist and friend Washington Soul.

Over the century the leadership passed from Lewy Pattinson's son William Frederick Pattinson (chair in 1950s and '60s) to Jim Millner in the 1970s, '80s and '90s.

In 1984, an invitation from uncle Jim Millner to Robert to join the board as a director catapulted Robert out of the farm.



After serving as a director, he became chair in 1998.

Today, WHSP owns billions of dollars' worth of assets and Robert chairs the boards of seven publicly listed companies (all once a part of WHSP).

Back in Sydney at WHSP's new headquarters on Clarence Street, Sydney, the offices are dotted with memorabilia, including apothecary bottles, framed floor plans and the entrance plaque from WHSP's headquarters for 145 years in Pitt Street Mall.

WHSP sold the Pitt Street property for $100 million in 2018, taking the view that the heritage status made it hard to service and the new tram travelling along George Street could push down property prices in the mall.

"It's a sad day when you cut ties with your past, and I was disappointed last week [July 9], when I had to retire from the board of API [Australian Pharmaceutical Industries] ... pharmacy was the start of the company's business, but it's only a small part of our business now compared to what it was," says Millner.

"You have to be realistic in this world. We all move on. We got a very, very, very good price for that building. And we are growing."

The headquarters are new but it's business as usual. WHSP's investment bankers (it has its own investment bank, Pitt Capital Partners) are working flat, scouting for new investments to home about $600 million.

The company reported $307 million in net profit after tax for the 2019 financial year. About 75% of this came from just two holdings, TPG Telecom and energy company New Hope, according to Ord Minnett.

Millner says WHSP has been investing in smaller businesses such as Aquatic Achievers (swim schools), Palla Pharma (pharmaceuticals), and assets such as agriculture, water and grapes, which it hopes will one day come to fruition behind its bigger holdings. But right now it's switching focus to larger acquisitions once again.

"I'm quietly confident that we're going to see another downturn, maybe not as drastic on the stock exchange but economy-wise," says Millner.

"I think when people first start paying back some of this debt, we're going to see some good opportunities and we've probably got $700 million or $800 million that we can move tomorrow to buy an attractive business."

WHSP's long-term track record is nothing short of stellar.

It was one of the first companies to be listed on an exchange in Australia, has paid a dividend every year in its 118-year history and in times of economic stress has increased the payout to shareholders.

Until recently, it was tied with Ramsay Health Care as the only two companies that have increased their dividend each year since 2001. Ramsay recently dropped out.

As at the end of December, Soul Pattinson's share price had increased by 16% a year over a period of 40 years. Total shareholder return of 11.6% for the past 15 years has been 2.6% higher than that of the S&P/ASX All Ords Accumulation Index, according to Ord Minnett.

WHSP's share price and Millner's 22-year-long tenure as its chair mean he is often likened to the US's hallowed value investor Warren Buffett, whose company, Berkshire Hathaway, has beaten the US's S&P 500 each year since 1968 by a wide margin.

"... Of course we are miles, miles smaller [$4.8 billion versus $676 billion] but you have to remember, in America, Berkshire Hathaway does not pay a dividend," he says.

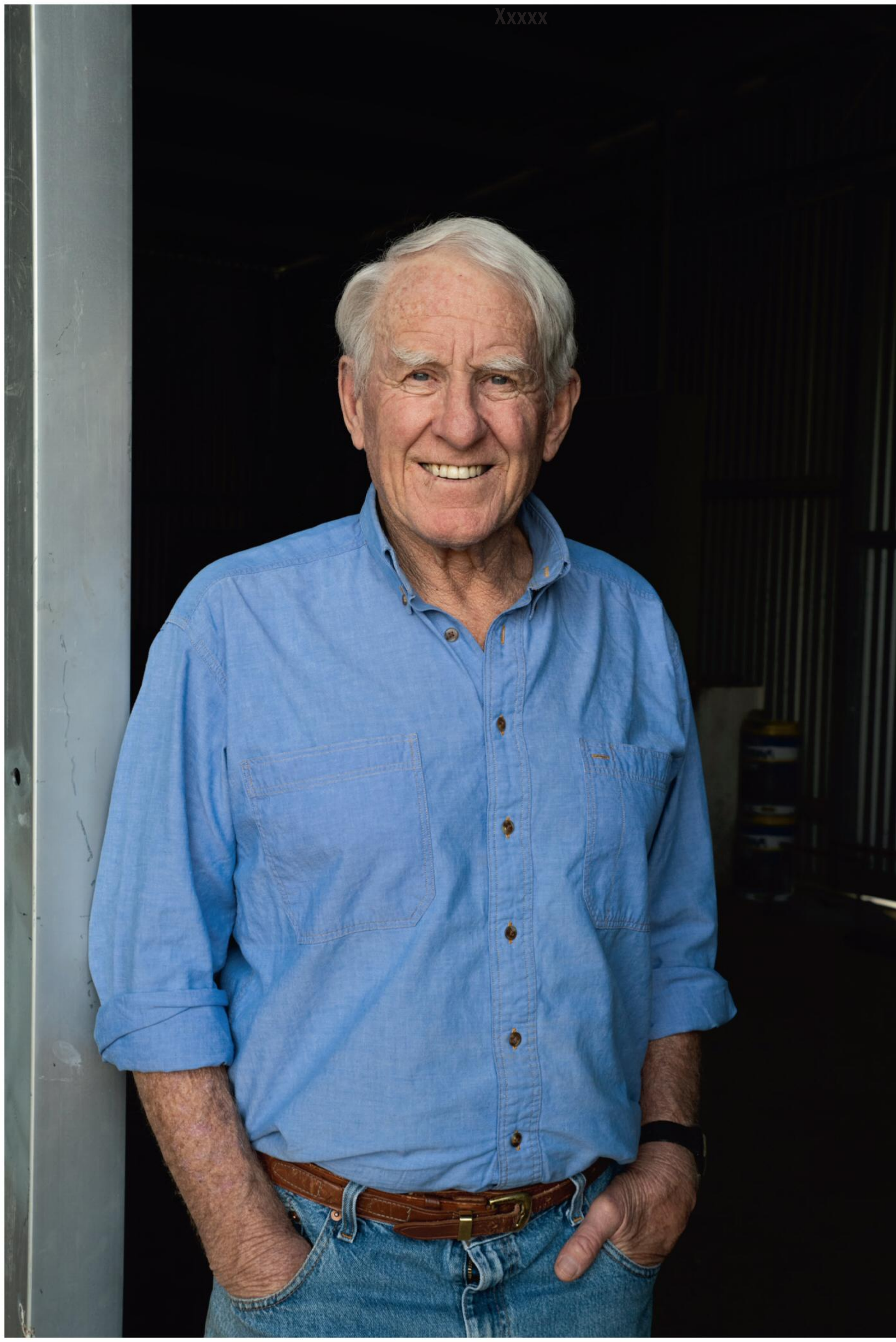
"To use an example here, if Soul Pattinson earned $100 million every year, and we reinvest that $100 million every year, you can see how quickly that compounds.

"We're paying probably 80%-85% of our profits out to shareholders. So we're not getting the growth that some of those American companies are getting."

All the same, Millner has travelled to Omaha for five of the past six years, as one of Berkshire Hathaway annual general meeting's 40,000 attendees, and says Buffett and his partner, Charlie Munger, seem to get better as the seven-hour-plus day rolls on.

More recently, he's lined up the trips with Brickworks meetings as it expands into North America. Millner is non-executive chairman of Brickworks, which has a substantial holding in WHSP.

While Millner gets laudatory comparisons, he is also no stranger to bad press. He has long locked horns with anti-coal campaigners over New Hope, and was in the papers last year after reportedly shutting down WHSP's annual general meeting after being asked to justify his company's holding in the coal miner by the shareholder activist group Market Forces.



Common touch ... "We don't go to cocktail parties or hob-and-nob around the town and in the social pages," says Robert Millner

WHSP and many of its individual holdings (including Brickworks and New Hope) invest in each other, under a decades-old cross-shareholding structure. In 2017, Perpetual Investments tried unsuccessfully in the courts to break the structure, saying it was oppressive to minority shareholders, depressed share prices and kept the firm in control of the Millner family. But the courts did not agree.

Meanwhile, WHSP's resilience has translated into extraordinary wealth for the Millner clan. The family's personal wealth was estimated at $1.3 billion on

The Australian Financial Review's Rich List 2019 (that included a bump from last year's higher coal prices).

Millner has been married for 46 years to Janine, whose brother went to the same school as he did. Robert and Janine bumped into each other at a ball when he was living in Cowra and she was training at the Goulburn Teachers College.

Outside work, he likes to travel to Europe for two or three weeks a year with his wife. The couple also try to sneak in long weekends in Bali during his six or so trips to Singapore each year.

Millner makes a point of the fact that his family doesn't like to go overboard with its wealth.

They don't like to own boats or private planes. He says he will talk to anyone, and definitely won't roll into a Brickworks plant in a Rolls-Royce to meet a factory manager.

"We're very common sort of people. We don't go to cocktail parties or hob-and-nob around the town and in the social pages," he says.

He grew up wealthy but, at the same time, in an environment where not many people travelled, entertaining was limited to home, and things were pretty tight in rural Australia.

"We were able to send our kids to private schools and things like that, and they know that there were some quite harsh times on the rural scene in the late 1960s and early 1970s – things were pretty tight," he says.

The family are keen investors outside of Soul Pattinson shares, which they also buy. "We're basically equity investors. I think that's a very easy, good way for people to run their money. We don't do it to dodge tax but ... with equities you pay very little tax," he says.

"We've just made a small investment in rural property in Queensland through one of the family companies, but generally we're basically long-term equity holders in companies like BHP, Commonwealth Bank ... and we've bought some CSL as well over a period of time."

When it comes to philanthropy, Millner has remained loyal to the Royal Flying Doctor Service and Vinnies. He does not have a private ancillary fund, preferring to make ad hoc donations.

"My great-grandfather, Lewy Pattinson, helped donate the first plane to the Flying Doctors ... We've got very good relations with St Vincent's and of course we've got a soft spot in our hearts for Flying Doctors," he says.

Looking to the future, he cannot confirm if his son, Tom, will succeed him as the company's chair, saying it will be the independent board's decision.

"It will be up to the board to decide who becomes chairman. Whether Tom's chairman or sits on the board, he will still have some input into the business."

The younger Millner was the chief executive of the ASX-listed BKI Investment Company for eight years. About four years ago, he partnered to start a new Australian equities boutique, Contact Asset Management.

"They are growing that business nicely. He's put a good team of people together. And they're in that stage now where they're looking to go outside and do some other things," says Millner.

"And Contact is in the process of putting a fund together. So he's got some very good people at the moment. I mean, he now needs to grow that business into something bigger than what it is at the moment."

Millner and his son's initiations to WHSP business were similar. Both went and did their own thing (the older Millner as a stockbroker and then a farmer, the younger one studied industrial design at the University of Newcastle), before expressing interest at their family meetings in Canberra – Robert to his uncle Jim, and Tom to his father.

"It was very similar to my upbringing. There was no pressure on me to come into the business. I never mentioned to Tom that we'd like him to come in and step into the business," he says.

"He went to university and then worked for a while and then he said to me, you know, he'd like to come and try his hand."

Both are also the eldest of their generations. "I guess being a head of the next generation I will always have responsibilities. The same as Tom, he's the oldest in his generation as well. So there's a lot of responsibility on us," says Millner.

How will he spend his time when he does retire?

"I'll be well occupied. I've got plenty to do and I've also got the family investments to look after."

"Investing in equities is a very easy, good way for people to run their money"

HAYDEN BROTCHIE

Q&A

Luke wants a better return on his offset savings so …

Gold shares are an alternative

Q I'm wondering where to move some of our cash, which is in our offset account, along with our monthly savings. While I appreciate the safety and guaranteed rate of return, it doesn't seem to be the best way to grow this money into something more meaningful.

I'm 41 and my wife is 35; we have two young children and are planning a third. I work full time, earning $155,000pa plus a bonus structure, and my wife works part time, earning $30,000pa. We owe $351,000 on our mortgage with $60,000 in our offset account (we purchased a car a year ago and dented these savings) and a property value of $750,000. We also have some gold and silver bullion with a value of $19,000 at current prices. This has grown considerably in value since we began buying three years ago.

We're able to save around $2500 a month, so should we continue to just save and buy more gold and silver or look to other assets such as exchange traded funds (ETFs), individual stocks or a managed fund? Everything seems terribly overvalued and no investment seems to make sense to me at the moment.

In this very strange Covid-19 world, Luke, not a lot makes sense to me! However, I get your point about saving via an offset account. I imagine this is effectively earning you around 2.5%, which is a good, safe return and not to be sneezed at. But history says you should be able to earn better returns than that, though with more risk.

I am relaxed about your buying gold and silver bullion, though my own preference is to look at shares in gold-producing companies or a gold-focused ETF. One thing we can do about uncertainty is to diversify our investments, so I do like the idea of you adding this to your portfolio via low-cost ETFs or a managed fund.

Buying individual shares is also fine, providing you have the interest and the time to do so.

First up, though, in your shoes I'd be maxing out salary sacrifice into super. You are a high taxpayer and the 15% tax rate on super contributions from your salary is a huge saving on the amount of tax you pay on money you take home. A good super fund will also give you low-cost access to Australian and international assets.

Despite the global volatility, my view is to keep investing in a sensible, diversified fashion.

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*.

Paul is building a new home and has to make a choice …

Rent out the townhouse or sell it to reduce debt

Q We have recently purchased a vacant block of land and are going to build a new home to live in. The total value of the land and house is about $900,000 and it should be completed in June 2021. We paid off our current townhouse, valued at $630,000, a couple of years ago. Our yearly combined income is $200,000 and we have savings of $100,000.

Once the new house is completed we will move in and our townhouse will be vacant. We are contemplating selling the townhouse to pay off the majority of the mortgage and having a small amount of debt; or keeping the townhouse as a rental and providing some income while still paying strata fees and other bills associated with the property. What do you think would be the smartest option with our townhouse?

Good question, Paul. This is an issue that many of us will face at some stage in our lives.

With your income, savings and this very low-interest-rate climate, you could certainly afford to hold the townhouse. We can safely assume interest rates will remain low for some time, so in my mind this leaves us with two main variables.

First up are your job security and family plans. That, of course, only you can determine, but you should consider the impact of a job loss or reduced income if a family is something you are planning.

Secondly, we need to look at the rental and growth prospects of your townhouse. It sounds as if you have owned it for a fair while, so that should be a useful guide to its investment potential, but pretty obviously it needs to be in an area with good growth prospects and all those critical features such as public transport and access to schools, jobs, medical services, food and entertainment.

It sounds like you have paid it off in full, which is great, but I do encourage people to save via an offset account. The downside here is that you may have no mortgage on your investment property and a non-deductible mortgage on your new home. In different times with higher rates of interest this would be a bit of a problem, but less so now with low rates. If you have used an offset account, you can, of course, use that for the new home, keeping tax-deductible interest on your investment property.

My view is that you should always try to hold good property if you can, but you will need to consider this in the light of your personal situation.

Chris is considering fixing his mortgage but …

Loan rates could go even lower

Q Is now a good time to consider fixing interest rates? My preference has always been a variable rate, but it appears the Reserve Bank doesn't have much room or appetite to move lower.

I am currently on a variable rate for all my three property mortgages; but it appears I can save a further 0.55% by fixing one or more of the loans for the next one to three years.

I was then hoping to place the interest I saved into super via salary sacrifice (up to the threshold).

Considering I have a good-paying "secure" job, is this a wise choice?

Chris, I have argued against fixing home loan rates for nearly 40 years. The uncertainty has been all too hard. But you make a very important point. The Reserve Bank is clearly not in favour of negative rates of interest, so how much lower can they go?

Frankly, in this climate I suspect anything can happen, so my inclination would be to get the lowest-rate variable home loan I could and pay it off via an offset account as fast as possible.

With some trepidation, though, I do see the value in saving another 0.55% with a fixed-rate loan. The question is, if the world fails to recover in the next year or so, will rates go even lower?

With fixed-interest loans sneaking under 2%, it is hard to see how you could seriously disadvantage yourself, but maybe a bit of a fence sit and doing half fixed and half variable is as good a guess as any!

Q&A

Ang is planning well ahead and is looking at ...

How to save for a big trip around Australia

Q In about six years my husband will turn 60. He will likely retire from his current role. We are hoping to then buy a caravan and travel around Australia for a year. I have estimated we will need about $100,000, which equates to saving about $650 per pay (fortnight) to achieve that goal.

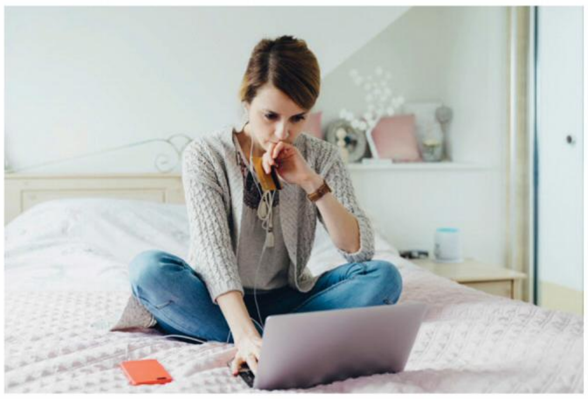
He has a gross income of $80,000, half of which is non-taxable due to the nature of his work. With deductions his taxable income is $35,000. I work casually and my taxable income is about $25,000.

Should we be saving this money in super so it can be withdrawn tax free when he is 60? If so, should we make concessional or non-concessional contributions? If not, where is the best place to invest this money?

That sounds like a great idea, Ang, and I am delighted that you have a plan to cover the cost of the vacation well in advance of you heading off.

If the plan is for your husband to retire at 60, super is certainly a good place to invest over the next six years. As you know, you and your husband can salary sacrifice $25,000 into super, including your employer contributions. Our tax system sees tax cut in at a taxable income of $18,201 at a rate of 19%, plus Medicare levy. With a 15% rate of tax on your contributions, there is a decent tax advantage in you saving via super. The other plus is that a decent, low-cost super fund will give you a well-diversified portfolio.

I'd check your situation with your fund, but based on what you have told me, I suspect super is the way to go. While you are in planning mode, please also make sure you have a financial plan for when you return.



Josie could boost her super but ...

At 25, you can take more risk

Q I am 25 and on an average income. I save $1000 a fortnight and salary sacrifice $500 into my super. I've put $20,000 into ETFs this year and I also have other savings I'm intending to feed into ETFs. As I'm young I think I could maybe take on some riskier investments. What would you suggest for someone of my age? Should I just stick to ETFs? Or expand into other areas?

That is a great savings effort, Josie ... good on you! Putting aside $25,000 a year at the age of 25 is brilliant.

My view is to stick exactly with the plan you have. Super is not as useful for a 25-year-old. Compound returns are great, but you can achieve these from outside super. You will have employer contributions going into super anyway and for you retirement age is light years away. Who knows what the super rules will be in 2060!

You could add more risk through gearing and I would not be unhappy with a modest gearing plan into ETFs, but the key for your future is less about where you invest and more about keeping up the savings discipline. What I do like about your current strategy is that ETFs are highly liquid. You are young, and many things will happen in your life and your career. Liquidity is very important to allow you to adapt to change and opportunities.

Good on you. What you are doing will set you up for a successful financial future, but do remember to have fun along the way.

Siblings Vincent and Paolo need expert property advice on the ...

Best way to add to portfolio

Q We have an investment portfolio of five properties (four in NSW and one in Queensland) structured through a discretionary trust.

We are looking to invest in two properties in Sydney this year by refinancing part of the portfolio and using the available equity. However, we are uncertain as to whether to purchase these properties through the existing trust structure or in our personal names. Benefits of buying in our names would be no land tax and access to losses from the ATO.

Are you able to shed any light on an investment direction moving forward?

Interesting question, Vincent and Paolo. I do my very best to give honest, commonsense answers and while I do a bit of fence sitting now and again, I rarely bail out altogether. But that is exactly what I am going to do here.

My knowledge of tax around investments is pretty solid, but I am not a tax expert. Your question is short and concise, but there are just so many questions I would need to ask you.

We would have to chat about your jobs, your income, other investments, your dependents and long-term goals. I would have to really understand you both before we moved to advice. I'd also be interested in understanding why exactly you want to go from five to seven properties?

So, in lovely Aussie vernacular, I'm going to pass the baby on this one, right into the hands of your tax adviser. You need a deep conversation to get the right answer.

If I was 20 years younger, I'd greatly enjoy doing this with you, followed by a more philosophical chat over dinner and a glass of red.

But my time for this has past. Your challenge is to find an adviser who can see past the technical answers and spend the time with you both to get the personal understanding needed to give you really solid advice for your situation.

Rae wants to ensure that under the deposit guarantee ...

Kids' money is protected

Q After reading your answer in the August issue regarding the government's deposit protection scheme, I'm asking a question on behalf of my daughter who lost her husband suddenly to kidney failure seven years ago.

She was left to bring up three young children (three months, two and three years). The children each have an individual account in their own name as well as joint names in another account under their mother's main bank account.

Each child was left a considerable amount in their joint account from their father's insurance. Does the $250,000 guarantee apply to each individual child with their third of the joint account as minors? Is their mother covered under the scheme? Or are all four persons covered by the $250,000 together?

In such a sad situation, Rae, it is hard to say anything positive, but life goes on for your daughter and your young grandchildren and I am really pleased that there was a considerable insurance payout.

Here the news is positive in regard to the government guarantee. Your daughter and each of her children are protected up to $250,000 each in their bank accounts. In fact, they could open an account with any approved institution and have another $250,000 protected there as well. Some people go to great lengths to hold parcels

of up to $250,000 in a number of banks as each of these separate accounts is protected by the guarantee. In the case of a joint account, each account holder is entitled to the $250,000 guarantee.

My very best wishes and thoughts go to your daughter and her three young children.

SMART SPENDING

Destination Queensland

As border restrictions begin to ease, many of us are emerging to enjoy the warmer months and setting our sights on sunnier regions such as northern Queensland. If you're lucky enough to live in Queensland, South Australia or the Northern Territory, you can already make the most of the unique experiences the sunshine state has to offer.

FIVE THINGS TO DO

1. WALK: *Mossman Gorge*

Tucked away in Daintree National Park, the Mossman Gorge Centre offers self-guided walks through the rainforest, gorge and surrounding river and creek. When restrictions lift, the Ngadiku Dreamtime Walks are guided tours that allow you to explore the life-long stories and inspiring traditional knowledge of the local Kuku Yalanji people.

2. KAYAK: *Noosa Everglades*

In the Great Sandy National Park, the everglades play host to one of Australia's most diverse ecosystems. They are one of only two everglade systems in the world – the other is in Florida. Experienced best by kayak, the region is home to a large eastern grey kangaroo population.

3. SAIL: *The Whitsundays*

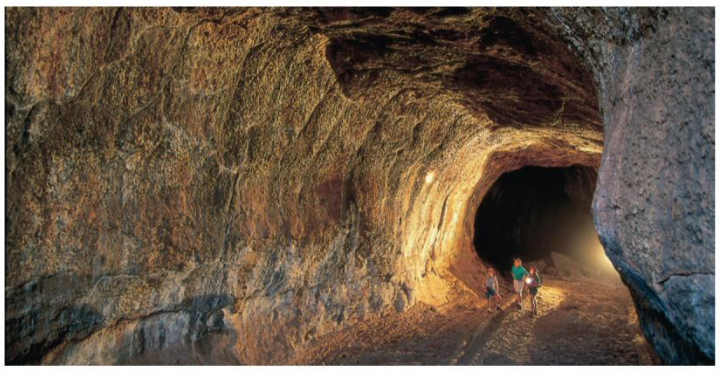
Bareboating holidays (you skipper yourself) provide a chance to experience the magic of the Whitsundays at your own pace. Learn to sail with an introductory course before chartering your own boat and you can then opt to have a skipper join you for the first few days until you're confident about steering your yacht alone.

4. SLEEP: *On the Great Barrier Reef*

In Australia's first underwater accommodation, you can enjoy floor-to-ceiling views of the spectacular watery world from the comfort of your bed at Reefsuites. You can control the in-water lights to maximise night-time viewing. A live-in chef prepares made-to-order cuisine with a focus on local produce.

5. VISIT: *Undara Volcanic National Park*

Hailed as the most prolific and best-preserved lava tube cave system on the planet, tropical North Queensland's Undara Experience is four hours' drive from the palm-fringed beaches and idyllic islands of the Great Barrier Reef. Camp in Undara Volcanic National Park, part of the McBride volcanic belt, which is punctuated by no less than 164 volcanoes, vents and cones, some carved out more than 190,000 years ago.



PHOTOS: TOURISM AND EVENTS QUEENSLAND

DRIVING PASSION

Make sure the price cap fits

The new car smell has only just worn off and you're already driving to the dealer-owned service centre for your first check-up. Chances are you know what it's going to cost.

This is because you've likely entered a capped price servicing program when you bought the new car. If your dealer didn't explain it to you, capped price servicing is where the dealer (through the manufacturer) locks in the future price on your services over a nominated time – either by years or by kilometres and, in some cases, over a lifetime.

Most mainstream car brands and dealerships offer capped price servicing nowadays, although some call it by a slightly different name. One of the bigger benefits of the program is that it has stopped dealerships offering inconsistent pricing and profiting from ridiculous margins.

There are car manufacturers also offering a service where, once capped price servicing finishes, you enter your car's VIN number and they'll quote you the service price. Alternatively, brands that don't offer capped price programs may offer pre-paid servicing, where you pay for your servicing years in advance at the time of purchase.

Locked in ... Hyundai offers both pre-paid and lifetime service plans.

These capped price and pre-paid services aren't by any means perfect, but they're convenient. They generally lock you in to have the car serviced at a brand-owned garage for the term of your warranty or nominated service time frame.

The Australian Automotive Aftermarket Association has long advocated that car dealerships and workshops should be better at detailing what capped price servicing entails. In 2017 it produced a list of questions you should ask before entering into a capped price agreement. These include:

- Is the service price capped or can it be increased?
- Does it include a full safety check, or is this an additional charge?
- Will additional parts and services be required to maintain the new car warranty and, if so, at what cost?
- Is the capped price servicing built into the purchase price of the car? If so, do I have the option of taking this as a discount off the sale price?
- Does the capped price include all parts and lubricants? If not, how do I know these will not be supplied at an inflated cost?
- How long am I locked into a dealer-only service under the program and are there any penalties if I miss a scheduled service?

DARREN SNYDER

EXTRAVAGANCE

Bon appétit!

Not as good as a trip to France, but this Le Creuset oval casserole in Marseille Blue will instantly transport you to the French Riviera. It also makes a stunning centrepiece for your dinner table and is generous enough to feed a crowd.

How much: $619 (29cm casserole)
Where: lecreuset.com.au

WINE SPOTLIGHT

2018 Mike Press Shiraz $15

After working for more than 40 years in three of South Australia's largest wineries, Mike Press "retired" to make some of Australia's best value wines. This is Adelaide Hills shiraz from 20-year-old vines in a single vineyard: restrained, wonderfully smooth, black plummy flavours that slip down the throat. That gentle finish lingers.

SPLURGE

2018 Cullen 'Diana Madeline' $135

Here is an outstanding vintage of an iconic Margaret River cabernet merlot that has paid tribute to regional pioneer Di Cullen since 2001. It offers delightful contradictions: immediacy while gently firm tannins hint at ageworthiness; finesse and elegance alongside power and depth. Drink now or cellar carefully for 10 or more years.

PETER FORRESTAL

SMART SPENDING

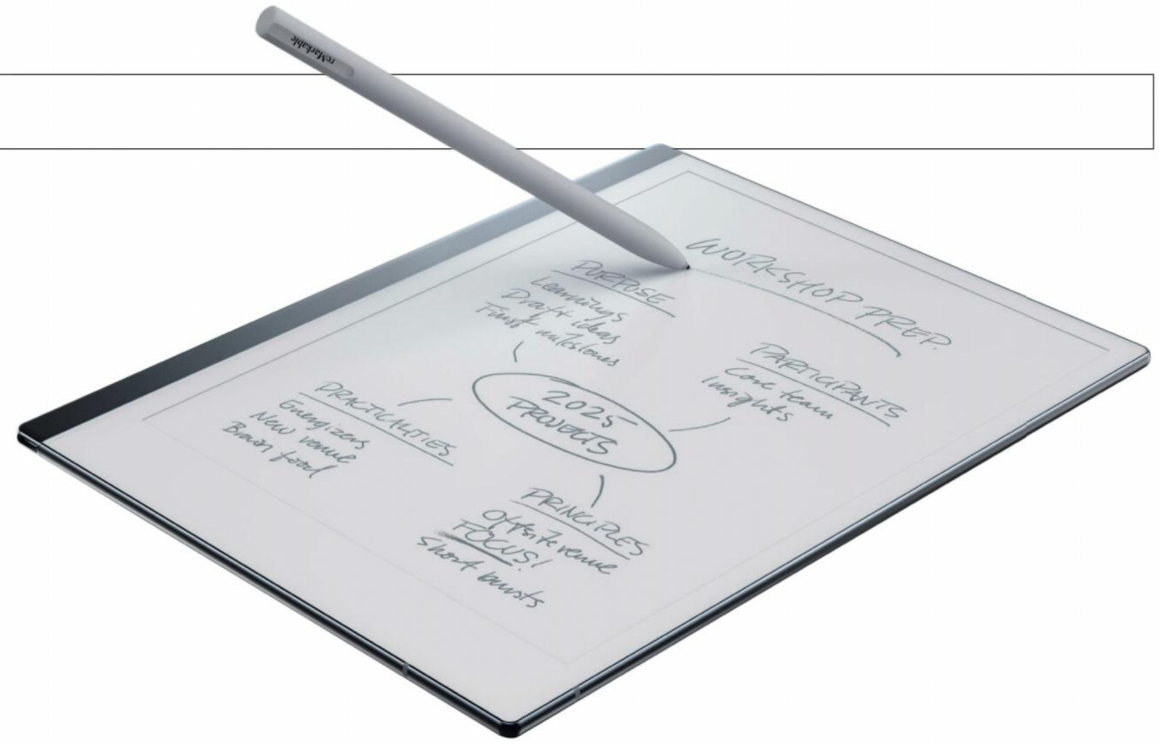
SMART TECH

Upgrades can set up a happier home

The Covid-19 pandemic altered consumer spending patterns all around the world as people cut back on discretionary purchases or simply couldn't spend money on things they would otherwise enjoy (like eating out and travel).

During these tough times there have been some winners, though. Tech companies and tech retailers have prospered in the crisis, with consumers spending big during the shutdowns on things like IT gear for working from home or digital home entertainment services to make staying indoors more bearable week in and week out.

While we all look forward to a brighter, less-restricted future, the situation does highlight how outfitting your home tech set-up with a few choice upgrades can help to make work and study at home more pleasant or productive. This month we're looking at three such gadgets, but everybody's needs are different, of course. If you've felt that something in your own tech set-up made the past few months even more arduous, what is it? If you're home-bound and spending less on other things, now could be a good time to upgrade. PETER DOCKRILL



What is it? Linedock
How much? From $US349
Pros: The trend towards making notebooks ever sleeker and smaller has come at a cost: fewer ports for connecting computers to everything else. One fix is USB hubs, which give you back connectivity but can be cumbersome in use. The Linedock solves that issue by hiding the entire dock in a slim slate that slides under your notebook while offering nine ports, a built-in battery and even SSD options.
Cons: Only supports Mac notebooks at present.
linedock.co

What is it? reMarkable 2
How much? From $679 (launch offer)
Pros: What would happen if you combined the e-ink display of a Kindle with the interactivity of an iPad? The reMarkable 2 offers a paper-like surface that can be used with a special pen for digital note-taking or drawing, either on blank sheets or documents. You can also convert handwriting to digital text and browse the web, and all with two-week battery life.
Cons: Limited "tablet" functionality, but a dream device for pen-and-paper fans.
remarkable.com

What is it? Apple iMac 27-inch (2020)
How much? From $2799
Pros: After 15 years of Intel chips, Apple will soon make its own Mac processors, meaning this new 2020 iMac might be the last of its classic kind. This particular design is several years old but the 2020 refresh brings numerous component improvements, including new CPU, RAM, SSD and graphics options, plus a new 1080p webcam.
Cons: Lots of customisable upgrades, but they're not cheap: you can spend over $13,000 just on the hardware.
apple.com/au

GIVE IT UP

World Polio Day

What is it? World Polio Day occurs on October 24 and is a Rotary initiative that unites people globally in the fight to end polio, an infectious disease from which one in 200 people becomes paralysed. It's transmitted through contaminated water or food, or contact with an infected person. Rotary International began its campaign to end polio in 1979 and, with its partners, has immunised more than 2.5 billion children in 122 countries against the disease.
Where your money goes: Funds raised on the day and throughout the year are donated by Rotary's partners, such as the World Health Organisation and UNICEF, which will undertake polio eradication activities. In 2019, Rotary donated nearly $50 million to these partners. Afghanistan and Pakistan are the two countries that continue to report new cases of polio, but if it is not fully eradicated a global resurgence could see as many as 200,000 new cases each year for the next decade, according to Rotary.
How to donate: Visit endpolio.org/donate and fill in the form. You can donate once or set up a recurring donation. As at August 25, the Bill & Melinda Gates Foundation was tripling contributions.
DARREN SNYDER

WEBFIND

BIKELINC.COM.AU

Bikelinc is a free network for Western Australian residents to register their bicycle so that the police and community can help find or return the bike if it's lost or stolen. More than 9000 bikes are stolen each year in WA, and now more than 13,000 bikes are listed on the network. DARREN SNYDER

CASE STUDY

Our goal is to retire by 40

My husband and I, aged 32, have two young children and will soon pay off our mortgage. We have two rental properties worth $650,000 each (with 80% loan to value ratio), with rental income of $1330 a week. After paying off our home loan, should we pay off the rental properties as soon as possible? If we do this, we could be FIRE (financially independent, retire early) by 40. Or pay off the properties slowly (and benefit from negative or neutral gearing) and add another investment? I'd appreciate your wisdom and knowledge.
Anita

About the only plus in turning 65 in July this year, Anita, is that I truly qualify from an age perspective to supply wisdom and knowledge. Experience does help and this is a key factor in developing a sense of perspective about financially sound decisions. But you can also get this from an early age by simply taking an interest in the history of money.

I don't mean history in terms of how we developed a modern monetary system, but we all need a finely tuned money "crap detector". Experience, plus a bit of knowledge, will allow us to realise there is a pretty simple framework around money. The concepts you hear regularly, such as "risk equals return", "it is time in the market, not timing the market" and, my personal favourite, "if it looks too good to be true it will be" are actually small pieces of wisdom.

What I've learnt when it comes to money is that wealth creation is the process of taking small amounts of money on a regular basis and investing them. We humans can easily spend 110% of what we earn, regardless of how much we earn. So whether you do this using a budget or whatever works for you, the capacity to save is key. Sure, some may win the lottery, have spectacular business success or a large inheritance – that is great – but most of us won't. So it is back to basics.

PAUL'S VERDICT:

Pay off the two rental properties and you can be financially independent

But the risk is having all your eggs in one basket

The question, of course, is how this applies to you. So I'll draw on my four decades of experience and do my best.

What strikes me is that you can achieve your goal to be financially independent by 40 by paying off the rental properties. This is a pretty predictable path and not to be sneezed at. It really epitomises the "save on a regular basis" plan, which really does work. With your home loan gone, I can see how you can pay off both investment property mortgages in eight years and still have employer contributions going into super.

What worries me is that while you are doing really well with your money, you are nearly 100% reliant on property for future income. Diversification is such a fundamental factor for any investor.

Look, I get it. With a steadily growing population and a very finite supply of land, well-located property has been a cracker for homeowners and property investors for well more than 100 years and in much older civilisations and centuries. But what if the world changes? As we have seen with Covid-19, basic market fundamentals can change. It is not just Covid-19. History shows us that over-reliance on any one asset class is just not wisdom.

Plagues, nuclear radiation leaks, such as in Japan after the tsunami, wars, environmental change and economic upheaval can happen and could impact property, shares or any other asset. A sad example is the many millions of retirees around the world pinning their hopes on good returns from safe term deposits. They remain a safe asset, but the returns are getting close to zero. In Australia, I have no particular fears about the prospects of well-located property. But experience tells me there are no certainties in life.

In your situation, I would go with a more diversified strategy. I would look to increase my equity in the two investment properties via an offset account, giving me access to the money if I needed it. I'd be topping up super and also looking at investing outside super in a low-cost, global managed fund or exchange traded fund.

Whatever modest wisdom I have acquired tells me to expect the unexpected. So I would not like to base my financial independence on any one asset class, be it property, shares or interest-bearing securities. You should be proud of the fantastic effort to pay off your home. Buying two investment properties is also fine, but to better secure your financial independence in times to come, please spread your risk by building up assets outside property.

I'll leave you with one very well-known piece of wisdom: don't put all your eggs in one basket.

My very best wishes to you, your husband and your young family.

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.

YOUR SUPER LIFT OFF

On track for a great retirement

THE JIGSAW PUZZLE OF RETIREMENT has many pieces. Finding the centre piece will be a different journey for you than it will be for me, for various reasons and circumstances.

Speak to some financial experts and your retirement strategy's rocket fuel lies in super. We're often told there's no better gift than compound interest – the earlier you start fuelling the super engine, the bigger the present. Super must play a significant hand in retirement and this feature shows you how.

However, other experts will tell you that retirement strategies begin and end with your home. But with more retirees having mortgages, we explore what is realistic and can be achieved. This can also include using your home as part of your super strategy or for investment purposes.

Finally, Covid-19 has presented us with an investment dilemma.

While Aussies are more bullish with their investments on the road to recovery, they're also likely to take on more risk and this will set an interesting platform for future retirees – inside or outside of super.

If you still have a mortgage, there's no need to worry

PROPERTY
Darren Snyder

In August 2019, the Australian Housing and Urban Research Institute (AHURI) found that since the mid-1990s, the proportion of Aussies carrying a mortgage into retirement had more than doubled to 45%.

While more of us are holding a mortgage between the ages of 55 and 64 than in decades past, that's not the institute's biggest concern. What's more worrying is the level of debt we're carrying into retirement.

The study found that for older Aussies, the mortgage debt-to-income ratio tripled between 1987 and 2015 – from 71% to 211%. There are several contributing factors, but one of the main ones is that house prices tripled in this time and income only doubled. It meant average annual mortgage repayments went from $5000 to $17,000 and more than 25% of older mortgage holders were making loan repayments that exceeded 30% of their disposable income.

Easing some of this concern, the institute says that wealth held outside housing (think super and shares) has seemed to act as a reserve, allowing those at risk of loan default to continue making payments.

Ways to pay off the debt

James McFall, managing director and financial adviser at Yield Financial Planning in Victoria, says in his experience most retirees and pre-retirees would prefer not to have a mortgage. "It's ideal that you don't have one ... so you have to plan around that preference," he says.

If you do find yourself in retirement with a mortgage, there are a few questions to ask yourself. The first is whether you're still in a position to pay it down. McFall says there are several scenarios where you might be in that position.

You may have accumulated a large amount of super and, combined with pension payments, there's likely to be a viable strategy to pay the mortgage down over time. Or an option might be to make a lump sum withdrawal from your super and pay off the debt.

McFall says there might also be assets in investment vehicles like trusts or in other property that is paying a good income and able to support your mortgage needs. This works especially if your preference is not to sell those assets.

If you want to retain the home loan in retirement, the most important thing you can do is have a plan, says McFall.

When developing your plan it's important to think about the "what ifs": for example, what if you're caught with your home reducing in value or if interest rates increase (albeit unlikely in the near future).

The AHURI study found that, in 1987, a 10% decline in house prices would have wiped out 11.5% of your equity in the home. By 2015, that percentage had lifted to 14%. Thankfully, though, history also tells us that most older mortgage holders have remained in positive equity territory (they owe less on their dwelling than what it's worth).

When deciding to retire with a mortgage, McFall says you're making a choice to trade off the benefit of time by choosing not to work for a lower income and you should weigh up the impact on your lifestyle and budget. "You need to balance out what's most important and understand there's compromise involved in everything. There are few people that can have everything, so recognise there's cause and effect with your choices," says McFall.

For his clients, McFall says having a mortgage in retirement will include any number of strategies including debt reduction, debt repayment (including from other sources) or downsizing.

Holiday or investment home

McFall says when it comes to holiday homes and retirement, there are several considerations and it's best to identify the property's purpose.

Generally a holiday home can be something that's been in the family for years and had its peak time as children were growing up, or it can be a property people will buy specifically for retirement.

Brett Schatto, chief executive and financial adviser at Pride Advice, says if you have a holiday home (or an investment property), it's going to be assets tested to determine your eligibility for the age pension. Your principal place of residence isn't tested.

"It's an interesting discussion with people to say you could have a $5 million house and qualify for full Centrelink, but if you've got a $1 million house with a $1 million investment property, yeah, you've got $2 million in property assets, but you don't qualify for Centrelink. It's an interesting take on how your own home is not included but investment properties are," says Schatto.

He finds people who hold onto their holiday homes are increasingly doing so for their kids.

"It's the children who will want the parents to hold onto it because they can take the grandkids there. It's by no means a bad thing but it is a cost you need to weigh up in retirement."

McFall also acknowledges this, saying one of the first things you need to evaluate about your holiday or investment property is whether it still offers you value. Are you getting the same benefit you once did? And do you see it as an important part of your retirement?

Both advisers point out that holiday and investment homes can quickly give rise to maintenance issues. You need to assess whether you're prepared to pay the additional costs, or if you would consider making it a rental asset to help to pay your (and the property's) way.

"You need to weigh up the financial implications of keeping it as a non-income-producing asset. If you're getting the lifestyle benefit out of it, you need to consider whether it's also forcing you to draw down on your super more rapidly [to pay for maintenance, etc]," says McFall.

"You might be draining your tax-free assets in favour of retaining more in your taxable assets in your own name. The impact of holding [a holiday property] is that people are [potentially] draining their other investable assets."

He says when it comes time to selling the holiday house, it's important to remember that they're usually located in tourist-popular destinations and cyclical in their return profile. This means you want to give yourself a five-year window to think about and prepare for selling as "you don't want to be in a position to force-sell your holiday house and sell in any market".

A benefit of having a financial plan, says McFall, is that the planner can identify whether it's likely that you're going to need to sell your property in the first place. It's also about giving you a time frame estimate and how long your funds may last. Then you can determine what's important to you in terms of how long you want to hold onto any property.

Time to sell (or buy)

One of the age-old questions we receive at *Money* is whether people are too old to buy or invest in property. In both financial advisers' experience, it's rare for older retirees to invest in property – maybe they would for a carefully considered estate planning exercise, but it's not common.

Generally, you need a five- to 10-year time frame to see an investment property through its cycle, and retirement is not the time to concentrate on such plans, say McFall and Schatto.

"If you're going to invest in property, you need to ask yourself why. Why are you taking on debt to buy something in retirement?" says McFall.

The first question he would ask is whether the client is comfortable with debt. As a rule, people's risk profiles start to become more conservative as time goes by. They've got a shorter time frame for earning an income and, therefore, riding out any bumps. They've got more assets to lose as well.

Gearing and borrowing is a high-growth strategy, and you'd be borrowing into an asset that is costly to buy and sell.

However, buying property and moving between properties (to downsize or upsize or for other lifestyle choices) is a separate discussion.

Schatto says property, especially the family home, can become the central point in framing discussions about retirement planning. While people are connected to, and often want to stay in, the family home, he says thought should be given to aged care accommodation options and downsizing.

"Downsizing doesn't mean freeing up cash. It might mean selling your suburban house on a

large block of land and buying an apartment [for easier access and less maintenance]," he says.

"There's also nothing wrong with selling to go into a retirement village."

He says a lot will depend on your health, too. Depending on how that is, buying another property can become just as risky an asset as shares.

McFall comes back to at least a five-year plan when it comes to selling your property.

"Let's say you've got your super and you've got your money elsewhere and – on balance – it looks like you can hold your home until you're 80 years of age. And at that time you're going to need to sell it and release the equity to maintain your income needs. What we would be advocating is that you have at least a five-year window – so by the time you're 75 or sooner you should be realistically starting to think about selling and giving yourself time to find a good point in the market," says McFall.

What to do with the proceeds

There are numerous options when it comes to allocating your money, when you're selling all or part of your property in retirement.

Brett Schatto says putting the proceeds of your property sale into superannuation is a legitimate strategy, but it's not always the right answer. If you're doing it to commence a tax-free income stream, it has to be weighed up as to whether it's more expensive than investing it yourself or saving it somewhere else.

"If you're going to sell your home and downsize, and then use those excess proceeds and put them into super, that money under age pension age is not assessable. But as soon as you're 65-67 and are of age pension age, money in super is assessed," says Schatto. "It can actually make your assets test even worse."

He recommends caution if you're thinking of downsizing before you turn 65 and wanting to put that money in super. You might trap these excess funds in super until age pension age and then it forms part of your assessable income, whereas your principal place of residence isn't included in the assets test.

Once you do turn 65, Schatto says the downsizer contribution rule becomes one strategy among many when it comes to property. If you meet the eligibility requirements, you can contribute up to $300,000 into your super from the proceeds of selling your home. But, as he mentions, this then becomes assessable for the age pension. (See "Free Kick" for retirees, page 68, for more information.)

There are also other options, and ones to consider especially if you're keen to stay in your home.

"A lot of people don't talk about the pension loan scheme," says Schatto.

The pension loan scheme (PLS) is a federal government scheme that allows you, if eligible, to borrow against your home through a reverse mortgage. You can use the equity in your home to borrow up to $36,000 a year for a single and $54,000 for a couple.

"If you're getting $500 a fortnight [on the pension], you can get up to 150% of this through the PLS, and the loan is secured against your house as a reverse mortgage," says Schatto.

He says if the motivation is to have more income in retirement and you don't want the hassle and cost of moving house, the PLS could be one answer.

The tax office also recently ruled that the one-time downsizer super contribution can also come from disposing of an interest in your own home. Fractional property investor DomaCom provides a platform for doing this.

It works like this: you sell part of the equity in your home to an investor, via DomaCom, in return for a lump sum or staggered payments. A 4.4% service fee is also charged, which is split between the investor and the platform.

As the homeowner you are essentially liquidating part of your house into cash. The outside investor then owns the equity and receives yield from it through the service fee as well as a proportional share of any capital gains should the house be sold in future.

There are risks involved in disposing of an interest, including the need to periodically sell part of further parcels of equity to fund the service fee, termination fees and a higher buyback value should you wish to repurchase the transferred equity.

McFall says while the ATO ruling is specific in its nature, he sees other applications where it could be of interest to sell some equity in your home.

"We've got a client who's living with her sister. And in that instance, if the sister that owns the property ideally would like to have some more money as part of her retirement assets, then she could sell an interest to the other sister and use the proceeds as part of the downsizer contribution," says McFall. "This way they've both got an interest in the property and it's liveable. If it works for both parties and doesn't require a broker, then it's something to think about." ■

Do the sums to make sure you can enjoy the retirement you deserve

SUPERANNUATION

Julia Newbould

The policy, research and advocacy body for Australian superannuation, ASFA, calculates two important retirement income statistics each year: the amount needed for a modest retirement and the amount for a comfortable retirement.

ASFA's definition of a modest retirement is not much above the poverty line and not much above the aged pension at $67 a day. The amount for a comfortable retirement is a little more.

"Comfortable means you can go to the club and have a meal or have a big overseas holiday every seven years. It's about having dignity in retirement, and having worked so hard your entire life you deserve not to worry about every penny," says ASFA deputy chief executive Glenn McCrea.

The standard is calculated by looking at what most Australians want in retirement, through surveying focus groups of retirees and pre-retirees, and also using the Australian Bureau of Statistics expenditure weighted box of goods and services.

The amount for a modest lifestyle, if you are a homeowner, is calculated as $40,000pa for a couple and $28,000 for a single person. For a comfortable lifestyle, it's $62,000 for a couple and $44,000 for a single.

"You need significantly more if renting," says McCrea. "It's worth acknowledging that around 25% of retirees reach the comfortable standard at the moment, but we want to get it to 50% by 2050. We need to lift the super guarantee system to 12% and have people contributing to their super."

He says this translates to lump sums of about $640,000 for a couple and $540,000 for a single person, receiving a little bit of pension and drawing down some super. "The key thing here is these are the benchmarks to aim for – check your balance, see how you're tracking and see if you have the capacity to chip in a bit extra."

Six ways to improve your lifestyle

1 REAP THE TAX BENEFITS

When it comes to retiring early, people get hung up on frugality – not spending now and diverting extra money into saving for the future.

Few people consider the simple tax effectiveness of super. By using your concessional contributions you can save considerable amounts of earnings through tax concessions. For example, someone earning the average income of about $90,000 (see case study, page 38) pays 34.5%, including the Medicare levy, as their marginal tax rate. This can be reduced to 15% – a saving of 19.5% – by contributing up to a maximum of $25,000 a year into super.

In simple terms, if someone saves $10,000 into their super, the tax concession means they are only paying $1500, as opposed to $3450. Further, earnings on income generated within super are only taxed at 15%, making it even more effective.

2 SMALL FEES MAKE A BIG IMPACT

Fees can make a significant difference to your super balance in retirement.

"Make sure you're conscious about fees and ensure you understand exactly what you're paying," says Kate McCallum, principal at Multiforte Financial Services.

"Don't just think 'I'm in an industry fund therefore it's cheaper' or 'I'm in an employer fund therefore it's cheaper' because that's not necessarily the case.

"The average super fee is now around 1.03% so you should be able to get your total super fees at 1% or less. A big part of this is to make sure you're not paying expensive investment management fees as well."

People may be attracted to a fund that doesn't charge admin fees but then there is an investment fee of 1.5%.

"I did an analysis for a prospective new client the other day and she said there's no admin fee, which she thought sounded good. But the investment cost had two components, which when added together were 1.06% and so even though the admin fee was being waived, the investment fees were high compared to others," says McCallum.

"It's worth doing the work as it can be a big drag on your money, particularly as your balance gets larger."

3 FIND THE SWEET SPOT

There is a level of superannuation you can have and still get the maximum aged pension amount. However, income and assets tests can be tricky; unless you're retiring imminently, you can't be 100% sure of the sweet spot.

"Anyone trying to retire without talking to an adviser is not making the right move," says Nicole Heales, principal at Nicole Heales Financial. "It's a massive change in your life that you need to get your head around, and you need to understand the pitfalls to use the system the best way.

"With Covid-19, everyone has dropped their costs of living but it's given us the opportunity to understand what life used to look like – we didn't always get on planes to go on holidays. That's how life's meant to be and it will be how life will look in retirement as well – what actually makes you happy and what do you need?"

According to Heales, the younger generation has become more conservative and there are 30-year-olds paying attention to their superannuation.

"I think 40 is a good age to start. It's when people start thinking, 'I'm not young anymore and I have 25 years to get this organised', and that's when the rubber hits the road," she says. "If you can get to people earlier that's even better – 35 would be ideal from a time perspective."

4 CHOOSE YOUR INVESTMENTS

When it comes to the investments themselves, McCallum says the main thing is not to blindly accept the default your fund might put you into.

"If you're young and can handle a lot of volatility, it makes sense to have a more growth-oriented portfolio, but if you are nearing retirement and you are still comfortable with the volatility, and you have some defensive assets, you don't have to go super conservative," she says.

"What we have to remember is that even if we retire at 60, the money may still have to last another 30 years. You need the extra grunt that capital growth assets give you. It's not that you should be in a growth portfolio, it's about being discerning and conscious of your investment choices.

"I think that the aged-based defaults can be limiting for someone who retires at 65 and needs their money to last. If you go too conservative in a relatively low-interest-rate environment, the risk is it won't last. You have to balance capital growth and level of volatility – you need a willingness to have risky assets and the ability to take the risk."

Nicole Heales says super is only one part of an overall financial plan, but since it's almost 10% of your employment earnings you need to ensure that the super guarantee is working for you.

Heales says she encourages people to think about how much they might need in retirement. For people on a salary of $110,000, putting in the current 9.5% might be enough, but you still need to consider whether $40,000, for instance, is enough each year if you're spending $80,000 now.

"I have friends who can live on $30,000 a year and some who can't live on $80,000 a year, and it also depends on whether you live in Sydney or a country town," she says.

A good rule of thumb is that people should be able to live on 75% of their current salary. "People are often thinking, 'I'll go on a cruise around the world, or go and live in Italy for a few months', but you always have to be realistic," she says. "If you draw down capital it's not an unlimited thing; you have to look at healthcare past a certain age, and where you will end up."

5 TIME IS MONEY

"If you're too conservative you do yourself a disservice by not making the most of the growth time," says Heales.

"MySuper options have ramped up the use of growth assets, which is important, but you need to make sure you're not overly conservative or aggressive as you're heading towards retirement. It all relates to your situation. If you are single at 55 with no dependants you can afford more growth assets. Because most of us are living to 85, we need to cover ourselves for 20 years.

"If you have too much money and own your own

The rule of 72 can help you plan

Many people don't appreciate the way super compounds, says financial planner Nicole Heales.

"When I do projections for people I use the rule of 72, which says if you can make 7% on your money in a super fund it will double every 10 years. And that's what we have to think about, trying to get them to understand the broad investment approach," she says.

The rule of 72 determines how long it takes for you to double your investment.

For example, if you take 72 and divide it by a rate of return of 5% it will take you about 14.4 years to double your money.

You can also use the rule the other way, to determine how much you need to earn to double your money.

For example, if you have $270,000 in super and need $540,000 to retire and you are earning 6%pa (after fees), then it will take 12 years (72 divided by six).

This can help you plan for retirement – if you are 52, you will need to keep working until you are 64.

home and you want to live on $60,000, you will have more than enough money and will tip yourself out of the pension space. But I wouldn't like to rely on government. You need to take as much control as you can. It's not just that rainy day – save for a sunny day, holiday, lifestyle."

The maximum pension for a single person per fortnight is currently $860 and with the aged supplement it's $944.30.

"If you don't own your own home you can't afford to live on that," says Heales. "It's about getting the maximum amount of pension and focusing on that."

It can be frightening when you're supposed to have $540,000 in super and a house paid off if you're single woman, says Heales. "If you're on $60,000 a year, how are you going to do that?"

Some fortunate people might get an inheritance, but Heales says we shouldn't rely on that but try to do what we can to help ourselves. "Maybe that's by reducing what you think retirement will look like."

6 LOOK AT THE BIG PICTURE

Heales suggests people need to take a holistic approach to how they are going to pay themselves and also to the various stages of retirement.

There's a stage of going out, undertaking activities and adventures while health is good and legs are still strong; then there is a time to hang out with grandkids; and after that retirees might start to run out of puff but still need to have enough money for the occasional road trip. After that, health considerations may necessitate a home downsizing or a move to a care facility.

"What I try to say to people, mainly women, is that it's all about a sense of security and being safe and not being kicked out of your house with nowhere to live. You also have to have enough to feed and take care of yourself," says Heales.

"The sad thing about this world is that super is set up to help people who are in the same relationship for 50 years and stay together. There are some people who will never have enough in super and they have to work out how to live on the pension, but what's more important here is to have a debt-free existence." ■

CASE STUDY

$1m nest egg: how it can be done

A $1 million super balance is commonly regarded as the amount you need for retirement, and while there are many professionals who disagree with this sum, it's not impossible to achieve.

According to the Australian Bureau of Statistics, current full-time average weekly earnings are $1714 ($89,000pa).

Financial adviser Kate McCallum says there are a few ways that someone with "average" earnings can ensure they have a secure retirement.

However, it takes more than just contributing the super guarantee (SG) each year, currently at 9.5% of total earnings. And it also takes more than just focusing on super – but it does keep super at the centre of the retirement strategy.

McCallum provides an example of a typical couple, let's call them Joe and Jane. They are both 25 years old, both working full time, earning the average wage and have $100,000 in cash, assuming they have both been working from age 20 and save $10,000 each a year.

They use their savings for a home deposit (in this example they haven't taken advantage of the Home Super Savers or other schemes).

At 30, they buy a median-priced home for $809,000 in today's dollars. They have average household expenses of around $74,300 (including average costs for two children of $17,000 a year, born at age 30 and 31).

At 30, Jane's income is reduced by 50% as she stays home with the kids.

On top of their household expenses and mortgage repayments (principal and interest), they contribute all their additional savings into super before tax.

"They do nothing fancy about putting more into his than hers. They split their super savings 50/50 into each of their super funds," says McCallum.

"By age 60 they fully own their home, their assets are about $1.5 million in today's dollars. Their income in retirement to age 90 is projected to be around $76,000 including the age pension, for which they become eligible later."

This assumes that each receives their SG from employment, plus savings, invests in a growth profile, with fees of 1%pa and returns averaging 6.8%pa, says McCallum.

"The reason this works in Australia is that we have mostly free public education, access to free public health and a good social security system," she says. The best chance of enjoying peace of mind when you retire is not through having the biggest income, it's the daily habit of prioritising saving as much as spending and then investing your savings with little cost and lowest tax."

Look further afield to make up for the reduced income

INVESTING
David Thornton

An online survey conducted by fund manager Schroders found that Aussie investors expect their investments to return 7.1% over the next 12 months and 8.9% over the next five years.

"Australians' return expectations have decreased from the unrealistically high level of 10.9% from the last survey. But overall, against a backdrop of market turbulence, expectations for income and returns are still high," says Chris Durack, Schroders chief executive.

While such returns are still possible, it would generally involve taking on more risk.

Simon Doyle, also from Schroders, believes that an 8% return in this environment would require investors to take on additional volatility of around 11% to 12%. "The net result of that to me is that expectations of 8.9% are optimistic. I think they are very optimistic, pie in the sky," says Doyle.

Taking on a little more risk might be inevitable under today's investment conditions, but that shouldn't be an invitation to abandon a responsible investment strategy.

Recent research by Calastone finds that 55% of Australian investors remain bullish – they have made new investments or are considering investing in the near future – while about a third (31%) have actively invested as a direct consequence of Covid-19, in a bid to capitalise on the market volatility.

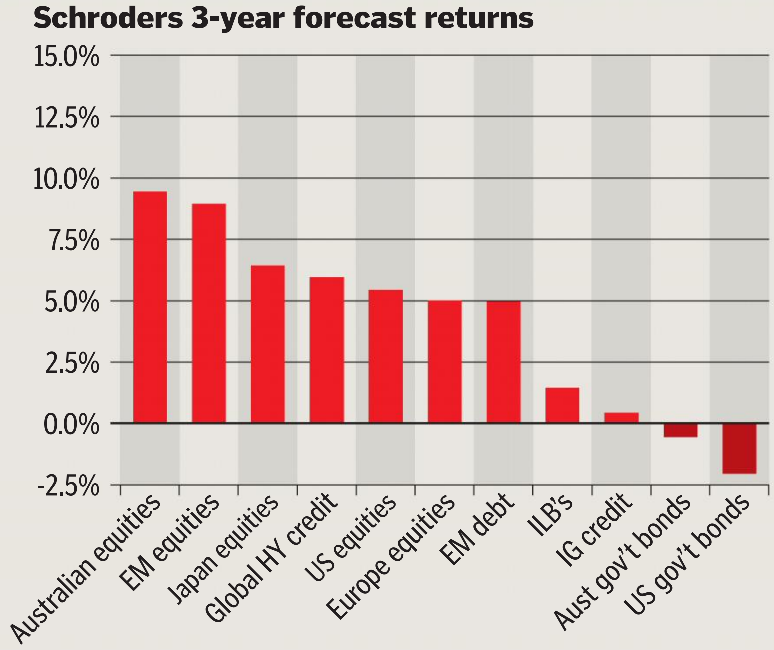
The risk warning may apply to millennials more than others. The study shows they are the most active age group, with 81% either investing since the Covid-19 outbreak or considering doing so soon.

"Investors are bidding up stocks because the returns on the stockmarket look least worst," says Alex Vynokur, chief executive at BetaShares.

"But this is not the time to be throwing caution to the wind. It is a time to be thinking about total returns. Income is an important component of that,

Returns: 10-years to June 2020

Schroders 3-year forecast returns



Source: Schroders

* Schroder Strategic Growth Fund

but make sure you're getting quality sources of income and returns."

Fixed Income

Fixed-income products, namely term deposits and bonds, have been squeezed by historically accommodative monetary policy, with the Reserve Bank holding the cash rate at a record low 0.25%.

At the same time, dividends have been slashed as companies struggle to deal with the fallout from the Covid-19 pandemic.

"We are now living through the lowest interest rate environment we have seen, and that is translating into real problems that Australian global investors are facing in constructing their portfolio and delivering an income stream for retirement," says Vynokur. "We're seeing low interest rate yields, low bond yields and low dividend yields."

This has made life tough for investors who rely on fixed income, especially retirees.

However, the current state of play can't be given the broad-brush treatment, at least when it comes to dividends. "We've heard a significant level of hyperbole about the demise of dividends since the Covid-19 pandemic took hold, but the truth is in a relative sense gross equity income looks even better as returns on cash products continue to diminish," says Don Hamson, from Plato Investment Management.

"Over the coming 12 months, Australian equities will continue to provide superior income compared to most other asset classes. Following the rate cuts in March, retirees relying on so-called safe assets, such as cash, bonds and term deposits, simply won't be able to pay the bills and we expect the cash rate to remain close to zero for at least the next two years."

However, dividends mightn't face the same fate.

"Fortunately for retirees, dividends actually remain relatively strong. Reporting season has presented some better-than-expected results for dividend income in parts of the market and retirees can benefit from franking credits if their share portfolios are managed on a tax-effective basis," says Hamson.

He points to iron ore and gold miners, together with consumer staples and some discretionary retailers, as some of the companies likely to deliver reliable income for investors over the coming year. "The world, particularly China, will need to spend big on infrastructure to recover from this pandemic-induced recession and infrastructure generally requires steel made from iron ore," he says.

The fall of banks and the rise of miners could represent a changing of the guard in the world of income-paying equities.

"Traditionally Australian investors have relied on the big four banks for income, but this paradigm has now well and truly shifted. In fact, right now I would say iron ore miners are the new banks when it comes to dividends. The banks are an example of why we believe simply investing in the index for income right now is futile and the case for active and tax-effective portfolio management has never been stronger."

Look for substitutes

All's not lost, though. There are a few other options to generate income at better yields than bonds and term deposits can provide.

Metrics Credit Partners, a non-bank lender, has two listed investment trusts and one direct investment trust, all paying better yields than term deposits or bonds. Metrics raises funds from institutional and retail investors, and then lends them out to corporate borrowers.

With the partial exception of hybrids, retail investors don't have easy access to corporate debt. It's a capital stable asset that can return relatively strong yields compared with other fixed-income products.

The Metrics Master Income Trust (ASX: MXT) shoots for a minimum return of the Reserve Bank cash rate plus 3.25%, net of fees, with income distributed to investors on a monthly basis.

It also has an Income Opportunities Trust (MOT) that invests in private credit, targeting a cash yield of 7%pa, intended to be paid monthly, with a total target return of 8%-10%pa net of fees.

Finally, it offers an unlisted fund with the same performance and fee structure as the income trust. It's less liquid than its listed counterparts, but investors don't need to worry about it trading at a premium or discount.

"Our asset class isn't subjective like equities are – all we have to do is allow the borrower to repay it," says Metrics managing partner Andrew Lockhart.

Exchange traded products (ETPs) are another good option that continue to gain popularity.

"We're seeing a strong level of support for products which are focused on higher quality," says Alex Vynokur.

One option in the BetaShares stable is the Australian Investment Grade Corporate Bond ETF (CRED), made up of corporate bonds, denominated in Aussie dollars, from domestic and foreign issuers. So it does away with currency risk.

"Investment grade" credit is high quality. Essentially it means the company has a history of paying its debts. At the other end of the spectrum are "junk" bonds. They have the potential to pay higher yields, but they're referred to as junk for a reason – they have a far greater risk of default.

At the time of writing, the corporate bond had a 12-month distribution yield of 4.6% with a running yield of 3.3%.

Closely related, the BetaShares Active Australian Hybrids ETF (HBRD) is made up of hybrid securities, which combine debt and equity. At the time of writing it's returning a net yield is 2.65% and a gross yield, including franking credits, of 3.7%.

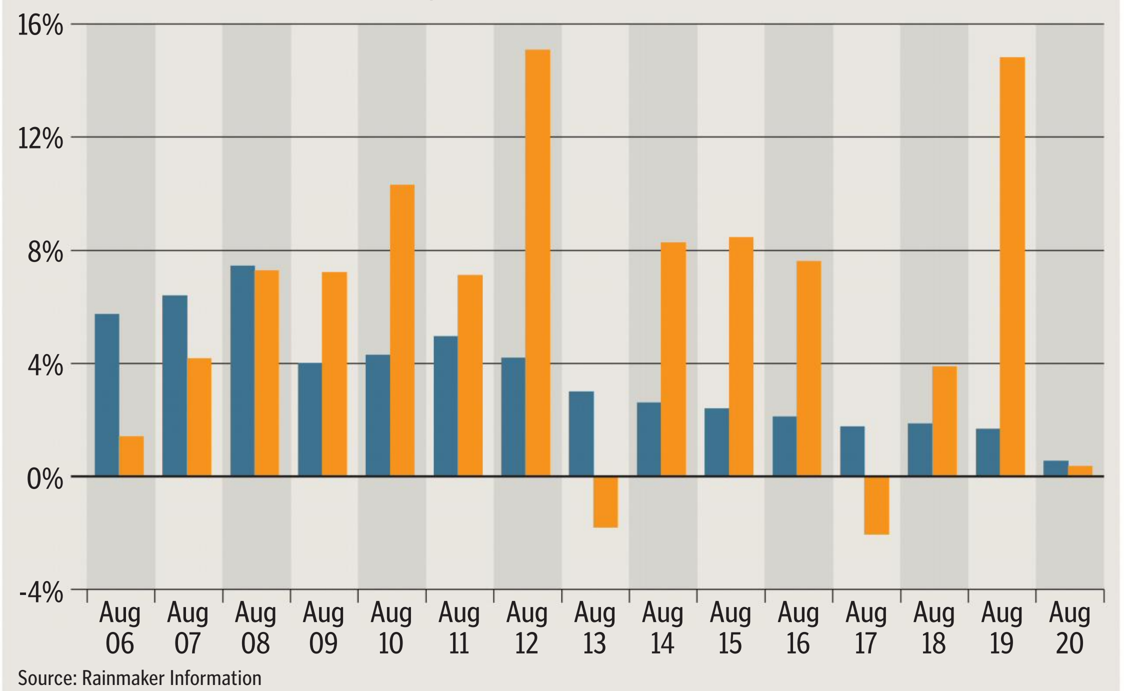
Australian hybrids rank higher than equities in a bank's capital structure – more risk than bonds but less risk than equities. The hybrids fund is actively managed, allowing it to be defensive in volatile times and more aggressive when volatility is low.

iShares has listed two similar fixed income ETFs: iShares Yield Plus ETF (IYLD) and iShares Core Corporate Bond ETF (ICOR).

Finally, investors can gain exposure to ETFs that invest in dividend-paying stocks.

ETF Securities offers the S&P/ASX 300 High Yield Plus ETF (ZYAU), which tracks the performance of the S&P/ASX 300 Shareholder Yield Index. *M*

Total return: Aust cash (blue); Bloomberg Barclays Aust Breakeven (orange)



Source: Rainmaker Information

How to pass

Cost isn't the only factor to consider when choosing a school, but it pays to plan well ahead to ease the financial burden

STORY DARREN SNYDER

Research tells us that putting your child through primary and high school can cost anywhere between $47,000 (government school in regional and remote Australia) and $420,000 (private school in a major city). It's often regarded as the second largest financial decision you're likely to make outside buying the family home, especially if you have multiple kids.

However, the same research also tells us cost isn't the highest priority when people select a school. From a 2020 survey of more than 1800 members, education bond provider Futurity Investment Group says parents and carers prefer to consider a school's performance, reputation and location over cost.

Vince Scully, financial adviser and founder at Life Sherpa, says whether a school is financially workable in the long term isn't the most important consideration for parents. He says we will often make large sacrifices in budgets to provide a great education for our children.

If you're considering sending your child to one of the top 100 schools in the country from kindergarten onwards, Scully says you'll have to start saving about $1500 every month from your child's birth up to the time they finish Year 12.

This is at the upper end of school fees, though. If there's a desire to send your child to a private school and you know you won't be able to afford it from day one of school age, there are work-arounds. For example, you can build your savings and investments while the child is at a government school from kindergarten to Year 6, and then consider moving across to a private school from Year 7.

When it comes to assessing government school costs, Scully says they'll vary from suburb to suburb. A smart move is to see whether you can afford to buy or rent a home in or near the area of the school where you'd like your children to go. This gives one indication of what people are spending day to day and whether school fees will be achievable alongside your lifestyle.

Invest for the future

There are several ways to manage your money when saving or investing to pay school fees. Common solutions include using your mortgage offset; an investment or education bond; a shares portfolio; a term deposit; and school budgeting and payment platforms.

Scully says often he'll have clients who use a combination of these because it's not a great strategy to have all eggs in one basket.

"You're effectively making a decision on where your money is spent for the next 10 years or more. Therefore, you can't really afford to take a lot of risk with the money," says Scully. "Your kid isn't going to wait another year to enter Year 7 because the sharemarket had a bad year. Think about what you're invested in to meet those requirements. Usually it's a mixture of the offset account in the mortgage and some more market-based investments."

He says while investment bonds are sold for their tax benefits, it's important your financial adviser explains to you the difference between

the fees test

investing in and outside these products. There can be cases where the maths will tell you that it's more expensive to use an investment bond but practically it's a better option.

An investment bond can have psychological benefits on top of cost considerations, Scully explains. For example, you don't have to declare income from the bond in your tax return and it doesn't affect your Family Tax Benefit; and because you can increase your investment by 25% every year, there's encouragement to keep going. For the self-employed, it can also create a pool of money that's protected from creditors and separate from your personal assets.

These benefits can often outweigh the tax implications, says Scully.

Payment plans and tools

Aside from putting your money to work and investing to cover future school fees, there are budgeting tools and payment plan platforms to help navigate costs in the shorter term.

One such platform is Edstart. Chief executive Jack Stevens says the most common question from parents is whether they're locked into the payment plan once they sign up. They're only charged for what they use and they can also pay out early without fees or charges.

"We also often receive requests from families requiring a more tailored solution due to their family situation, like couples that are separating or when grandparents are helping out with school fees."

He says there are schools that provide discounts for paying on time each term and the discount can be more than the cost of using the platform, so there's an opportunity to save money too.

Scully says that when the topic of school fees arises, it's important to think about where you can save. For example, uniforms, school bags and some textbooks often can be purchased second-hand from the school.

While you also need to factor in expenses such as school excursions, stationery, laptops, and tutoring from home, Scully says he tells clients to keep a 15% to 20% buffer for unexpected costs such as co-curricular and extra-curricular activities, which include social clubs.

Cost of tuition per year per student

		GOVERNMENT		CATHOLIC		INDEPENDENT	
		Major cities	Regional & remote	Major cities	Regional & remote	Major cities	Regional & remote
PRIMARY	Low	$180	$118	$1384	$1368	$5149	$1870
	Medium	$317	$264	$2109	$1643	$13,136	$3989
	High	$553	$449	$2778	$1814	$25,696	$12,006
SECONDARY	Low	$328	$214	$3892	$2907	$7705	$2998
	Medium	$832	$468	$6123	$4102	$19,127	$5689
	High	$2014	$663	$10,578	$5544	$26,867	$12,991

Source: Futurity Parents Report Card 2020. This doesn't include ancillary costs such as uniforms, stationery, camps and excursions, transport, library charges and outside tuition.

He says there are families who will spend a lot on tutoring outside school from an early age. From kindergarten, children might do after-school or holiday tutoring, mostly in secondary languages or maths. And this is particularly the case if you're keen on your child going to a selective school, says Scully. You need to be dedicated and prepared to spend. The Futurity Parents Report Card 2020 says tutoring outside school is estimated to cost between $1000 to $2000 a year.

Pandemic hits incomes

Scully says the Covid-19 pandemic is generally hitting families financially with their second income source in the retail or hospitality industries. This second income is usually the one that pays the school fees, he says.

In his experience, schools have been accommodative and flexible for people who have fallen into arrears with fees. He also expects that some people have resorted to credit cards or payment platforms if they've hit financial hardship. One thing to keep in mind is that if your school hasn't been delivering its full service during the pandemic, you may want to re-negotiate your fees.

Edstart's Stevens says many schools have financial hardship packages and bursary funds to support families in need. The platform also helps schools perform financial assessments to assist them with understanding each family's individual circumstances.

David Robertson, executive director at Independent Schools Queensland, says during the height of the Covid-19 restrictions, which coincided with term two, schools were contacting their respective communities to offer financial support and to gauge the level of hardship.

"These are difficult conversations to have at any time, but in most instances independent schools could provide solutions that enabled families to maintain their child's enrolment," he says.

He says schools took a range of approaches, based on their local contexts. Options included tailored support such as payment plans, fee deferrals or waivers or in some instances school-wide term two fee discounts.

Before the economic impact of the pandemic, many of the state's independent schools, particularly boarding schools, had already been providing record levels of support to families impacted by the North Queensland floods and drought. This has taken the form of tuition and boarding fee remissions and counselling support, says Robertson.

"Many independent schools have existing scholarship and bursary programs which they could also draw on to support their families. In some instances, grandparents have also stepped in to meet school fees for their grandchildren," he says.

"What was also heartening to hear were the stories of parents asking their independent school not to apply a discount to their child's fees, but to instead put that money towards the fees of a child whose family was facing financial hardship." *M*

Keep your head above water

STORY JULIA NEWBOULD

With the pandemic taking its toll on wellbeing as well as finances, it's more important than ever to have appropriate protection

Insurance premiums are on the rise and insurers agree that mental health claims have played a part in this increase. Experts, however, are warning against cancelling your policies during such challenging times.

Income protection, or salary continuance, insurance has risen the most dramatically. Michael Nowak, a Brisbane-based adviser and vice-president of the Association of Financial Advisers, says over the past couple of years a conservative estimate is that income protection premiums have risen on average 10%-20% a year, with some insurers increasing their prices by 50%.

"The increases are at a level they've never been before and there are a lot of concerns from consumers. You do get worried about their confidence in life insurance," he says.

"In terms of the influence of Covid-19, the impact has been that disposable spending is affected and this has led people to look at cancelling their insurance or, if they have an adviser, reviewing it and making adjustments to make sure they are appropriately protected but can also balance the cost and come to a solution that meets their needs and budget."

It's not a new situation, he says. "Every year we're engaging with clients to ensure they remain covered, but we do have to take into consideration budgets. That means reducing benefits or removing features."

Agreed value v indemnity

One benefit that has already been removed for new income protection products, from April 1, 2020, is the agreed value policy, which has been replaced by the indemnity policy. This means policyholders will need to have proof of the income they have been earning for three to 12 months before a claim.

Agreed policies provide a more predictable outcome, because at claim time the value of the payout has been previously set.

Indemnity policies create a level of uncertainty, especially now. Self-employed people who have had their income drastically reduced during the pandemic or employees who have lost work or a job might find it difficult to prove their income.

Anyone who currently holds an agreed value policy can continue to renew it, although it is likely to be subject to big price hikes.

Work stress hits home

Claiming for mental illness can be protracted, as there are many more grey areas than in a claim for a heart condition, cancer or accident, where the treatments are easier to prove and better understood.

Nowak recently had a client who held a senior position in an organisation and was being forced to do things within the business that they felt weren't being dealt with appropriately and carried a reputational risk. The client suffered stress, sought help, left the business and subsequently submitted an insurance claim. The policy

was for “own occupation” rather than “any occupation”, and because the client was no longer able to work in that occupation the claim was paid.

“Before a claim is made they have to have ceased work and be under medical treatment,” Nowak says. “A medical professional needs to state that, in their view, the client’s condition means they are unable to fulfil their role.”

Income protection is paid while the claimant is unable to do their job, but claiming on TPD (total and permanent disability) means they will never be able to work again. This is much more difficult to prove, and Nowak says one client who is claiming on a TPD policy is now at the six-month mark of consultations with the insurer.

Families feel the strain

Marcello Bertasso, head of underwriting and claims management at PPS Mutual, a specialist insurance company, says the current environment has led to unprecedented emotional and family strain.

“As an insurance industry we have an important role

Look after yourself in these challenging times

All insurers believe mental health is a priority impacting all Australians, according to Damien Mu, chief executive of life insurer AIA Australia.

“Covid-19 has put us on the right side together to focus on what is important for our health and our mental health,” he says.

“The issue of mental health is significant – it’s the largest reason for disability across the globe and one that has continued to grow.

“In Australia, 45% of people will have an issue with mental health in their lifetime and one in five will have an issue every year. That’s us. It’s not ‘out there’ – it’s us, our colleagues at work, family, friends and other Australians.”

Three million Australians are insured and the industry is seeing mental health claims, through income protection or TPD, increase year on year by 20%-25%.

AIA has instigated the Vitality program, which aims to improve your understanding of your health level through free checks; improve health through gym discounts and a quarterly payment if you attend a certain number of fitness classes; and provide rewards and incentives, including discounts on premiums.

For many of us, the pandemic and working from home has meant less exercise, more junk food and other unhealthy lifestyle habits, all of which can have a knock-on effect on our mental wellbeing.

Research shows that keeping up regular exercise, eating a well-balanced diet, getting quality sleep, not drinking excessively and steering clear of smoking can all work towards helping us cope better.

If you’re experiencing mental health issues, it’s important to get professional advice relating to your personal circumstances.

When you need support

Your first port of call is your GP, who can arrange a mental health care plan for you, which means you’re entitled to Medicare rebates for up to 10 appointments with a psychologist in a year.

You can also contact Beyond Blue (beyondblue.org.au) for information and support, by phone on 1300 22 4636 or email, or chat to them online.

If you’re experiencing a financial crisis, you can call the National Debt Helpline on 1800 007 007 or contact them via live chat at ndh.org.au.

to play and government is playing its role, which has provided a big boost in subsidised therapy sessions that are available. We encourage people to get GP medical health plans – prevention is better than cure."

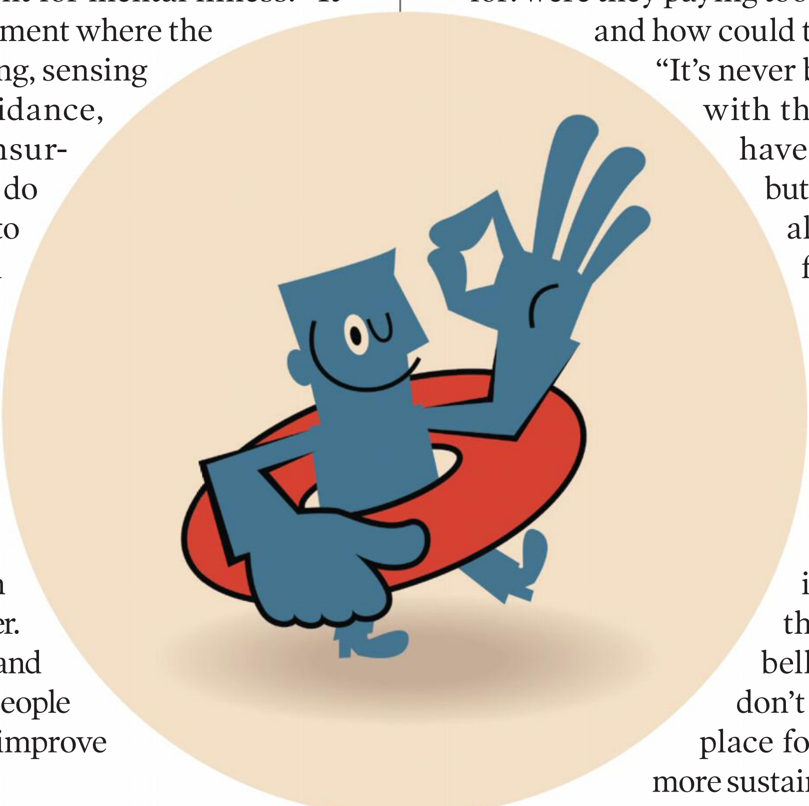
You have a duty to declare the treatment to the insurer when applying for income protection cover.

Unfortunately, this has led to people fearing an insurer will penalise them if they have consulted a GP or psychologist. This can mean they don't apply for insurance and they can be ruined if they can no longer work, says Bertasso.

In addition, if people don't disclose information and they later need to make a claim it may be refused. The insurer can also cancel the policy or reduce the payout.

Nowak says he has clients who feel penalised for seeking proactive treatment for mental illness. "It does seem unfair at the moment where the client is doing the right thing, sensing they need support or guidance, but when we apply for insurance they feel penalised. I do believe there is some work to be done here especially when there has been no diagnosis or treatment."

However, Bertasso says insurance is important and people shouldn't be fearful of applying, although he suggests going through a financial adviser who can assist in obtaining the right cover. "We understand the stresses and strains so we don't penalise people who consult proactively to improve their health," he says.



Claims expected to surge

We are unlikely to have seen the effects of Covid-19 on the industry yet, according to Nick Kirwan, senior policy manager at the Financial Services Council. Mental health claims take significantly longer for people to report than for any other underlying condition, he says.

"The average time it takes for people to tell their life insurer about their mental health clam is a little over a year," he says. "It's logical if you think about it. If you're in a car accident or on a building site you know when the accident happens and will know the implications early on, but for mental health it can take a while for the outcome to dawn on people."

This means it is unlikely for mental health claims resulting from the pandemic to come through this year. "They are likely to come in next year, but we are expecting them. As an industry, we know that there will be the effects of financial hardship, economic hardship and social hardship," says Kirwan.

"It'll be different from last year and the previous year because we're already seeing a very significant increase in mental health claims – and that's pre-Covid-19 figures. We expect Covid-19 to come on top of that and insurers are gearing up for that."

Choose the right cover

Premiums have already risen because of the increase in mental health claims and there is anecdotal evidence of 20%-30% annual increases, as premiums and claims go hand in hand.

People are already reviewing their policies as they are hit by financial hardship, says Kirwan. There was a huge spike when the coronavirus first struck. Policyholders were phoning to check what they were covered for: were they paying too much, could they cut back and how could they right-size their cover?

"It's never been more important than with this pandemic that people have the right cover in place, but when times are tough they also don't want to be paying for more cover than they need," he says.

"There is talk that this really needs life insurers to do a bit of a rethink and a numbers rework and maybe there is a place in the market for an 'essentials range' for insurance policies that cover the basics but don't have the bells and whistles that people don't value so much. There is a place for the market to develop a more sustainable cover and then people will have a choice."

Life insurers are working to improve their products, and the industry is preparing a new code to make sure that all insurers take into account the incidence and severity of mental health issues.

"That means there will be an individual assessment and no blanket decisions," says Kirwan. "Customers will know that's their entitlement.

"The next generation of the life insurance code will also have the insurer state a time limit on an exclusion or loading, which will provide the insured person with an expected time when they may be able to request their cover is reviewed.

"What this might mean is that in some cases the insurer might say it is adding a loading and expecting it to be permanent, or it might be that it's putting on this loading because of the high-risk job you do but if you stop doing this job it will review your cover. It will give customers an indication of when they might come back for a review." *M*

Check with the doctor before cutting cover

Jenny Brown, chief executive of JBS Financial Strategists, says it's wise to do a health check before reducing insurance.

"Don't have insurance for the sake of it, but if you reduce your coverage you should have a full medical first so you know if there's anything unforeseen," she says. "I've heard a number of stories of clients and friends who have found out they were a step away from a heart attack. They wanted to cancel insurance, then found they had a serious issue and had a payout. It's such an important step to make sure you check first."

Credit cards fight back

The banks are taking on the buy now, pay later services so popular with millennials

Two big banks, NAB and the Commonwealth, launched a new credit card within days of each other early last month. The NAB StraightUp and CommBank Neo have the same benefits, including two features that set them apart from many other cards: no monthly interest payments on the outstanding balance and no late payment fees.

While the StraightUp card became available on September 10, the Neo won't be available until later this year, but interested customers can register their interest through the bank's website. CommBank will follow early next year with a similar card for small businesses, Neo Business.

Banking expert Vadim Taube, chief executive at financial comparison site infochoice.com.au, says that these products appear to be a direct response to the increasing popularity of buy now, pay later (BNPL) schemes like Afterpay and Zip Co. These BNPL schemes have mass appeal thanks to their no-interest, no-fee model (although they do charge a late fee).

Let's take a closer look at the features of the new cards:

Pros:

- Besides no interest and no late fees, neither card charges annual fees or foreign currency fees. This does away with all the "surprise" fees you pay if you fall behind on your payments or need to make transactions that involve foreign currency.
- You can apply for a $1000, $2000 or $3000 limit. Capping it at the $3000 maximum means you can keep a lid on your debt.
- No monthly payment fee if you don't use the card.
- Cash advances are not allowed. This again helps curb unplanned expenses.
- Gambling-related expenses are not allowed, although this is available on existing credit cards already.
- In CommBank's case, you can take advantage of its rewards program.

Cons:

- Some of the features are already available in existing offers. For example, NAB scrapped its foreign currency fees on many banking products in September last year. Many credit cards either waive the annual fee for the first year or waive it entirely, depending on the cardholder meeting certain conditions.
- If you use the card every month, you could potentially pay more than the annual fees and other payments had you used a different card. For example, with CommBank the monthly fee on the $3000 limit is $22. At worst, you could pay $264 for the whole year.
- You may not be eligible for awards points, insurance cover and balance transfers.
- Compared with BNPL schemes, you also need to weigh the flexibility that goes with where you can use the credit card (for example, NAB has a partnership with Visa while CommBank has a partnership with Mastercard), and compare the ongoing fees and repayment schedule.

Taube says that, ultimately, prospective cardholders need to consider their spending habits and compare a large number of low-fee and no-fee credit cards already available to find the right product.

Both NAB and CommBank did get the magic number right in terms of the credit limit for the younger users.

Serdar Nurmammedov, director of personal finance app Pocketbook (a subsidiary of Zip Co), says that based on the data from its 800,000-plus user base, 90% of the credit card accounts have registered spending of less than $5000.

"Our data shows a steady increase in the number of people who are spending less than $5000 a year on their credit card," says Nurmammedov.

The StraightUp and Neo cards will benefit those who want to have access to credit without payments or fees spiralling out of control. The savvy ones would most likely use the cards only in an emergency or for select occasions, which means the only cost would be those few monthly payments.

How the new cards compare with buy now, pay later

	COMMBANK NEO CARD	NAB STRAIGHTUP CARD	AFTERPAY	ZIP PAY
Interest rate	0%	0%	0%	0%
Credit limit	Up to $3000	Up to $3000	$2000	$1500
Late fees	$0	$0	$10 per late repayment. Extra $7 if you don't pay in 7 days. Max fee lower of 25% or $68	Dishonour fee of $15. Extra $5 after 21 days of not paying minimum.
Ongoing fees	Up to $22pm when in use or debt owing	Up to $20 pm when in use or debt owing	$0	$6 per month if you have money owing
Where can you use it?	Anywhere Mastercard is accepted except gambling and cash advances	Anywhere Visa is accepted except gambling and cash advances	Affiliated retailers only	Anywhere a credit card is accepted
Repayment schedule	2% of balance or $25, whichever is higher.	Minimum repayment of $35-$110 depending on credit limit	4 instalments over 6 weeks	Minimum repayment of $40

Source: RateCity.com.au, September 2020

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.*

A brain trick to ease the loss

With both money and emotions, focus on what you have, not on what you've lost

My teenage son broke up with his girlfriend the other day or, more accurately, she broke up with him. He didn't see it coming and he was heartbroken. It seemed that one day they were making plans to buy property and get married, and the next he was a shadow of himself, in deep depression and wondering how he was going to get through the day. It's incredibly hard as a parent to watch.

However, after a few days he stopped focusing on the pain of the loss and started looking at what he still had. Within a fortnight he was out playing sport, practising guitar again, throwing himself into his studies and hanging out with his mates again (which he had neglected a little in the months before). He still went through a grieving process, but the effect of the loss was dramatically mitigated by his ability to focus on what he had and how best to seize the opportunities that existed.

How fast we can do a "here and now" audit and let go of what was or might have been is a brain trick that serves us well in many aspects of our life, particularly in situations of low control like investing in the stockmarket. Interestingly, research shows us that trading experience or previous success doesn't make you a better trader. No matter how many times you "flip the coin", the odds of predicting the outcome of a trade remain a 50/50 chance. Turns out it's not trading experience that makes you a better investor; it's emotional control that increases your likelihood of success. Every investor loses money. It is the ability to control emotions and make less reactive decisions in the face of the pain of loss that makes the difference.

The way we treat relationships and money is very similar. People who are more hurt by the breakdown of companionship are more likely to "rebound" into another relationship to make up for the feeling of loss and loneliness, often to find themselves in an even worse situation than they were in previously.

When we experience the grief of losing money on an investment, we're not very good at learning from that experience to make a better investment. We're actually more likely to make riskier investments to make up for the pain of the loss, and then lose even more. Love and money, it seems, are strange bedfellows when it comes to the psychology of decision making.

In the presence of an unexpected loss, doing a "here and now" audit helps focus on what you have to do to maximise the real opportunities and make good decisions about your future.

This is a mind trick I teach to investors all the time when they are starting to panic about the state of their investments. Say you have invested $200,000 in a particular stock, which in a short time has dropped to $100,000. That's definitely enough to strike a bit of panic in the heart of even the most resilient of investors.

Instead of saying "I've lost $100,000, and I could lose another $100,000!", you're best to try to put the loss out of mind and say, "I have $100,000, what is the best way to invest that right now?" More responsive, less reactive. Good investors need the emotional capacity to separate normal market fluctuations from the underlying real value of an asset. No panic buying or selling; have the fortitude to remain steadfast.

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

TAKE A DEEP BREATH

Tips for making better investment decisions in the face of loss:

Do a "here and now" audit
List all your assets and current opportunities and map them back to your overall investment goals. This will give you confidence and clarity.

Avoid the "double or nothing" trap
Take a moment to breathe, and separate your emotional state from your conscious reality. This will put you back in control.

Don't reactively rebound
Recognise the pain and name the negative feelings you feel, then visualise yourself locking them all in a box that you will deal with later. This will give you extra cognitive capacity that would otherwise be taken up managing or suppressing your emotions.

Get good advice.
Try to avoid confirmation bias and don't be afraid to talk about your financial pain with those you respect and trust.

Safety first for the aged

Home care can reduce the risks exposed by the pandemic

Selecting quality care for ageing parents is much tougher under Covid-19. Before the pandemic, nursing homes were viewed as a safe place for frail parents who couldn't live on their own. But Covid-19 has exposed the risks of poorly run facilities.

Not only did some have dismal infection controls but they were chronically understaffed with poorly trained, low-paid employees.

If your ageing parent needs to go to a nursing home, what do you do? It is a huge emotional decision for a family, but the new dilemma is that Covid-19 spreads in shared living spaces and older people face an increased risk of contracting it – and perhaps dying.

You certainly don't want to have your parent in a for-profit nursing home that looks slick but it is intent on making money and scrimping on care. You need to be confident it follows high standards, using personal protective equipment, routinely testing employees and residents and employing extra staff.

Not surprisingly, people are delaying sending their parents to nursing homes. However, there aren't many other choices. Either you or your family look after your elderly relatives or you access private or government-funded home care.

Finding care before Covid-19 wasn't easy either. My mother, Rosemary, a fiercely independent woman, needed help as she grew frail and her memory faded. She couldn't remember if she had eaten or taken her tablets. She was getting lost and the doctor cut up her driver's licence when she refused to stop driving.

Home care made a big difference. After a wait of more than nine months, she was assessed and qualified for the lowest level of four hours a week. This amounted to carers visiting four days a week to make her lunch (and watch her eat it), check on her medication and take her to the doctor.

Around one million Australians receive home care and support services. There are four levels of home care worth from $9000 to $52,000, as well as the Commonwealth home support program. The wait times to be assessed are frustratingly long – years for the bigger packages – with an estimated 100,000 elderly people on the list. So don't leave your application until your parent is desperate. Get onto the lists as early as you can.

But home care isn't without risks either.

Range of packages

You can choose a service provider that is right for your relative. The federal government pays your provider a subsidy for a package of care services to meet their needs, but watch out for fees – they can be between 20% and 70%, according to some experts.

CARE	PACKAGE
Level 1	Basic level care – about $9000pa
Level 2	Low level care – about $15,750pa
Level 3	Intermediate level care –about $34,250pa
Level 4	High level care – about $52,000pa

Source: myagedcare.gov.au. Figures are rounded.

Elderly people have caught Covid-19 from carers. At the beginning of August, some 60 cases had been recorded.

The current royal commission into aged care quality and safety is shining a light on the choices as well as the standard of care. Originally set up to investigate aged care before Covid-19, it has expanded to look into homes with high infection rates.

Not surprisingly, the royal commission has heard how some families have taken their loved ones out of aged care homes.

Keeping your elderly relatives at home can be full-on and sometimes a burden for family caregivers. It often isn't compatible with your working life and there can be safety issues, too.

In my mother's case, the carer arrived one day to find her cooking plastic bags in the microwave. Worryingly, they had caught fire and she hadn't noticed. I was told my mum needed 24-hour care as soon as possible as she couldn't live on her own.

It was before Covid-19 and I was told to check out a number of nursing homes in my area. I asked around and chose around 15. I made appointments with the managers and was given an extensive tour of the facilities, including the common areas and private rooms. The costs were explained.

But during Covid-19, nursing homes aren't as easy to examine. Some don't allow external visitors while others allow a meeting in a common room but no entry to private rooms. Respite beds – often a way for someone to stay and test out the nursing home – have been reduced in case any residents fall sick and need to be isolated.

Few people can afford private 24-hour care. Some families share the caring among siblings so that there is always someone watching their relative and helping them.

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

Keep your customers happy

A quick, fair process for dealing with complaints can protect both reputations and profits

Shoddy service is a sure-fire way to cost your SME money, with Australian businesses coughing up an estimated $122 billion annually by collectively upsetting their customers.

Apart from a loss of revenue, lousy customer service has adverse side effects in other areas of business. Not only do you lose customers and money, but you also run the risk of losing quality employees. When your SME has a customer service problem, often your capable workers are forced to pick up the pieces left behind by the weaker links in the chain. Even loyal personnel can grow tired of the extra work and look elsewhere for employment.

Haemorrhaging customers also forces you to find new buyers, members or subscribers to keep the business afloat. Depending on who you talk to, it is between five and 25 times more expensive to obtain a new customer than it is to retain existing business. Rusted-on customers tend to purchase more frequently and spend more money with your SME.

It's a new battleground

With these risks in mind, Anne Nalder, chief executive of the Small Business Association of Australia, says that handling a customer complaint appropriately is essential for the success of every business and its brand. "Although we know that a customer is not always right, they must be treated like they are always right," she says.

For starters, SMEs must have a customer complaints policy formed within the broader risk management policy, says Nalder. The complaints policy should include the types of complaints a business could face and how objections are handled and by whom. "This advice applies to even the smallest of businesses who do not employ staff to the largest," she says.

Apart from the traditional channels such as phone, email and letters, SME owners need to be aware that the battleground for complaints has changed and consumers can exploit public forums such as social media to vent their anger or frustration.

Customer complaints can range from poor service to no service, botched refunds, faulty goods, poor workmanship or even membership or subscription failures, says Nalder. Ultimately, the type of complaints will depend on your business, industry, customer base and many other factors, according to digital marketing expert Mitch McCormick.

That said, Nalder cites how a dodgy refund policy can not only annoy customers but also cost an SME plenty by breaching compliance laws. "Retailers cannot simply enforce their own rules regarding refunds," she says.

As an example, a retailer in Victoria recently listed a warning – "no refunds after seven days" – on its sale receipts. This statement did not comply with Victorian regulations and was discovered as part of a spot check by a state government inspector. The retailer was hit with a $5000 fine as the wording breached the compliance rules in Victoria regarding retailers and refunds, according to Nalder.

"In this situation, the retailer had the option of either appealing or having the matter heard in court. If he elected to take the matter to court, the case would become criminal, and he could end up with a criminal record. So business owners need to be aware of their compliance obligations and legalities as well as any customer objections they create," she says.

How to handle a complaint

When a customer contacts a business with a gripe, the complainant should be directed to the person who looks after these issues, says Nalder.

The responsibility for dealing with a customer complaint depends on the size of an SME and the defined roles of the staff members, says McCormick.

"If you can have dedicated people handling customer complaints, you'll be able to keep your responses and processes consistent," he says. "Try to document a process about how your business will deal will customer complaints, which includes when more serious complaints need to be escalated, and also create a library of common responses so you can easily re-use them."

Nalder says the designated contact must not enter into an argument or be defensive. "Going on the defensive is a huge mistake as this raises the complainant's shackles straightaway. The person needs to listen to the complaint and then ask the complainant to put that complaint in writing for it to be resolved."

If the customer questions this process,

Nalder recommends informing them "that this is company policy and that we like to have these matters resolved amicably".

Requesting an objection in writing is a sensible move as it provides a record of the complaint and the resolution of the grievance.

"If things are done verbally, there is no record, and if the matter escalates to litigation, it is one word against another. All complaints must be handled urgently and not allowed to drag out," says Nalder.

Identifying when a customer's complaint is legitimate, or if a customer is confused or if they are trying to take advantage of the situation is also essential, says McCormick. "If a complaint is dishonest, you need to call this out and take action, particularly if the complaint is visible on the internet. For example, if you get a false or malicious complaint on a review site, it's important to quickly report this to the review platform to reduce any harm it may cause."

Dangerous to do nothing

By merely ignoring complaints, you run the risk of frustrated customers leaving even more negative comments. "If left unattended this can easily influence people's perception of your business," warns McCormick.

Nalder says reputation is everything, forming part of a business's brand. "Social media can kill off business. So if a business has ignored a customer's complaint, it ignores it at its peril. With social media, many people have their following, so one has to keep the customer happy."

Likewise, delaying your response to a customer grievance can prove fateful, says McCormick. "The worst mistake you can make when dealing with a dissatisfied customer is to postpone your response too long, ignore the complaint or respond disrespectfully," he says.

McCormick also advises against escalating the complaint, especially if the discussion is in the public's view, such as on a review site, social media or internet forum. "Try to take your conversations with the complaining party to a private email conversation, or even better a personal phone call," he says.

Monitor social media

Compared with old-school email or phone whinges, complaints today can quickly gain visibility and hurt your business. To this end, McCormick advises SMEs to monitor their social media notifications so they can respond quickly.

"If people complain, for example, on a Facebook post you published, you have the option to delete or hide their complaint," he says. "In this scenario, I wouldn't delete the complaint. However, if it is inaccurate or malicious, you can hide it so that it doesn't discourage other customers."

In today's online world, it's much easier for customers to complain, even if they are in the wrong. To avoid losing business or taking a reputational hit, the best advice seems to be to keep clear standards and systems in place for dealing with grievances, act reasonably and swiftly and try to reframe objections as an opportunity to improve your business.

"No one likes a dissatisfied customer, but no businesses are perfect," says McCormick. "We all have ways to improve, and feedback from unhappy customers is a great way to identify problems in your business. Try to think about customer complaints as an opportunity for improvement and make sure you have a documented system for dealing with complaints."

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

Deals are in the air

STORY DAVID THORNTON

The housing market has on the whole defied the gloom-and-doom predictions, and spring will put its resilience to the test

There is a long-held maxim in the property market to "sell in spring". But is it true, and does it apply during this year's pandemic? The saying stems from the belief that when the sun comes out, buyers are about.

"It's a combination of three things," says Cate Bakos, from Cate Bakos Property. "Everyone's garden looks better and the mud isn't traipsed through the house, the football is over and sellers assume buyers come out in spring."

During spring, vendors decide to sell because they believe buyers will be out and about, agrees Christine Williams, from Smarter Property Investing.

But how much truth is there to this? The answer's not clear cut.

While there are typically more listings in spring, the reason for it is misguided.

"Buyers come out when there's a deal," says Bakos. "If you're committed to buying a house, you don't say to yourself, 'I'm not checking out properties because the weather's bad.' If someone wants to buy a house, they'll be there with a raincoat on."

The difference in sales between the seasons likely has more to do with a change in the number of listings, not the willingness of buyers. "It's got to do with the quantity of listings, because the clearance rates are the same," says Williams.

John Lindeman, from Lindeman Reports, agrees, saying the difference is in the listings. "People have a perception about how the market performs. They think spring and autumn is a good time to sell and summer is a bad time to sell because everyone goes on holiday," he says.

It's a horse-and-cart situation.

"What you get is a different number of properties listed for sale through the year, but the same number of sales," says Lindeman.

For vendors, the false psychology adopted by the market means better prices can be achieved outside spring because there is similar demand but less supply.

The Covid-19 pandemic has led to various warnings of massive falls in property values. But the falls have been moderate, and certainly aren't the doomsday scenario some have warned of.

The August CoreLogic home value index declined 0.5% over the past month on the back of falls of 0.8% in June and July and a 0.5% decline in May. The result weighs down the annual growth figure to 6.3%.

Of course, the index covers the eight major capitals and the damage hasn't been evenly shared. Melbourne, and more broadly Victoria, is weakest of the lot.

Victoria's return to lockdown has seen a 14% fall in sales since June, with sales in Melbourne just 10% above its April low. The market has been held afloat to some extent by government economic support initiatives.

"We are still in an artificial market as various support measures help support home price," says Shane Oliver, from AMP Capital.

"Were it not for JobKeeper, the increase in JobSeeker, the bank payment holiday and other support measures protecting heavily indebted households and property investors, prices would be falling more rapidly in response to forced sales."

What's more, some of the major banks have indicated they'll raise rates for interest-only loans for mortgage holders who have extended their pause on repayments.

Stock in short supply

Despite the uncertainty, now may be a seller's market. "Vendors have a huge opportunity because there's so much buyer energy out there," says Bakos. "I'm fielding calls every day from buyers who are itching to get back out there. It's fair to say that some households will be negatively impacted by Covid-19, but there are still a lot of people who can buy and want to buy."

It all adds up to a shortage in stock. "There are so many buyers compared to sellers. And this is off the back of two to three years of stock shortage," says Bakos.

Williams points out that despite rising unemployment, many buyers, especially in the $500,000 to $1 million range, remain willing and able. And the banks are on their side. "With Covid-19, yes, we have 10% of our workforce out of work, but banks are very comfortable lending to them, especially in the $500,000 to $1 million space. Vendors who have put their property on the market have been pleasantly surprised by how much over reserve they've achieved."

While this may continue in the short term, the long term could be a different story as we approach the point next year when the government support and mortgage

Capital city private treaty median prices

	HOUSES		UNITS	
CAPITAL CITY	NUMBER OF SALES	MEDIAN PRICE	NUMBER OF SALES	MEDIAN PRICE
Sydney	1444	$790,000	748	$640,000
Melbourne	1213	$660,000	535	$540,000
Brisbane	1018	$510,000	222	$375,500
Adelaide	440	$475,000	104	$312,000
Perth	736	$450,000	121	$365,000
Hobart	142	$513,750	37	$375,000
Darwin	18	$447,500	13	$300,000
Canberra	88	$720,500	129	$440,000
Combined capitals	5099	$616,813	1909	$524,950

Source: CoreLogic, week ending August 30, 2020

holidays wind down. "We continue to see capital city average property prices having a 10% to 15% top-to-bottom fall out to mid next year (of which they have fallen 2.5%)," says Oliver.

"Sydney and Melbourne are the most vulnerable given their higher dependence on immigration, higher debt to income ratios, higher price-to-income ratios, greater investor penetration and a possible preference shift away from expensive inner-city property."

Getting finance is always a challenge for buyers. More than ever, the willingness of banks to lend depends on the extent to which they're exposed to the financial impact of Covid-19.

Before the last federal election, banks were extremely tough with assessments and they had really strong mortgage buffers, says Bakos. "Now we've seen the buffers eased, but they're looking more at employment status."

"It used to be hard to understand how banks determine risk," says Lindeman. "Now it's easy. The banks are looking at two criteria: the industry you work in and the area."

Getting a loan will be significantly harder or impossible if you work in, for instance, hospitality or retail. Likewise, it will be harder if you're looking to buy in areas heavily dependent on tourism.

It becomes a self-fulfilling prophecy. They won't lend into certain areas, then people can't buy property and the downturn worsens.

On the flipside, banks are eager to lend to those who work in the public service or healthcare.

"People in secure employment looking to upsize are in a good position with the banks," says Lindeman. "Banks still need to lend to make money, so they say: 'We'll lend to you because you're in a secure job, you have equity in your home, you want to upgrade to a well-established area'."

Escape from the cities

There may also be good opportunities for people looking to upsize or downsize. "For anyone who is committed to upsizing or upgrading, or moving to a higher price point, they've got an opportunity to do that if they qualify for finance. I don't expect higher-priced properties experiencing the same price growth as lower price points in the market," says Bakos.

The sea or tree change is set to remain an option, as many people continue to work from home post pandemic. "People now don't have the necessity to travel two hours every day," says Williams.

Tim Lawless, from CoreLogic, says regional housing values have broadly held firm through the Covid-19 period compared with their capital city counterparts. Dwelling values across the combined regional areas of Australia slipped by only 0.1% between March and the end of July, while capital city home values were down 2% over the same period.

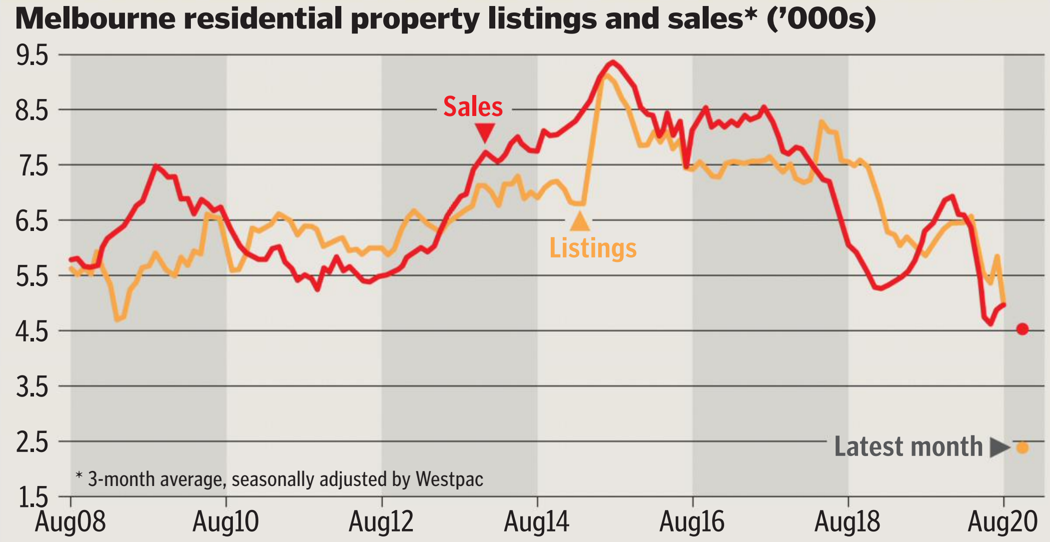
As with everything, buyers need to weigh up the positives and negatives of escaping the city.

"On the positive side, housing prices tend to be lower, providing a more affordable entry point to the market, population densities are generally lower, which is something that might be even more appealing as we move through this pandemic, and in many examples regional areas will offer some lifestyle advantages, either via the locations proximity to the coastline or wide open spaces," says Lawless.

"On the downside, regional economic conditions can be more volatile, especially those areas that are heavily dependent on a single industry for economic prosperity, and some areas may not show the same level of amenity and access to essential services as a capital city or major centre." *M*

ROLLERCOASTER RIDE

Melbourne residential property listings and sales* ('000s)



Source: CoreLogic, Westpac Economics

Home in on affordability

Consider all the costs when buying an apartment or a place in a lifestyle community

More and more Australians are embracing alternatives to the traditional freestanding home on a quarter-acre block (just over 1000sq m) as its cost has become prohibitive for many, especially in our major cities. But apartment blocks, townhouse developments, and the alternatives for older Australians – retirement villages and over-55 communities – have their own financial traps.

Many of these are strata title, meaning you own your apartment or townhouse as well as sharing ownership over "common property", such as the driveways, foyers, swimming pools and gardens. The common property is managed by a legal entity, usually called the owners' corporation or the body corporate. To cover these expenses, as well as insuring the building, individual owners pay strata fees, which can be very high.

The more bells and whistles your strata property has – lifts, swimming pools, gyms – the higher the fees. In NSW, for example, average strata fees range from 0.3% to 1.2% of the property's value: 0.8% to 1.2% with facilities, 0.3% to 0.7% without facilities.

Before buying an apartment, it's important to do your research. This includes looking at strata reports and may involve enlisting the help of a conveyancing lawyer. In the strata report you'll find expected levies and fees for the year – these can be a significant hit to the hip pocket, especially if you're in a fancy new building. Body corporate fees should be considered along with mortgage repayments to determine if you can afford an apartment or townhouse.

For investors, fees will impact your returns. For example, a three-bedroom, two-bathroom apartment in Hunter Street, Newcastle (for sale at the time of writing for $695,000 with an estimated rental return of $31,200), would show a gross rental return of 4.5%. But after rates and levies totalling $10,134 ($8455 strata fees) are deducted, rental return falls to 3%. Other

costs such as management fees, advertising, repairs and maintenance would reduce this further, probably closer to 2%.

When considering a strata title, also pay attention to the building's history of repairs. For example, if there have been repeated structural repairs it may be best to steer clear – even more so if special levies have been raised to pay for the work.

Relatively low-cost lifestyle villages or manufactured housing estates (also called land lease developments) where residents buy their own home but lease the land are growing in popularity. They are generally restricted to those aged over 50 or 55.

The housing affordability problems, short supply of downsizing dwellings and lack of savings for many people entering retirement, are set to drive further expansion of the sector. Listed companies, including Ingenia Communities (ASX: INA), with estates in Victoria, NSW and Queensland, have proved popular with investors. Lifestyle Communities (LIC), with estates in Victoria, has also performed well. At the time of writing the share prices of these companies have grown 20% and 37% respectively over the past 12 months.

People buying these properties enjoy the benefits of relatively affordable prices for well-maintained or new prefabricated homes with communal facilities, which can include gardens, pools, gyms, libraries, bowling greens and clubhouses maintained by the operator. Buyers pay no stamp duty because the land is leased. And many operators do not charge exit fees or claim any of the capital gain if you sell your home.

At Ingenia's Hervey Bay on Queensland's Fraser Coast, for example, you can buy a two-bedroom, two-bathroom home from $275,000. The company describes the development as a boutique oasis of contemporary living with a big range of facilities.

Of course, the downside in buying into any of these developments is that you have to pay the operator an average site rental fee of $120-$300 a week.

Generally, pensioners are able to offset part of this cost through the federal government's rental assistance scheme. The maximum assistance is $139.60 a fortnight for a single and $131.60 for a couple.

Because you only lease the land, big considerations are how often and by how much site fees can be raised, and security of tenure. All states and territories have their own rules so research them and your individual contract before you sign up.

Certainly for many older people, lifestyle communities are a more affordable option than retirement villages. And if you do decide to sell, most operators don't charge deferred management fees, as levied by most retirement villages. These can amount to 35% or 40% of the sale price of an individual home or unit. Some retirement village operators also take a cut of any capital gains.

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

STORY DARREN SNYDER

Accommodation hosts are learning to live with the challenges caused by fires, floods and lockdowns

All in a stay's work

Lockdowns, border closures and other pandemic-induced restrictions sent Australia's domestic tourism market into a whirlpool. But what has it meant for the bed-and-breakfasts and other accommodation?

Often set up as investment properties and small businesses, hosted accommodation generally carries debt, and owners rely heavily on year-round tenancy to pay the mortgage and other costs. When the global pandemic hit, many owners were sent into a spin as forward bookings halted and the floodgates opened for cancellations.

A rollercoaster journey is how Stuart Amm describes his 2020. He and his wife own the Berry Lake House, a luxury homestay in Berry on the NSW south coast.

Between mid-December 2019 and February 2020, bushfires and subsequent rain put a stop to the property's forward bookings. Then came the coronavirus in March, and any bookings held before the bushfires were now being cancelled because NSW was in lockdown.

"Business went to absolutely zero," says Amm. The business went four months without a single booking.

Louise Tingey, owner of Elevation in Byron Bay on the NSW north coast, says once the first lockdowns began in March, she remembers seeing almost all forward bookings being lost in one night.

David Penman, owner of Clifftop at Hepburn in Hepburn Springs, Victoria, feels as if the properties in his family-run business have been on the end of a paddle-ball racquet through Covid-19.

Victoria's lockdowns are well documented and Penman says the business is burning cash with no guests and bookings remaining tentative for the near future. He's also had to take his bank to the Australian Financial Complaints Authority (AFCA) over extending his loan.

Ever the optimist, however, Penman believes there are good outcomes just around the corner. Spreading this message of hope, Penman says, has led to more social interactions, more gift voucher sales and forward bookings.

"While we've lost a lot of bookings in the short term, we're still picking up some revenue," he says. "Most people haven't cancelled on us; they're understanding. You explain you're a small family business and 95% of people have taken a credit, so that helps enormously.

"It's still painful, though. You still have to amortise that credit. If you lose the booking now, you have to amortise it across future accommodation, but that's way better than losing all your money."

Move with the times

Louise Tingey says for owners using the Stayz website, Covid-19 brought about additional changes to the underlying technology that improved the experience for guests and hosts. She says this immediately eased the pressure when it came to managing the pandemic.

"One of those tools enables me as a host to be able to help the guest cancel a booking and then be able to refund them as well," says Tingey. "Whereas before that feature was built in, if I were to cancel a booking, even if it was at a guest's request, I would get penalised with the website's analytics."

As a property manager and owner, she's interested in being able to resolve guests' situations one on one.

She cites a recent example of a guest who just had their wedding cancelled. They were no longer able to travel, so what could they do next? Tingey logged straight onto the booking platform and let the guest know the options. They didn't have to call a centre and explain the situation to someone else.

Airbnb was quick to act when it came to the pandemic, too. For a period of time, hosts and guests were able to cancel reservations with no charge or penalty. Additionally, when a guest cancelled a reservation due to a Covid-related circumstance, with a check-in between March 14 and May 31, Airbnb paid the host 25% of what they would normally receive through the cancellation policy.

Among several other initiatives, Airbnb also created another revenue stream for its hosts by offering them the chance to share more about their lives, interests and special talents in a video that potential guests could pay to watch.

Cleaning in Covid-19

David Penman says cleaning and laundry are the two biggest expenses incurred with running hosted accommodation, regardless of Covid-19. And any accommodation's cleaning services should have already been top notch as one bad review could spell the end of your business. A provider of luxury villas, Penman says he chooses to keep cleaning as an internal process within the business and doesn't outsource. "When people ask what we do, we say we're cleaners," he says. "Despite being owners, most of our life is spent cleaning."

He says to people looking to enter the hosted accommodation sector, "You can afford to pay a cleaner and still make money, although a lot of your margin disappears".

He adds that you've got to be clever about your approach to cleaning and laundry. "Before coronavirus we got reviews that said we're forensically clean. And we've upped the ante on that," he says.

"We're meticulous and follow all the rules. But to me that's housekeeping and it's behind the scenes. I don't believe there's a place for talking about that [to guests], beyond leaving a flyer in the villa to let people know the accommodation has been cleaned with hospital-grade disinfectant. You don't want to spoil the guests' stay by reminding them of what they're trying to get away from when we reopen."

Both Louise Tingey and Stuart Amm outsource their cleaning services. Tingey says she's been working with the same team since opening three years ago and she's set the rules and expectations about what's required to be Covid-19 compliant. The service team has also been through the government's online training.

Amm says cleaning was already "at an epic level" at his Berry property. But Covid-19 meant it was a chance to review those processes and "ensure everything is perfect".

He understands that outsourcing the cleaning won't be affordable for every owner and that Covid-19 regulations will mean some tough financial decisions have to be made. Outsourcing might cost more, meaning you could increase your accommodation price or accept less net profit.

On the upside

Airbnb reported that in the week of May 24-30, domestic bookings had returned to 97% of pre-pandemic levels compared with the same week in 2019. It then went on to report that bookings in the NSW Snowy Mountains were up 45% between June 1 and 28 compared to the same period in 2019.

Stuart Amm says that after the NSW lockdown, his homestay has seen a dramatic increase in bookings. And guests are now preparing for their stays with more rigour, asking far more questions about the region and what it has to offer.

Guests have also been asking about increasing the length of their stay. In the early months of Covid-19, Amm was receiving requests from families to relocate to his property for one to three months as part of an extended work-from-home stay. Tingey has seen similar in Byron Bay.

Both the hosts have ramped up their wifi services and Tingey says she used the first weeks of lockdown to enhance the property.

"We re-tiled the pool and made it heated, we did a refurbishment of the property and enhanced our wifi," she says.

Amm says he's also seen an interesting trend with accommodation reviews.

"We're getting more reviews with more passion. People are so happy to get away and when the house meets or exceeds their expectation, they're in cloud nine."

He says reviews are almost 100% of an owner's marketing strategy and you should be putting in the effort to respond and engage with reviews and questions about your property. Anybody looking to start hosting a property must be prepared for the increase in guest contact online.

One of the flow-on benefits of the pandemic, says Amm, is that there are new small businesses opening up near popular tourist destinations as workers move of out of bigger regional centres.

"I know there's a small business in town that's popped up which offers high-speed internet and video conferencing facilities in a WeWork-type scenario," he says.

David Penman says there are several things you can do as an owner to make your property work during the pandemic.

"The first thing to understand is the light at the end of the tunnel isn't a train. There's $63 billion of Australian and domestic tourism revenue that's going to be spent. There's light at the end of the tunnel for the industry," he says.

"We're not worried we're going out of business. If you can tough it out, do it because it's worth it. It generates good returns, it's great work, it's something you can be proud of and there's a resurgence coming after Covid-19." **M**

THE FIRST STEP IN BUILDING A STRONG SUPER FOUNDATION

Proudly supported by HOSTPLUS An Industry SuperFund MetLife

When bigger is better

STORY JULIA NEWBOULD & JAMIE WILLIAMSON

More funds are considering a merger to reduce costs and increase investment returns

When the federal government announced the superannuation early release scheme in March, it gave people reason to look at their retirement savings and take charge. As at August 30, $32.6 billion had been released to 4.3 million super accounts with an average payment of $7680.

While the super industry accepts Covid-19 has caused financial hardship for many of its members, it's also been at pains to point out the long-term implications of accessing super early.

David Atkin, chief executive at Cbus, told a media roundtable on June 30 that his fund is trying to make sure members are aware of the significant ramifications.

"By accessing super they are robbing their futures to pay for the now ... they're going to need to work another 1½ to two years to get back to where they were. And based on fortnightly payments of the pension, when they retire they'll have 5% less per fortnight as a result of dipping into the first tranche," he says.

Debby Blakey, chief executive at the industry super fund HESTA, says she is concerned the early release scheme is increasing the gender gap in retirement resilience. Already the gap between female and male retirement balances is 40%, and the impact is felt strongly at HESTA, where more than 80% of members are women.

"[After the first tranche of the early release scheme] the median balance left is $3600 and for the 18- to 24-year-olds it is even lower, as many have taken their entire balances, leaving just over $1000 as a median account balance."

The early release scheme has given super funds another nudge towards looking at mergers to increase efficiency and streamline costs.

According to Xavier O'Halloran, director at Super

WHAT TO DO WHEN YOUR FUND MERGES

Super funds are bound by APRA to ensure that members are not worse off after a merger. To ensure your fund is still looking after you:

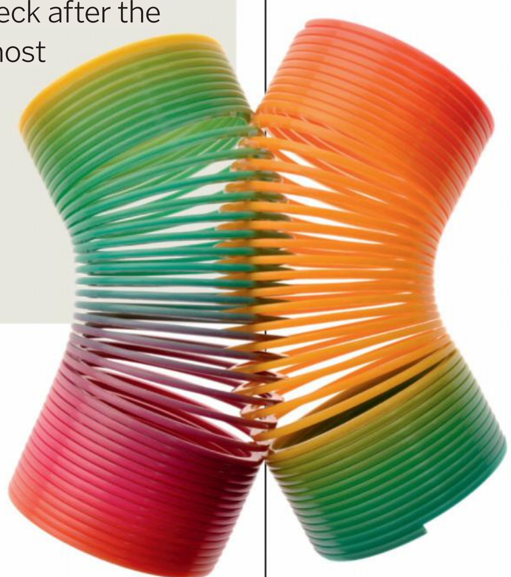
Check the fees. This is an area where an increased size should buy economies of scale which should lower fees, not increase them.

Look at the investment options. You should still be able to invest in similar asset classes and options, and the past performance should be comparable with that of your pre-merger fund.

Compare your insurance. Is the cover the same as previously and are you paying similar premiums? (Most premiums have increased over the past year so this may be difficult.)

Ideally, check what else the merged fund may offer: do you have an increased array of investment options, do you have a better client communications experience through a better website, do you have access to a range of better third-party benefits?

Finally, do you feel your fund is still aligned to your ideals – does it invest in areas you are comfortable with? And don't just check after the merger is completed. To make the most of your super, you should regularly monitor the performance, fees and other benefits compared with others in the market.



Consumers Australia, the Australian Prudential Regulation Authority (APRA) has asked more than a dozen super funds to remedy their poor performance, including possible mergers, or face enforcement action.

Mergers and joint ventures are two ways that funds can remain viable into the future. More money gives them more investment opportunities while reducing costs to members.

At the end of 2019, there were 204 APRA-regulated super funds in Australia. This includes corporate, industry, public sector and retail funds, there were 596,000 self-managed funds. At that time, super funds were managing almost $3 trillion across 26.3 million accounts.

According to KPMG, this will decrease to 138 by the end of 2024, and by 2029 there will only be 85 APRA-regulated funds.

By 2029, the number of APRA-regulated funds will fall from 204 to only 85

NO WORSE OFF

For super fund members, APRA's position on mergers and joint ventures is clear.

"Members need an equivalent product offer and to be not worse off if their fund is to merge," says David Bardsley, head of asset and wealth management advisory at KPMG. "This is a starting premise that the transaction shouldn't occur if these conditions aren't met."

If you receive any information that your super fund is going to merge, you should look at your successor fund (the fund you're merging with) to ensure it will provide you with improved products and services – such as insurance arrangements, investment options and investment returns. The successor fund is usually the larger fund and the one that will become the trustee in future with the other funds existing under its structure – although there have been a couple of exceptions.

Gaining in popularity is the super fund joint venture, where there is still only one trustee but the products and services continue as they did through the original fund, with the understanding that the scale of the merged businesses will provide benefit to members in the future.

"Equipsuper and Catholic Super is a great example of a joint venture arrangement. There is a single trustee but two discrete super entities," says Bardsley. "Over time the funds might well undertake a successor fund transfer but right now it's a joint venture arrangement."

The same fund can participate in both types of mergers. "Equipsuper and Rio Tinto Staff Super Fund are good examples of a successor fund transfer, where the Rio fund was fully absorbed by the Equip fund," says Bardsley.

Other examples of this include Concept One into WA Super, Club Super into Hostplus, and AustSafe and Kinetic Super into Sunsuper.

FINDING THE RIGHT PARTNER

It was previously more common for funds with similar memberships to merge, but today this is not always the case.

The merger of Cbus and Media Super is an example of diverse memberships being brought together. Media Super members have expressed concern that the new fund may no longer suit them, but the funds will have representation on the trustee board to ensure specific interests are being met.

"Traditionally, two to five years ago, funds were focused on a discrete sector in the community and focused on members that worked in that sector: Cbus on building, HESTA on care workers. What we're seeing is that five years ago they would be committed to ongoing exposure to that sector but now the royal commission, productivity commission and Covid-19 have all meant funds are broader in having members who are not from

HOW MEMBERS CAN BENEFIT

Analysis from Rainmaker Information (publisher of Money) considered 13 mergers involving 22 super funds: 11 traditional mergers, the integration of Virgin Super and the Mercer Super Trust, and the joint venture between Catholic Super and Equip.

The research found that in all 11 of the traditional mergers the more expensive funds' fees decreased, with members seeing an average drop of 21%. For the fund with lower fees going into the merger, seven of the 11 saw an average reduction of 5%.

"Mergers have created efficiencies and economies of scale for the funds, which has led to members being better off," says Alex Dunnin, Rainmaker's executive director of research.

However, fees went up for Virgin Super and Mercer Super Trust members and those in Catholic Super and Equip.

"Fees don't go down just because a super fund merges; they go down because the trustees redesign the product," says Dunnin. "Products are more likely to be redesigned in a merger, but not when funds just combine their back offices."

Pooja Antil, research manager at Rainmaker Information, says that while a lot has been said in favour of consolidation, it's when the merger actually happens that the rubber hits the road and the benefits can be analysed.

According to Rainmaker analysis of the majority of super fund mergers occurring in the past three years, when it comes to costs members do end up substantially better off.

"Through a member's working life this can translate into massive fee savings and boosted savings," says Antil. "But fees are just one component of a bigger set of umbrella issues that could be significant enough to impact the member account balance at retirement.

"Just like one should never look at short-term performance, the effect of merger may also take some time to show tangible better member outcomes. For reductions in fees to matter, they of course have to be reflected in improved net investment returns and extra money in members' accounts."

When it comes to insurance cover, the jury is still out – Rainmaker found close to no change when looking at the mergers of Hostplus and Club Super, LESF Super and Smartsave, Catholic Super and Equip and First State Super and VicSuper.

"There are risks involed in merging, but there are also many risks in not doing so, including slower growth and poor outcomes"

one part of the economy, and trustees are much more open to a fund that isn't fully aligned to their original market," says Bardsley.

He says it's a good evolution that shows mature thinking by trustees. "When bringing different member types together, you have to make sure that one member group isn't disadvantaged because of the much larger member cohort," he says.

"There are many challenges associated with choosing the right merger partner, and then taking that from conception to completion – and for many funds it will be their first experience of doing so. There are risks involved, but there are also many risks in not doing so, including slower growth and poor member outcomes."

The proposed merger of NGS Super and Australian Catholic Superannuation is an example of some similarity of membership in the non-government school education space, and First State Super, VicSuper and WA Super have a much aligned membership, albeit in different states.

ANATOMY OF A MERGER

Michael Dundon, executive consultant, group development, at Aware Super and former chief executive of VicSuper, says VicSuper merged with First State Super earlier this year to take advantage of the benefits of scale. The merger was completed in June and the collective fund is now known as Aware Super.

"We were contemplating a merger because we were seeing increases in the cost base due to inflation, increasing competitiveness around people challenging their members around consolidating funds and also more aggressive marketing and competition," says Dundon.

"We had a firm view that there were quite strong benefits of scale, to reduce costs or contain future cost increases both in administration and investments, as well as the equally important opportunity to provide additional features and benefits such as an expanded advice offer, [and] more targeted projects.

The merger took about 18 months to finalise. Both funds represented state government workers, as does the combined fund's next merger with WA Super.

He believes that in the next decade what will remain will be a handful of very large funds, a much smaller number of mid-tier funds and then a very small number of small niche funds. "Certainly in the future, continued regulatory change, the possibility that the super guarantee won't get to 12% by 2025 and the impact of early release will all mean that funds need to continually evaluate mergers as an opportunity," he says. **M**

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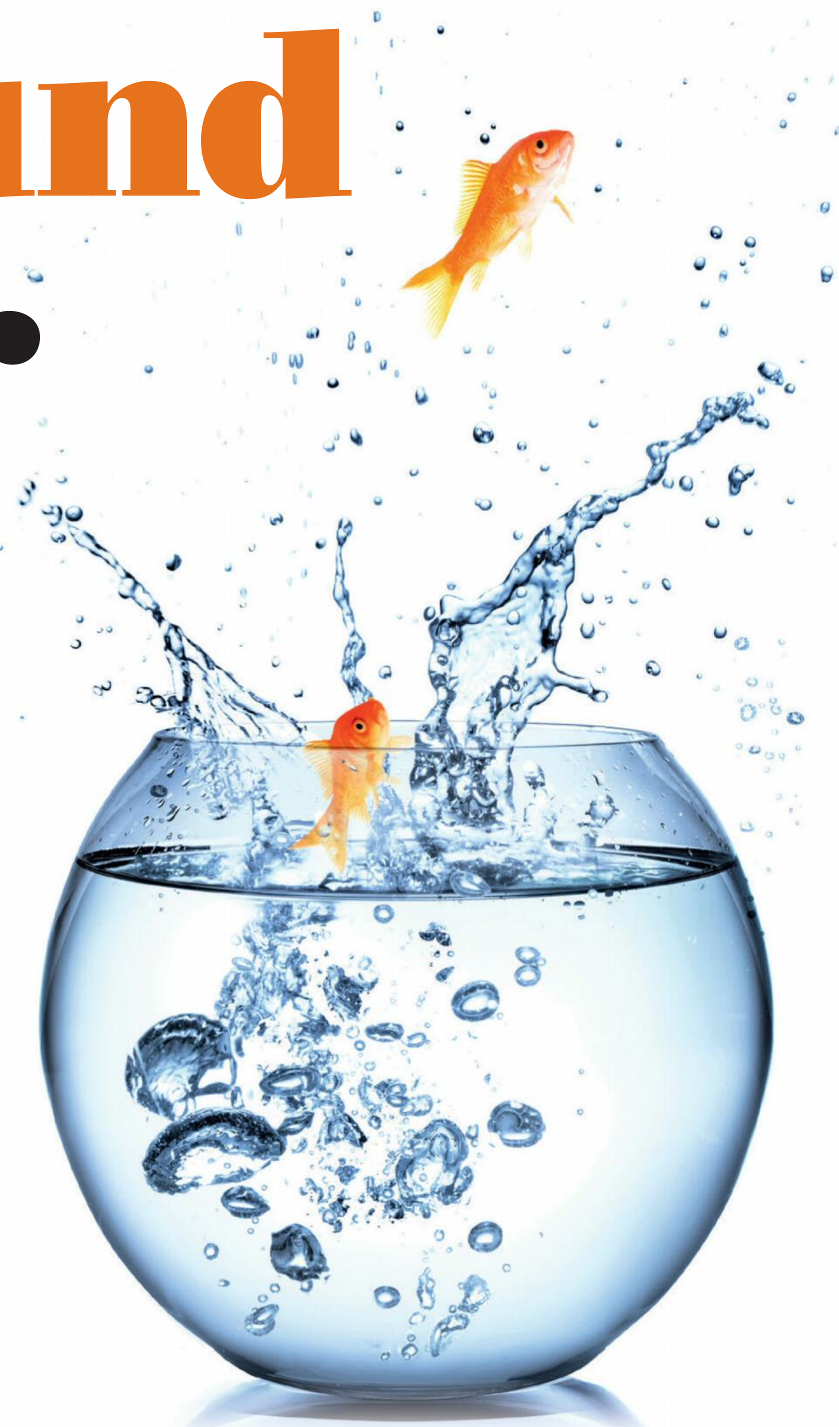
Fish around for better returns



STORY
DARREN SNYDER

Despite a cash rate close to zero, there are bright spots amid the recessionary gloom

The name of the game with income funds is to provide regular (monthly or quarterly) payments that meet or exceed a manager's investment target. They are aimed at investors who require more income than what can be achieved through bank term deposits yet with minimal risk.

This is not easy to accomplish. For years the Reserve Bank cash rate has continued its creep towards zero, meaning interest rates are depressing for investors, and it's left them constantly asking themselves what can be done to find better sources of income.

Increasing your portfolio allocation to shares or other higher-risk asset classes is one way, but what's concerning is whether you're protecting your money from any potential downside or market dips (think Covid-19) and whether this same money will be easy to access if you wish to sell fast.

Concentrate on quality

Jarod Dawson, portfolio manager at PM Capital, says these same daily concerns being raised by investors are also at the forefront of his mind. "The problems you're coming across are the same problems we're looking to solve with our money," he says. This is pertinent as PM Capital's own money is invested in the PM Capital Enhanced Yield Fund, winner of Best Income Fund in *Money's* 2020 Best of the Best Awards.

Dawson admits the Covid-19 pandemic and subsequent health and economic crises weren't something he saw coming. But this hasn't changed the way his unlisted fixed-income fund continues to operate – it still aims to achieve a return above the Reserve Bank cash rate and to do so with low volatility.

Jay Sivapalan, head of Australian fixed interest at Janus Henderson Investors, says investors have been wondering whether the pandemic is going to be the great left-field event that causes a global reset.

"What are we facing? Is it a Great Depression, economic-type shock on top of the health shock; was the economy broken to begin with; or is it the health shock that's translated to a recession that we've had to manage. And we're of the opinion it's the latter," says Sivapalan. The Janus Henderson Diversified Credit Fund placed second for Best Income Fund in the 2020 Best of the Best Awards.

He says investors were also wondering if central banks and monetary policy was already too exhausted to cope with the pandemic. He says the central banks have shown there's more they can do but what is most clear is that they're all going to keep borrowing costs low for a long time.

Dawson and Sivapalan point out that at the height of the pandemic in March and April there were still attractive returns to be generated in certain sectors and businesses in the fixed-income market.

"There were some really quality companies that got beaten up for reasons that were unrelated to their own businesses and industries per se. They really just got dragged down with the broader market," says Dawson.

An example, Dawson says, is the Enhanced Yield

Fund taking a position in the five-year corporate bonds of Visa in the US. He describes it as one of the best quality companies in the world.

"It's an AA-rated business. Net of its cash on the balance sheet it's effectively got zero debt," he says. "The one thing we recognised was that through this [Covid-19] period, while there'll certainly be a hit to businesses and that will limit retail spending in some context, the amount of online spending from home is going to be quite substantial."

In short, the fund purchased these bonds at around four times where they normally trade and sold when credit spreads tightened, generating a return of 7%-8% on that transaction in a just a couple of months.

"We did the same thing with BHP – again, a strong business and well-run business and almost a debt-free business. At the time we were seeing demand for iron ore offshore, particularly from China. Yet the market was repricing it as almost a distressed business," says Dawson.

Identify the survivors

For Sivapalan, the pandemic meant his team had to take another look at which companies could survive a recession and then pick the eyes out of them for investment opportunities.

"When we think about investing with a recession mindset, which is where we're coming from, really we're looking at those businesses that have a real reason to exist," he says. "Think consumer staples – so we've been investing in Woolworths and Coles [10-year] bonds, and there are a range of scenarios where they'll prosper over the next few years. Whether they're a great investment over 10 years, that's more questionable. But they'll prosper over the next couple of years."

He says companies that will thrive in the near-term are technology companies like Apple and communications companies like Telstra, as well as energy distribution companies that aren't listed, such as Australian Gas Networks. He also points to diversified, lowly geared real estate investment trusts that are ready to withstand the recession and work-from-home environment.

"We asked one of our analysts to look at all the REITs that issue bonds and see which of these can survive one to two years without a cent of rent," says Sivapalan. "GPT Wholesale Office Fund had about 18 months of cash and undrawn liquidity facilities – so even if they didn't get a cent of rent, they'd be able to survive for about 18 months."

Over the next six to 18 months, Dawson and Sivapalan say airports (not airlines) are an investment to watch. Although the reduction in flights coming through airports has put pressure on earnings, in the long term the businesses look strong.

"When you look at the scenario over the next six months when domestic borders start to open and then in the next 12 to 18 months when international borders start to open, the pent-up demand we're seeing is extraordinary. Earnings over the next couple of years will surprise to the upside," says Dawson.

Renewable energy and data storage providers are also areas of interest for Dawson's fund.

So where should income funds sit in your portfolio? Sivapalan says by their nature income funds should be considered a defensive part of your portfolio. The return of capital is the most important, he says.

"It's about the certainty of income versus, say, the sharemarket, where dividends are being cut in a recession environment; and property trust distributions are being cut for investors. And with a lower quality credit fund, you have to worry about default risk in a recession.

"With the Diversified Credit Fund, this is in a section of the market where the income is more certain." *M*

"The amount of online spending from home is going to be quite substantial"

How to play the value card

Structural changes, such as the explosion in online shopping, are adding fuel to an old debate

One of the raging debates in financial markets at the moment is about value versus growth stocks. The value strategy was made famous by the celebrated US investor Warren Buffett. The core premise behind value investing is buying an asset at a discount to its intrinsic or fundamental value – this way you're buying with a margin of safety. Growth stocks tend to trade on very high multiples, with most of the cash flows from operations expected much later in future years.

Firstly, everyone is a value investor – no investor actively seeks to overpay for an asset. The issue is that investors appear to believe value can only exist if certain characteristics are met, such as low price-to-book or price-to-earnings ratios.

With respect to returns alone, growth has significantly outperformed value over the past 10-plus years (January 2009 to July 2020), with the MSCI World Growth Index delivering 13.9%pa versus the MSCI World Value Index at 8.2%pa.

Traditional value sectors include financials, energy, industrials, materials and consumer discretionary. Most of these companies tend to have high fixed costs and are capital intensive.

In contrast, the cost structures and capital requirements (ongoing capital expenditure) of new-economy business models are much leaner. Additionally, new-economy models tend to exhibit high growth rates given the structural tailwinds.

Indeed, the Covid-19 pandemic has accelerated this structural growth – for example, online penetration rates have jumped in the past few months because of stay-at-home orders.

The exponential growth in the share prices of companies leveraged to this structural tailwind is simply reflecting the shift of consumers to online for many industries over the past few months, which was otherwise forecast to transition across multiple years.

The debate now is around the sustainability of this shift. In our view, a large portion of this shift is sustainable and unlikely to reverse.

Will value ever outperform growth? Of course it will, but we do not believe it will outperform over an extended period. Growth will likely triumph over value in the long-term, which means investors with a long-term horizon are likely to gravitate towards growth, and portfolio performance is likely to be hurt in a set-and-forget strategy using value – which has been the case.

What conditions are required for value to outperform? The catalysts that will likely see value outperform growth include:

1. Significant valuation dispersion between value and growth. This argument where valuations sit today has some merits.

2. Value tends to outperform in an increasing interest rate environment and during periods of global economic growth (for example, economies emerging from a recession). Banks tend to make up a large portion of the value sectors, and banks' net interest margins benefit in a rising rates environment.

3. A falling US dollar is considered positive for the ex-US economies, particularly emerging markets (given US dollar-denominated debt). Value sectors are better represented in markets ex-US.

3 FUNDS TO WATCH

1 IML Australian Share Fund

The Investors Mutual fund is an actively managed portfolio of quality Australian shares listed on the ASX, which aims to provide attractive investment opportunities for investors seeking medium to long-term capital growth with income. The fund applies IML's conservative value-based investment philosophy with a long-term focus.

2 Martin Currie Australia Value Equity

Its strategy seeks to achieve long-term returns by investing in a high-conviction portfolio of securities that are trading below the manager's assessment of intrinsic value while considering each company's direction and quality. The portfolio holds concentrated and contrarian positions while trying to avoid herd mentality.

3 Perennial Value Australian Shares Trust

The fund aims to deliver consistent returns over the long term through capital growth and tax-effective income, by investing in a diversified portfolio of Australian shares. The portfolio targets companies that the manager believes have sustainable operations and whose share prices offer good value. A key component of this approach is a strong emphasis on company research.

Zach Riaz is an investment manager and director at Banyantree Investment Group, with responsibilities across equity and multi-asset strategies. See banyantreeinvestmentgroup.com.


NASDAQ CONGRATULATES
BETASHARES
NASDAQ-100 ETF (NDQ)
REACHING MILESTONE
A $1B IN ASSETS
BetaShares
Exchange Traded Funds
Nasdaq

'Free kick' for retirees

The downsizer contribution can be used to boost super by up to $300,000 each

One of the more positive superannuation rule changes introduced in recent years allows older Australians to make a non-concessional downsizer contribution of up to $300,00 each, or $600,000 as a couple, from the proceeds of selling the family home. In today's difficult investment environment, releasing equity built up in the home to boost retirement savings may be a worthwhile strategy for some people.

The downsizer contribution was introduced in July 2018 as a means of reducing pressure on housing affordability. The measure is intended to encourage retirees to downsize from homes that no longer meet their needs and free them up for younger families.

It has made it easier for older Australians who haven't had the benefit of compulsory super all their working lives to lift their super balance. Existing contribution caps and restrictions do not apply to the downsizer contribution.

How it works

You have to be 65 or older at the time of making the downsizer contribution and you need to make it within 90 days of receiving the proceeds of the sale, which is usually at the date of settlement. The contribution can't exceed the sale price.

You, or your spouse, must have owned the property for at least 10 years leading up to the sale of the property. You can each make a downsizer contribution even if your spouse is not on the title of the home.

The contribution does not count towards either concessional (before tax) or non-concessional (after tax) contribution caps.

"It's a means of putting more capital into your fund rather than having it sitting outside of super exposed to a higher tax rate," says Andrew Yee, a director of superannuation for HLB Mann Judd.

No work test or age limits apply. The downsizer contribution isn't subject to the $1.6 million total super balance restriction. Normally you can't make a non-concessional contribution to your super fund if your balance is $1.6 million.

"Usually when a person is capped out – has $1.6 million – they can't put any more non-concessional contributions into super. With the downsizer contribution they can still make that contribution on top of the $1.6 million," says Yee.

"That's why it's different; it's less strict than other super contributions. Once you are over 65 and meet the test of ownership, there's no restrictions on contribution except for the amount. It's a free hit for the elderly. If you are in pension mode you can add it to your existing pension provided you're under $1.6 million. You can have $1.3 million in pension mode and then top it up with $300,000."

However, if you've already reached the $1.6 million transfer balance cap, then the $300,000 has to go into your accumulation account, where a tax of 15% will apply on earnings. Once you've gone into pension mode with $1.6 million, that's it. You can't top it up.

"You can't wind it back. It's set in stone."

Yee says the paperwork is straightforward. "There's a form that you fill in and give to your super fund. The fund has it on their file and they report that to the ATO."

Finally, he says you need to weigh up the pros and cons of the strategy. "Is it better to maintain the family home for its tax-free status from an inheritance point of view or to put more money into super where adult children will be taxed. Your home is capital gains tax free so you may be better off not selling it."

And if you already have more than $1.6 million in pension mode, earnings on the whole downsizer contribution will be taxed at 15% in an accumulation account. "It depends how much you have outside of

Doing the sums

A calculator to help retirees work out their possible living costs has been prepared by the Association of Super Funds of Australia.

BUDGETS FOR HOUSEHOLDS AND LIVING STANDARDS FOR THOSE AGED AROUND 65

	MODEST LIFESTYLE		COMFORTABLE	
	Single	Couple	Single	Couple
Total per year	$27,902	$40,380	$43,687	$61,909

Source: ASFA, June quarter 2020

BUDGETS FOR HOUSEHOLDS AND LIVING STANDARDS FOR THOSE AGED AROUND 85

	MODEST LIFESTYLE		COMFORTABLE	
	Single	Couple	Single	Couple
Total per year	$26,714	$38,225	$42,121	$58,477

Source: ASFA, June quarter 2020

super. At that stage of your life you might not be earning that much and paying less than 15% tax or even 0% tax," says Yee.

Furthermore, the downsizer contribution is not exempt from the age pension means test. If you are getting a full or part age pension you should check how it will affect your payments and other benefits.

"Obviously, you need to seek professional advice before you jump ahead," advises Yee.

Upsizing your super balance doesn't mean you have to downsize your property.

Once you have sold your home you are not obliged to buy a less expensive home – or even buy a home at all. The only rule is you can only claim the downsizer contribution once.

Depending on your circumstances you may be able to afford a more expensive property.

"You don't actually need to downsize; you can upsize if you want to," says Yee. "So long as you've sold the house, that's all that's counts when it comes to the downsizer contribution."

As an example, take Mary and Matthew, both in their early 70s. They have a spare $1.5 million sitting in cash after the sale of an investment property. They sell their home for $1.7 million and make a combined downsizer non-concessional contribution of $600,000 to their super funds.

"You don't actually need to downsize; you can upsize if you want to."

They then use their spare cash and what is left over from the sale of their home, after the downsizer contributions, to buy another property in a better area.

So if you have the financial means you could use the downsizer strategy to not only give your super balance a healthy boost but also trade up to a more expensive home.

Before embarking on this strategy, get good professional advice. And do the maths beforehand to take all transaction costs into account to see if it stacks up: agent fees, conveyancing costs, stamp duty and relocation expenses.

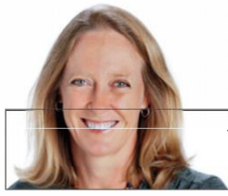
Vita Palestrant was editor of the Money section of The Sydney Morning Herald *and* The Age. *She has worked on major newspapers overseas.*

Plan B: just sell part of your home

The tax office recently ruled that the one-time downsizer contribution can also come from selling some of the equity in your home.

It works like this: you sell part of the equity in your home to a fractional property investor, via the investment platform DomaCom, in return for a lump sum or staggered payments. A 4.4% service fee is charged, which is split between the investor and the platform.

As the homeowner you are essentially liquidating part of your house into cash. The outside investor then owns the equity and receives yield from it through the service fee as well as a proportional share of any capital gains should the house be sold down the road.



WHAT IF? Annette Sampson

Donald Trump is returned to office

Regardless of who wins in November, Australia won't escape the fallout from the presidential election

CAN LIGHTNING STRIKE TWICE?

It would be a brave punter who ruled out US President Donald Trump after the failure of the polls to predict the outcome of the last presidential election.

In late August, most pundits still had the Democratic candidate, Joe Biden, in the lead but the margin was narrowing and Trump's voting base was out and rallying behind him.

Left-wing filmmaker Michael Moore, who correctly called a Trump win in 2016 in key battleground states, has warned of a repeat in 2020 with enthusiasm for Trump "off the charts" in key areas.

On the face of it – a poor response to the Covid-19 pandemic, civil unrest over racism and pandemic restrictions, and a weakening economy – you might assume Trump was down and out. But he is a master salesman and has been going hard on "law and order" and the fear factor of a "radical socialist" Biden administration.

KEY DIFFERENCES

Many people, especially those in US-allied countries like Australia, see Biden as a steady hand on the wheel after the unpredictability and erratic behaviour of the Trump presidency. Biden has described himself as a "transition candidate" acting as a bridge to a younger generation of Democratic leaders as opposed to Trump who has jokingly (we assume) encouraged supporters to call for 12 more years rather than the permitted four.

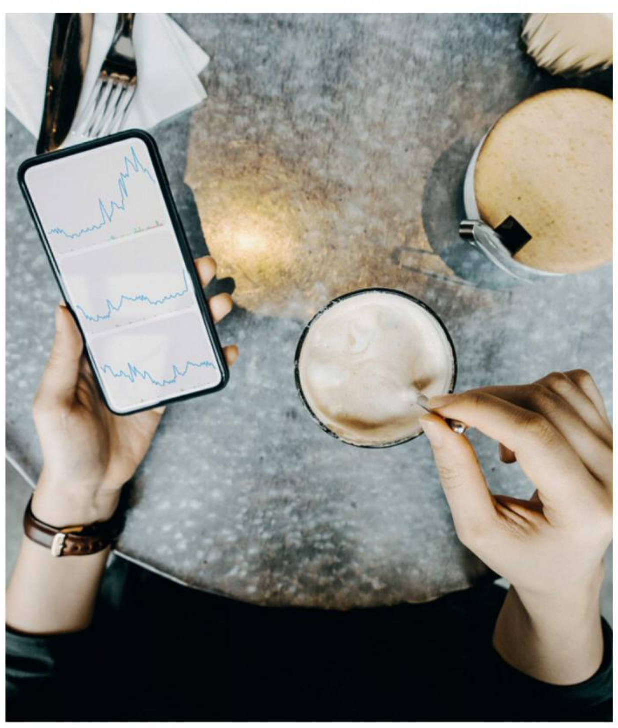
Trump has delivered what he promised: a non-conventional presidency. Biden has been in politics since 1972, served as vice-president for eight years and, according to *The New York Times*, is "seeking to cast himself as a steady, seasoned hand in a dangerous and uncertain world".

POLICY CHANGES

Analysis by fund manager Fidelity says it is Joe Biden who is actually the change candidate, threatening to shake things up, while Trump will provide a continuation of the status quo. It expects the key policy differences to be in tax, regulation and climate change while the aggressive US stance against China will likely remain whichever candidate wins office.

Biden wants to reverse some of Trump's tax cuts for higher earners and raise the minimum wage as well as increase the minimum tax on offshore profits.

He wants to rejoin the Paris climate agreement and commit the US to reaching net zero emissions by 2050, led by a plan to create jobs by manufacturing "green



THE CHALLENGE Darren Snyder

Find the right share trading platform

A lot has been said in recent months about the spike in retail (smaller) investors who are trading shares on the ASX and other exchanges overseas.

The Covid-19 pandemic and its impact on sharemarkets has no doubt presented smaller investors with daily buying opportunities. And there are several online, low-cost trading platforms that make buying (and selling) shares easy to do, charging as little as $5 commission for trades from $100.

But buying shares and turning a profit is not as easy as it sometimes looks. The regulator ASIC points this out in a sharemarket analysis it conducted in May this year.

energy” products. He has proposed to spend $US2 trillion ($2.75 trillion) in his first term and to achieve 100% clean electricity by 2035.

Analysis published by the United States Studies Centre (USSC) at Sydney University predicts a Biden administration would pursue a less isolationist approach to international trade and restore US commitment to institutions such as the World Trade Organisation, both of which would be good for Australia. However, this is qualified by his “Buy America” program, which pledges federal money to buying local goods.

IMPLICATIONS FOR AUSTRALIA

Like him or loathe him, the US economy did well under Trump until the pandemic hit. Since the outbreak he has signed legislation to pump trillions of dollars into the economy and supports further measures such as a payroll tax cut. Sharemarkets have responded well to this stimulus, seemingly at odds with the broader economy.

According to David Uren in the USSC analysis, the correlation between US and Australian economic growth has slipped during the past two decades as Australia has become more integrated with Asia. However, he says in general it is still true that what is good for the US is good for us.

He says we are more at risk from US trade policy as we lack unilateral negotiating power and depend on organisations such as the World Trade Organisation to set the rules. He says unilateral US deals, such as its Phase 1 deals with China, have already worked against us with the US likely to gain barley sales at Australia’s expenses, with LNG and bean exports to China also vulnerable.

The pandemic remains a key economic issue no matter who wins government, with Biden indicating he is more likely to follow health advice on issues like lockdowns than Trump, who prioritised opening up the economy. With the US one of the countries worst affected by the virus, the next president will face a dual challenge of addressing the health situation while keeping the economy going.

The other great challenge for the victor will be addressing the deep divisions that have emerged in US society.

DID YOU KNOW

Joe Biden first ran for president in 1987. He tried again in 2008 and considered running in 2016, but was persuaded by President Obama that Hillary Clinton had a better chance of winning the election. Until this year, he had won zero presidential nominating contests, according to Politico, a political news outlet in the US

BEST-CASE SCENARIO

Research last year found only one in five Australians wanted a Trump win. As an ally, certainty and predictability are important for Australia although we have largely stayed under the Trump radar.

WORST-CASE SCENARIO

Hawkfish, a data firm backed by billionaire Michael Bloomberg, has raised the prospect of a “red mirage” on election night where Trump could appear to win on election night only to have that result overturned days or weeks later due to mail-in voting. What happens if he claims victory early or, having undermined the credibility of postal voting for the past few months, claims electoral fraud?

THE WILD CARD

Whoever is elected, managing the fallout from the pandemic will be critical to their success or failure. How challenging this will be in part depends on when, or if, a successful treatment or vaccine becomes available.

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

It said the activity of retail investors had led to the increased daily trading of shares and the duration of holding these shares had significantly decreased. This indicated retail investors were now participating in dangerous short-term and “day-trading” activities.

There were also reports that this activity was being driven by increased social media boasts and people wanting to make the same trades and/or profits.

“Even market professionals find it hard to time the market in a turbulent environment, and the risk of significant losses is a regular challenge,” says ASIC.

“For retail investors to attempt the same is particularly dangerous, and likely to lead to heavy losses – losses that couldn’t happen at a worse time for many families.”

During ASIC’s review, on more than two-thirds of the days on which retail investors were net buyers, share prices declined the next day. On days when retail investors were net sellers, share prices more likely increased the next day.

The message here is that if you’re thinking of starting a share trading account, think about the real reasons you want to do so. If it’s to see your money grow over one to three years or more, then getting caught up in the daily movement of share prices is unlikely to do you any favours.

Going with the cheapest trading platform may be what you decide but weigh up whether that platform and cost really cater for what you want to achieve. For example, does it offer access to international shares; or does it offer access to the platform’s full suite of research and data?

On page 78 of this issue, we clarify the difference between the types of stockbrokers and how to use them depending on your needs and investment goals. There are other alternatives, too. If you’d prefer to have an investment professional manage your shares portfolio, you may want to invest with a robo adviser or in a managed fund.

Find the hidden gems

STORY DAVID THORNTON

As blue chips fall out of favour, small companies with growth potential can fill the gap for investors who know what to look for

Australia is a country obsessed with blue-chip companies paying out consistent dividends – fully franked, thanks! These companies are so synonymous with dividends that, in some cases, they've carved out a spot in our national psyche. It's hard to picture Sydney Harbour in your mind's eye without a kangaroo flying overhead at 1000 feet or so.

But a reality check is called for. We live in a world vastly different from the one that nurtured these companies to such revered status.

Dividends have been sidelined as the blue-chip giants grapple with several seismic events that have dulled their appeal.

First it was the banking royal commission, then the Covid-19 pandemic and the accommodative monetary policy that comes with it.

Nor can investors look to traditional fixed-income investments, with interest rates and bond yields plumbing historic lows.

But hold the phone. The Aussie market is not restricted to the blue-chip behemoths. While the large-cap stocks garner most of the attention in the investment world, microcaps make up most of the companies listed on the Australian market.

Lacking a concrete definition, a microcap typically denotes a stock with a market valuation of around $300 million, which falls between about number 350 and 600 in order of ASX market capitalisation.

To be certain, most microcap stocks won't follow in the footsteps of CSL or Afterpay. But ignoring these companies means ignoring the growth journey large-cap stocks go through. Today's microcap stock is tomorrow's market darling (see table).

"Generally it's an area that can be quite lucrative if you can find a company with a good concept that the management team can execute on," says Emanuel Datt, from fund manager Datt Capital. "But the space is regarded as hard work because it's difficult to screen quantitatively. The reality is the majority of these companies aren't profitable."

Being small is about all that microcap stocks have in common. They're as different as they are many.

Robert Frost, from OC Funds Management, splits them into three categories: profitable ones with strong cash flow; innovators that are part way to profitability; and event- or trend-driven companies such as those involved in medical marijuana.

"Cash flow is critical, but whether they're positive or negative really depends on the business," says Frost. "Most microcaps are not cash flow positive."

David Keelan, from Ellerston Capital, underscores how important it is to understand a company's cash flow trajectory. "Cash is the most important thing because the majority of these companies are growing, and they need to grow correctly."

While a negative cash flow may scare off many investors, it shouldn't be a deal-breaker in itself. This

is especially the case for industry disruptors. “They can be disruptive and cash flow negative, but once they flip the switch to monetisation they can become very profitable very quickly,” says Frost.

Tesla is a classic example of this kind of company.

Top 10 microcaps

	Float-adjusted market cap	Index weight	Sector
Pointsbet Holdings	$1.19bn	2.18%	Cons disc*
De Grey Mining	$840m	1.54%	Materials
West African Resources	$790m	1.43%	Materials
Electro Optic Systems	$710m	1.29%	Industrials
Redbubble	$660m	1.21%	Cons disc*
Bellevue Gold	$600m	1.09%	Materials
Red 5	$600m	1.08%	Materials
EQT Holdings	$580m	1.05%	Financials
Baby Bunting Group	$570m	1.04%	Cons disc*
Temple & Webster Group	$550m	1.00%	Cons disc*
Total	$7.09bn	12.91%	

Source: MSCI Australia Microcap Index (416 companies). *Consumer discretionary

For years it burned investor dollars for a living. Now it is turning a profit and has disrupted an entire industry.

While microcap companies with growth ambitions often burn cash, it’s key they have a pathway to profitability. Keelan points to ikeGPS (ASX: IKE), a software as a service (Saas) company in the 5G space, as a case in point. “We like it because it’s grown, but its cash flow burn is coming down,” he says.

If a microcap company is successful, the pathway to profitability can be long.

TPG Telecom launched in 2001 with a market cap of just $22 million. Today it’s a top-100 company.

Other examples include Blackmores and Webjet, although the latter has lost about half its market capitalisation due to the pandemic.

The journey to the top can follow different patterns. It really is case by case.

“Afterpay started as a microcap and now it’s on the verge of entering the S&P/ASX 20,” says Alexandra Clarke, also from Ellerston Capital.

“That sits into the category of create your own market, build its own momentum, and burn through cash. Then you’ll have a company like an IPH [intellectual property services], which started off as a microcap and now it’s worth a couple of billion. It’s got steady cash flow, steady earnings and it’s gone through the full lifecycle.”

There are additional risks to microcap investing beyond the simple calculation of who will make it and who won't.

Microcaps have a small investor base that doesn't usually include institutional investors.

Institutional investors typically invest large sums of money over a short period of time, but do so in a way that represents only a minority of the company's traded volume. Moreover, small companies often don't have the resources to put towards the levels of corporate governance that institutional investors require. So for them, microcaps simply don't make much sense.

The lack of institutional investment can lead to low liquidity and high volatility. During a "risk-off" bear market, exiting the stock can be difficult.

Compared with large-cap companies, microcap businesses usually aren't highly diversified. If their core business is hit, they don't have a lot of chips on the table to manage the pain.

Microcaps also receive little, if any, coverage by brokers. This can make it hard for these companies to get noticed.

It can be a catch-22. Investors want to see positive

> Because microcaps get little broker coverage, they are often undervalued

stock momentum but that momentum can only come from investment.

"A lot of it comes down to a business winning investors and selling your concept," says Datt. "Many investors depend on broker research to piggyback off, but there's very little broker coverage in the microcap space. So it's a challenge for companies to get in front of credible investors."

But the lack of exposure has a silver lining. Because microcaps lack visibility for most of the investment world, the hidden gems are often undervalued, providing more potential growth upside.

For professional investors, filling the information gap requires stepping out of the office and learning about a company first hand. "Nothing beats getting out and meeting companies," says Clarke.

No doubt microcap investing is fraught with risk, but in this low-rate and low-yield world, a small allocation to these kinds of stocks could be a smart move.

"You've got an ageing population that needs income to sustain the lifestyle they're accustomed to," says Clarke. "Investors aren't willing to accept a 7% yield at the cost of capital growth. That's what's moving investors down from the ASX 50 to the ASX 100 and then the ASX 200. They want stocks that have a decent yield with the potential to capitally grow."

A small allocation to higher-risk microcap stocks has the potential to boost your portfolio returns while minimising losses.

"From a portfolio perspective, it makes sense to have a small exposure to microcaps. If you pick a good one, you can earn a very significant multiple," says Datt.

"If an investor had invested 2% and it goes up 10 times, all things being equal, it will turn into a 20% holding in the portfolio. But the downside risk would be limited to that initial 2% allocation." *M*

Where to get exposure

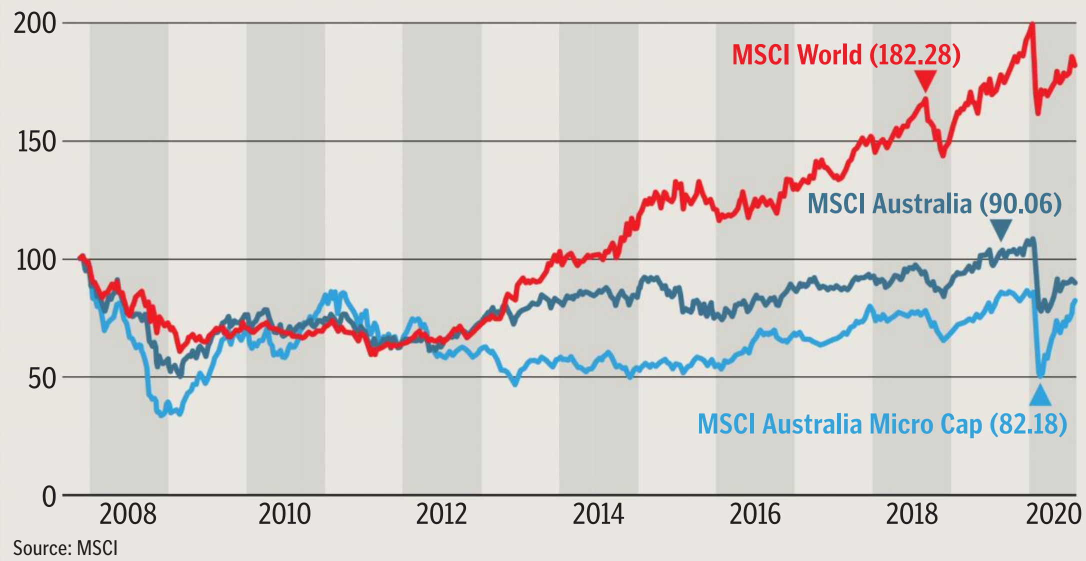
Investors can invest in microcaps directly through a broking platform, but it's a risky way to go for the uninitiated.

Managed funds run by the experts interviewed for this article include the Ellerston Australian MicroCap Fund, OC Micro-Cap and Datt Capital Absolute Return Fund.

Then there's the host of exchange traded funds (ETFs).

Another option is buying shares in a listed investment company (LIC). Some examples are Acorn Capital's Investment Fund (ASX: ACQ), NAOS Emerging Opportunities (NCC) and Spheria Emerging Companies (SEC).

Cumulative index performance – price returns, AUD (Nov 2007 = 100)



Source: MSCI

Full service with a smile

Once regarded as a shonk or charlatan, a "real" stockbroker can become an investor's good friend while they make money together

I received an email from a Marcus Today member, in the wake of the recent results season and the US technology sector correction. It said: "I am exhausted trying to do my own investment. I'm not sure I enjoy it anymore. I keep getting blown up. And as if the results season wasn't bad enough, then all my technology stocks stabbed me in the back. I have thought about using a full-service broker. Is that a good idea? Or are they all shonks and charlatans?"

Stockbrokers, like real estate agents, have been scorned for decades. It started after the tech boom in 2000, an event that exposed the ignorance and exploitability of the private investor. A moment of irrational exuberance that had to be blamed on someone and the broking industry copped it bad. Private investors had to be protected from themselves and since that time, over two decades, the full-service stockbroking profession has been persecuted and regulated and at the same time mercilessly undercut by technology.

Twenty years later and it has changed. Maybe you haven't noticed. Maybe you are still suspicious. Maybe you think being online, doing it yourself, "doing your best" from your kitchen in Woop Woop is the only option left. Heads up, it's not.

But gone are the corner cutters, those who weren't prepared to bend to regulation; gone are the cats trying to get out of the compliance bag; gone are the colourful characters who did their best work after lunch (small sigh); and gone are the passengers who didn't make a profit for themselves or their clients.

The truth is that in 2020 any stockbroker left standing is a veteran, a survivor, experienced, licensed, compliant and professional who offers access to sophisticated products, IPOs, new issues, corporate deals, research, international investments, stock advice, financial advice and experience, with errorless execution and – a little-known or recognised benefit – excellent administration. A lot more value than a business that charges $19.99 a trade and gets paralysed at crucial moments without a human in sight.

Believe it or not, you'd be lucky to have a stockbroker pay you some attention because these days they are more concerned about whether you impress them than whether they impress you.

With that in mind here are a few tips on how to find and maintain a full-service broker in 2020:

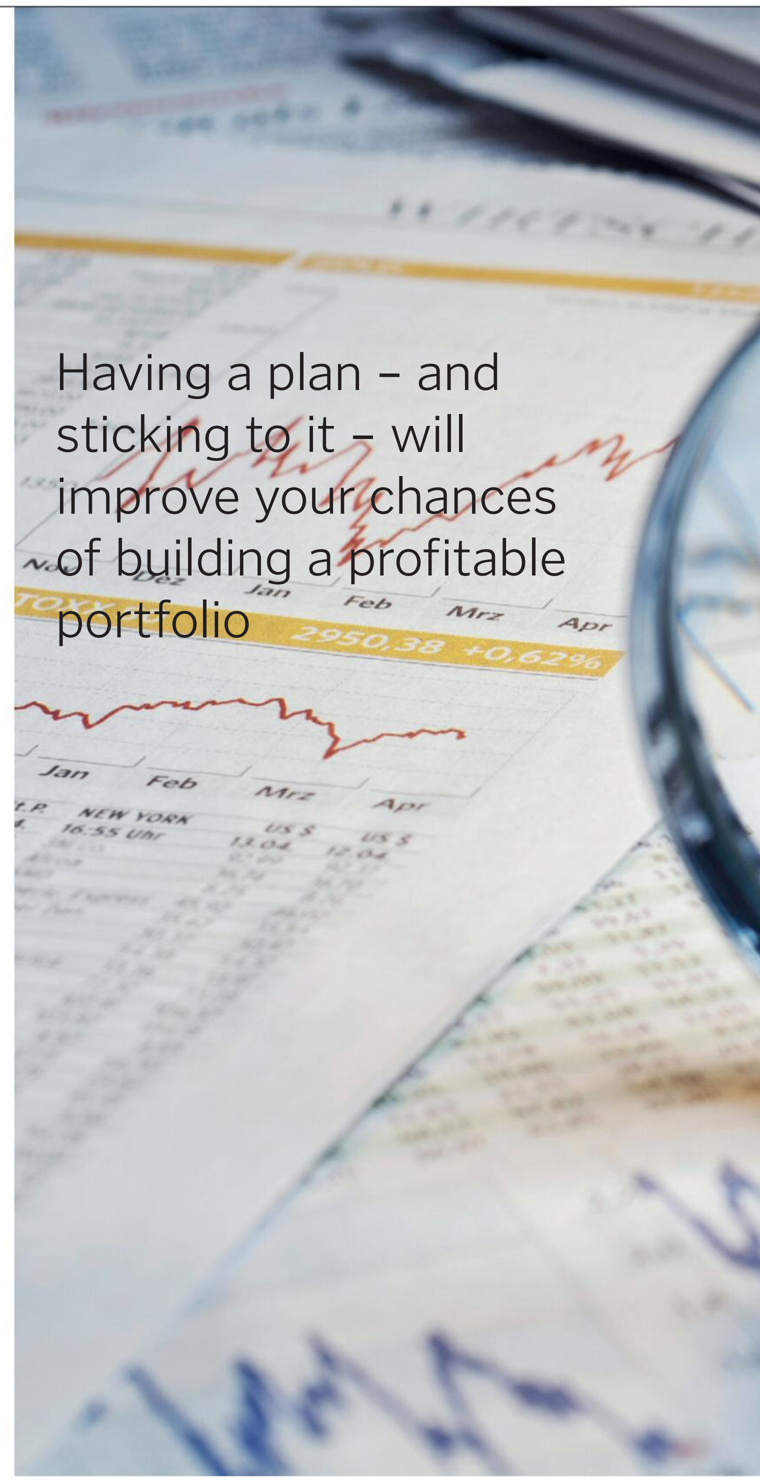
- How much is enough? Some brokers in the past have done a cost-benefit analysis on their client bases and booted anyone with less than $500,000 on a HIN. It's probably $1 million by now. If they do take you on with little money, you are probably dealing with someone young or inexperienced, although young brokers, if you get one, often pay you a lot more attention and provide access to the same advice.
- Toe the line. In the current compliance environment, clients are as much a liability to brokers as an asset. Be compliant. Don't complain about the paperwork, don't cut corners, don't hide any details and don't do anything stupid like offer to pay in cash or drop off a cheque at reception. They've seen it all and they will sniff you out.
- A partnership not a hierarchy. Work together. Brokers will not, and cannot, take any discretion over your money. You do not "hand over" to a broker. You work with a broker. You are partners in a quest to make money. There is no room for either of you to play Lord Farquaad.
- It is your responsibility to show interest. Yes, at the beginning, to get you signed on there will be an assessment, some advice, some changes made, some interest and activity. But after that, if you want action you need to provoke it, otherwise *your* – emphasis on your – investments will wither on the vine once the initial investment and effort have been made. I suggest you make a call a week just to keep things rolling and keep yourself in mind (some financial advisers are going to hate me for suggesting that).
- The onus is on you to develop a good relationship. It's not hard. Brokers love the stockmarket. All you must do is be interested and, if possible, be pleasant, undemanding, respectful and intelligent to deal with. It's the first law of making conversation. Talk about something they want to talk about. Easy: the stockmarket.
- Make friends. In my time in broking I made some great friends among my clients. What better job in the world than turning up every day trying to make you and your friends money. It's commonsense. Be nice. Offer to buy them lunch. Cultivate them. See the relationship as long term. Or be a demanding pain. Your choice.

** Please note that Marcus Padley is no longer a stockbroker.*

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.

Beyond a 'gut feeling'

STORY ROGER KINSKY



When I first started investing in shares, the idea of planning didn't even enter my mind. A good friend of mine "played the market", so I asked him for the contact details of his broker. I contacted the broker and started buying and selling shares based on the broker's recommendation and my "gut feeling", peppered with a few tips here and there.

Many years later, and after making many mistakes, I've come to realise that this wasn't a good approach. Share investing should be planned and your planning should be done before – not after – you set up a portfolio.

Not only do you need a plan but, even more importantly, you also need to follow your plan. On most occasions when one of my investments has resulted in a loss, it's been because I haven't followed my plan.

We're all human and our emotions can override logic or rational considerations. It's most important not to divert from your plan on a whim or because of a mood swing. In fact, the less emotional and the more rational you are, the greater your likelihood of being a profitable share investor.

I recommend that you write down your plan and keep it in a prominent place near your computer or on your desk and that you refer to it before contemplating a trade. While the plan should be written, it shouldn't be set in concrete but should be reviewed periodically (I suggest every six months) because conditions change.

Plan your investment capital

Your first step is to decide how much you'll invest. The minimum buy order is $500 (for any shares you don't already own) but, practically, you need a total investment capital of several thousand dollars so you can obtain reasonable diversification.

It's sometimes said that the amount you invest in shares should be no more than what you can afford to lose. I think that's a rather negative attitude; however, the important point is that it's dangerous to invest money in shares that you need for other essential purposes. In other words, your shares should be purchased using investment capital as opposed to essential capital.

Also, it's a good idea to keep a proportionate amount of your available capital in cash and not invest every single dollar into shares. It is frustrating to come across a great investment opportunity but not to have the capital available to take advantage of it. Indeed, keeping some spare capital is an essential part of good risk management.

Once you've planned how much you'll invest in shares, you also need to consider the following aspects:

- Will you invest a single lump sum, or will you build up your portfolio over time by adding to it?
- Will you reinvest dividends or take them as cash? If a dividend reinvestment plan is offered, will you join it and receive additional shares instead of cash?
- Will you gear your share investment by taking out a loan or by trading contracts for difference (CFDs) or derivatives? If you're starting out, doing so is probably not a good idea because of the higher risk. However, if you're a high-risk investor, you might consider this option.

Whose name will be used

Before you trade shares with any broker (online or offline), you need to set up a trading account (or accounts). When you do so, you need to state in whose name purchased shares will be registered. In many cases, investors make arrangements to register shares in names other than their own – for example, if they're in a personal partnership

or when they're setting aside growth assets on behalf of minors (usually their children or grandchildren).

If you want to do this, you need to check out the taxation implications of income splitting and unearned income of minors.

Another option is an investment partnership or club, which is a partnership set up specifically for share investing. The benefits are that you spread the risk and have more capital available than if you go it alone. Also, you can bounce ideas around with others. However, you lose complete control, the set-up procedure is rather complex (because you need a partnership agreement), and you'll also need to submit a partnership tax return (in addition to your own personal tax return). If you're interested in setting up or joining a share-investing partnership, I suggest you research further.

The time you'll devote

You've probably heard the story (supposedly true) about the commentator who remarked to Gary Player after he'd won a golf tournament that luck had played an important part in his win. Player agreed but added, "Yes, but I've noticed that the more I practice, the luckier I get." The same principle applies to share investing, and the more time and effort you devote to it, the more likely you are to be successful.

Some people make share trading a full-time activity, while others employ a bottom-drawer approach and do very little other than purchase some blue-chip shares and then sit on them. You'll probably fit in somewhere between these two extremes. As part of your plan, you need to consider how much time you're prepared to devote to investing. You need time for research and to monitor your investments and the market.

The amount of time you need to devote to investing is related to the number of shares you own or are tracking. With a reasonably large portfolio, you'll probably need up to one or two hours a week just to keep track of your shares and to keep your records up to date. With share research, the sky's virtually the limit and you could spend all day, every day on your computer, accessing the amount of information that's available.

Your investment goals

An essential (but often neglected) part of your share investment planning is to define your investment goals (also known as objectives or targets).

- Unless you set yourself goals, how do you know whether your investments are performing to your expectations? More importantly, how can you make decisions about your investments unless you have defined your requirements?

When defining your investment goals, consider the following questions:

- What's the term of my investment? Am I interested in long-term profitability (perhaps in my own superannuation fund) or am I hoping for a high short-term capital gain?
- What's my targeted profit?
- What's the preferred nature of my profit? Am I more interested in capital gains, dividends or a combination of both?
- Are there any special taxation considerations? Do I have any accrued capital losses that I can use to write off against capital gains?
- Do I need to consider social security implications?

Your investment mix

You can now plan what stocks to buy. Conventional wisdom says you should avoid putting all your eggs in one basket and instead spread your investment cash pool around – that is, you should diversify. There's no reason why all your investments need to be in the same sectors or at the same level of risk. Rather, what's important is that your investment mix matches your risk profile. An investment strategy doesn't necessarily involve only one type of risk category. The proportionate amount of your investment capital in each type of risk category can vary, but it should still match your risk profile.

Your trading method

As part of your planning, you'll need to consider how you'll trade – that is, how you'll place buy and sell orders. As I've previously said, it's possible to transfer share ownership directly but the vast majority of transactions are made through a broker. The two main types are an offline broker and an online broker. Within each of these major types are three different types of broker: a full-service broker; a broker who gives advice; and a no-advice broker.

Offline and online broker

Before the widespread use of the internet, all brokers operated offline. Most worked in an office and relied on personal contact or phone or fax to communicate with customers. Their overhead costs were high so the brokerage fee was substantial. As internet use grew, online trading mushroomed in popularity.

Trading online has many advantages, including a low brokerage rate of around $20 or even less per order. This makes trading in small parcels feasible and enables small investors to diversify to a greater extent than previously.

Another great advantage of online trading is that most online sites contain a huge amount of information that clients can access free of charge. This typically includes general information about the company, comprehensive financial statistics, charts and technical indicators. Also, you can generally set up free watch lists, and an alert service may be available (at additional cost, although some websites provide a free service).

However, online trading requires some knowledge, internet expertise and confidence. Some additional risks are also involved, including a greater chance of making mistakes. So online trading may not be suitable for all investors.

One way of getting into online trading is to initially use an offline broker who provides advice, allowing you to gradually ease into doing it yourself. You can do this by setting up an online trading account and trading relatively small parcels of shares until you build up your expertise and confidence. As you do so, you can ease out of offline trading and more into online trading until eventually you can be trading exclusively online if the method suits you.

Full-service broker

As the name implies, a full-service broker provides a full financial service for clients, which can include:

- Risk profile assessment.
- Investment advice, including how to best distribute your capital between the various types of investment instruments.
- Reviewing and reporting on your investments on a regular basis providing share research and recommendations of when to buy or sell.
- Trading on your behalf, alerting you (usually by phone or email) when the price of a share reaches a pre-set level.
- Providing a trading summary at regular intervals, detailing your trades and the profit and/or loss on each trade.
- Total investment management, where you set up a managed discretionary account and allow the broker to manage your capital without input from you.

Broker who gives advice

If you don't require a full-service broker but would still like someone to trade on your behalf and give advice when you want it, you can use a broker who provides this type of arrangement.

No-advice broker

Many offline brokers offer a no-frills, low-cost service, in order to try to win back some of the business they have lost to internet brokers. No-advice brokers execute your orders but don't give any advice regarding the merits or demerits of your proposed trades. You'll need to check the types of orders you can place with them, as the full range of order types may not be available with all discount brokers. The main advantage of using a no-advice broker rather than trading on the internet is that you're talking to a person rather than communicating with a computer. You'll be able to ask questions and seek clarification as long as this doesn't constitute investing advice.

Your trading strategy

A most important part of your financial planning with shares is to decide on your trading strategy. If you use a full-service offline broker, it's no problem, because the broker will make trading decisions for you. If you decide to take control of your finances, however, you need to decide on your trading strategy – that is, the criteria you'll use to decide what shares to buy and sell and when to do so.

Really experienced investors may be able to trade profitably using a "gut feeling" approach, but most of us need to set out and follow a strategy. This so important that I suggest you have a written strategy before you place any trading orders.

Check your progress

An important aspect of your plan is how you will review your portfolio and the frequency of this review. Two types of review are required: your portfolio and your plan.

Reviewing your portfolio

You should plan your minimum review period based on your temperament and type of shares held. For example, if you are very keen (or edgy) or if you own some speculative shares or the market is very volatile, you may wish to review your portfolio daily or even several times a day. The frequency of review is also highly dependent on your frequency of trading – if you are an active trader and trade each day (or several times a week) you need to review frequently. If you are a less active share investor, you don't really need to review all that frequently. In this case, I suggest you plan a detailed weekly review. You could even plan a convenient day and

time to conduct your review. Clearly, this depends on when you have some time free from any commitments or distractions. Some time on a weekend may be the best option because the market is closed and you can get a picture of the weekly action.

Reviewing your plan

You need to consider reviewing your plan regularly but this doesn't need to be done frequently – in fact, it is better if you don't do it too often because having a plan is pointless if you chop and change it frequently.

You need to stick to your plan and give it a fair trial before you consider changing it. I suggest an appropriate time interval would be six months, but it could be longer if you are happy with it.

Estate planning

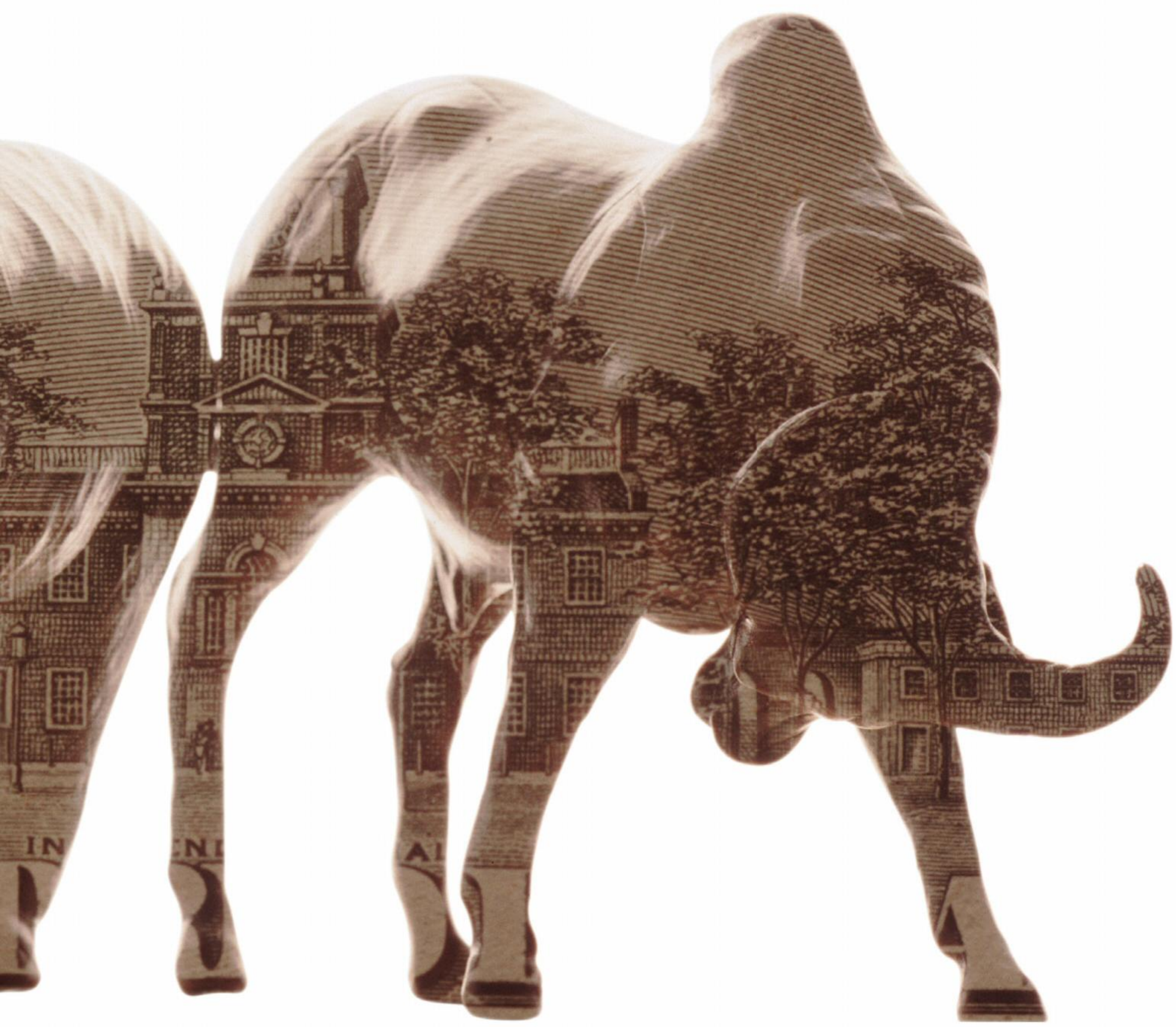
Although we often don't like to think about estate planning, it's prudent (and fair to your beneficiaries) to plan your estate properly and to set out your plan in the form of a legal will. As you get older, estate planning becomes increasingly important and you may wish to obtain specialist advice about it.

As far as your share portfolio is concerned, the first thing to remember is that if you've bought shares and registered them in someone else's name, they legally own the shares so your death won't affect this in any way.

However, shares held by you at the time of your death become part of your estate and will be inherited by your nominated beneficiaries. Under taxation law at the time of writing, death doesn't constitute a capital gains event and beneficiaries acquire inherited shares at their cost to you. So if a share portfolio is part of your estate, it's important to maintain accurate records of all shares in it. These records need to show the acquisition price and date of each parcel of shares and must go right back to the original acquisition date, even though this may have been in the distant past. This is especially important if you hold shares acquired through a dividend reinvestment plan.

If your beneficiaries decide to keep their shares, the executors of your estate need to arrange ownership transfer through the sponsoring broker (for broker-sponsored shares held in CHESS) or the share registry (for issuer-sponsored shares held with an SRN). Your beneficiaries will pay no capital gains tax until they sell some or all of their shares, when they'll pay tax at their marginal rate in the financial year of sale. So if you're on a lower tax rate than your beneficiaries, selling shares before your death could be financially beneficial.

Needless to say, estate planning becomes a lot easier if you know just when you're going to die! ***M***



When directors bail out

Investors should read the signals when a company executive sells shares

STORY GREG HOFFMAN

"What are some of the more stomach-churning director share sales you've seen on the ASX in recent years?" I tweeted on September 5. It touched a nerve and I received replies with examples from many investors (find it on Twitter at my handle @GregHoffman15).

Every serious investor I know pays careful attention to directors' transactions. And none of them likes to see directors selling. It may not always be a negative but, in the rough-and-tumble world of the ASX, investors are constantly on the lookout for signals from those who may know more than they do. So when a director, who has full access to the business's numbers, plans and inner workings, decides to cash out, most investors feel the hair on the back of their neck rising.

Sometimes a director will make a statement along with the announcement of a share sale. Mostly, these statements give standard corporate lines about "tax obligations" or "portfolio rebalancing". Such lines inspire little confidence from investors. But the tricky thing is that they can often be true.

IN THE REAL WORLD

Allan Moss, the highly regarded, long-time chief executive of Macquarie Group, was a regular seller of Macquarie shares during his tenure (which he acquired over time through Macquarie's various remuneration plans). But that didn't stop him delivering impressive results and leadership.

Macquarie's current chief, Shemara Wikramanayake, has a different approach. In a December 2017 profile piece prior to her ascension to the top job, she revealed that "I have never sold a Macquarie share nor any interest in our funds in my 30 years here". That has led to her accumulating Macquarie shares worth more than $100 million. That kind of commitment gets Wikramanayake as close to being an owner/manager as one can get in a major corporation like Macquarie.

In 2018, many investors were unimpressed by three separate large sales of shares in Kogan.com by founder Ruslan Kogan. The year's announcements certainly make for interesting reading. But despite those large sales, Kogan's share price has soared to new heights subsequently. So those who purchased Kogan's shares from him and held on have eventually done very well.

> Most investors would feel the hair on the back of their neck rising

Investing is a multi-factor equation and director share trades are often a small part of it. Macquarie has thrived under leaders with different approaches to selling or holding their shares and Kogan.com shareholders don't seem to have been disadvantaged so far by the founder's large share sales. But there are stories with less happy endings.

Many investors were incensed last year by trades and commentary from Arq Group's then chief executive Martin Mercer. He announced the sale of more than a third of his stock in May 2019 at more than $1.67 per share, with a cover letter saying "I am reluctantly selling shares to meet personal tax obligations" and that "I am very positive about the company's growth outlook".

A month later the company downgraded its outlook and the share price plummeted. That fall then resulted in a more unusual type of director share sale by Arq director Larry Bloch, who announced the transfer (effectively a sale) of 650,000 shares to his lender in late June.

It's something you see from time to time in bear markets – directors who are forced to sell shares due to margin loan obligations or similar financial arrangements. Can you imagine the atmosphere at the next few Arq Group board meetings after that sequence of events? The company subsequently changed its name to Webcentral Group and at the time of writing was trading on the ASX at a lowly 11 cents per share.

It's that type of situation that stands out in investors' minds when they see director sales. No one wants to feel like a sucker who buys shares off an insider before things turn bad.

BUY, BUY, BUY

What about the opposite scenario, when directors buy shares? There's a saying that directors sell shares for many reasons but they only buy for one, which is that they believe the stock is good value. That's mostly true, but there's some detail to explore.

Let's start with the clearest situation first, which is a director making an outright purchase on the sharemarket. To see this as a negative requires me to really stretch my mind (I imagine a manipulative director sending confident signals by buying while a related party was selling even more shares). But apart from that unlikely scenario, if a director has forked out their hard-earned cash to buy shares on the open market, it's a strong sign that they feel the price they have paid is an attractive one.

Back in March 2009, at what turned out to be the depth of the GFC, Flight Centre founder Graham Turner forked out almost $400,000 to buy 100,000 Flight Centre shares in addition to the 15.5 million he already owned. That's the ideal situation – a clear, positive sign from a founder who continues to operate the business day to day.

While an outright purchase on the sharemarket is a good signal, other types of purchases are a much weaker signal (or can even be ignored). "Purchases" relating to dividend reinvestment plans are a common factor at this time of year. This is a weak signal because it is simply programmatic buying that takes place at dividend time. It's still a positive because the director is electing to take more shares over a cash payout, but it's not as strong a positive as an on-market purchase.

Directors' purchases are sometimes the result of share option plans or employee share plans. Those are different cases because they typically involve prices that are below the current market price. So it's important to look carefully at the notice to the exchange to see what kind of purchase you're dealing with.

The documents to look for on the ASX website or your online broker are "Appendix 3Y" or "Change of director's interest notice". Once you open the document, you'll see the name of the company, the name of the director, when the transaction took place, the number of shares bought or sold and the price at which the trade was done (or, at least, the total consideration which you can divide by the number of shares to find the price per share). The director's total holdings before and after the trade will also be shown.

No one wants to feel like a sucker who buys shares off an insider before things turn bad

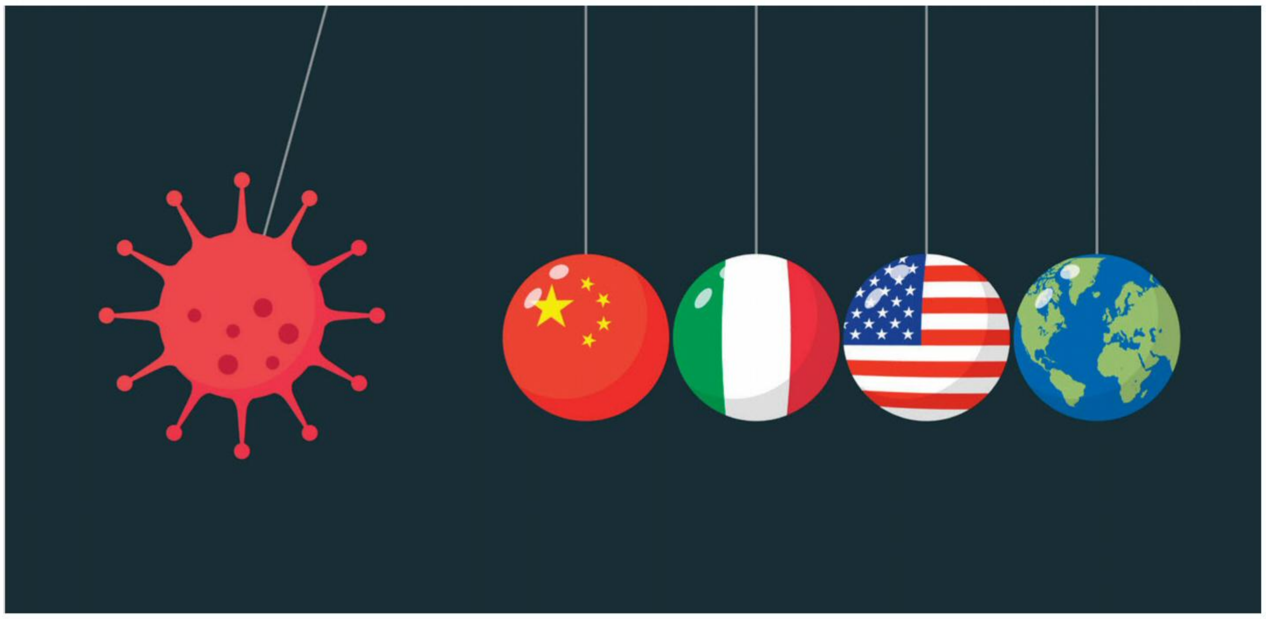
Apart from being aware of the variety of possible trades, we should bear in mind that directors aren't soothsayers. Just because they believe a company's shares represent good value, it doesn't mean they can see all of the risks and competitors clearly. Especially ones hiding around the corner (like Covid-19).

On the flipside, large director sales don't always presage a fall in share price. And just because a director sells, it doesn't automatically mean that you should follow suit. But it always gives me pause and I take some time to revisit my long-term reasons for being in the stock to ensure the case still stacks up or whether any additional risks may have come onto the radar.

Disclosure: Private portfolios managed by Greg Hoffman own shares in Flight Centre and Macquarie.
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).

We're still a lucky country

Australia is weathering "the recession we didn't have to have" much better than its less fortunate peers



It was good, oh so good, while it lasted. But as the saying goes, "nothing lasts forever". It had been more than a generation since Australia experienced "the recession we had to have" back in 1990-91.

Australia deflected, survived and came out on top of the critical challenges that plagued world economies and financial and capital markets over the years since then.

The Australian economy withstood the US savings and loan crisis of the early 1990s, the Asian currency crisis/Russian debt default/Long-Term Capital Management collapse in 1997-98, the September 11 terrorist attacks on the US in 2001 (and the subsequent recession there) and the GFC of 2008, which subsequently sent many world economies into a recession.

But now it's all over. A teeny-weeny microscopic organism has ended the Australian economy's 29-year recession-free run.

Not that we need to be informed – we were already feeling it in our hip pockets – but the Australian Bureau of Statistics' latest national accounts report made it official ... we are in recession!

Australian economic growth contracted 7% in the June quarter – the biggest fall on record since 1959 and worse than market expectations for a 5%-6% fall – that followed a 0.3% decline in the March 2020 quarter, satisfying the technical definition of a recession.

The details of the national accounts show exactly what one expects of an economy in lockdown.

Household consumption, which accounts for around 60% of national output, dropped by 12.1% in the June quarter and subtracted 6.7% from overall growth. This is despite the 2.2% increase in household income during the period, "reflecting a rise in non-labour income (consisting of investment income, earnings from unincorporated businesses and social assistance benefits)".

The Reserve Bank and the federal government's stimulus measures may have put money in our hands, but with social and physical distancing restrictions and many businesses shut down, we have nowhere to spend it.

Then again, even without the restrictions and shutdowns, the uncertainty with regards to the extent and duration of the pandemic and its negative consequence on the economy, particularly the outlook for employment, would still prompt households to reduce spending and increase savings. This is underscored by the surge in the household savings ratio to 19.8% in the June 2020 quarter, from 6% in the previous one. It compares with an average of 4.7% between 1990 and 2019.

The same Covid-19 uncertainty has also prompted a 6.5% drop in private business investment in the June quarter.

The weakness in domestic and international demand and the disruption to global supply chains are highlighted by the 10.6% fall in exports in the second quarter and the even sharper 19.1% drop in imports.

Australia's overall economic collapse would have been much deeper had it not been for government spending – government consumption contributed 0.6% to June quarter growth while public investment contributed 0.1%.

But hold your horses. Before we get into the wailing and gnashing of teeth, note that Australia remains (to use the Frank Sinatra song), "top of the list, king of the hill, a number one ..."

Comparing apples with apples, the 6.3% contraction in the Australian economy in the year to the June quarter is small beer compared with the regression in national output in our bigger peers.

Over the same period, GDP growth in the US declined by 9.1%, in Japan by 10%, in the eurozone by 15% and in the UK by a jaw-dropping 21.7%.

Moreover, grim as the stats may be, they reflect the state of the Australian economy of days past.

Although the lockdown in Victoria will continue to be a drag on overall economic growth in the third quarter (hopefully not beyond), the relative relaxation of restrictions in most other Australian states and in other parts of the world, especially China, suggest better economic growth readings for the domestic economy in future.

Not to mention the determination of the Reserve Bank and federal government to do whatever it takes to reverse the recession we didn't have to have under their watch.

Benjamin Ong is director of economics and investments at Rainmaker Information.

SECTOR EXCHANGE TRADED FUNDS

One-stop shop makes it easy

ETFs come in all shapes and sizes but, really, there are only two types worth buying

There was a time – not all that long ago – when an investor had three options: pick your own stocks, send a cheque to a fund manager or buy shares in a listed investment company – basically an ASX-listed fund, of sorts, whose investment success (or failure) was roughly reflected in changes in the share price.

Those were the days before listed funds known as exchange traded funds (ETFs). The first ETFs mirrored market indices: think the ASX 300 or S&P 500. But they don't need to be. As long as you meet the ASX's listing rules, these days it's easy to start a managed fund and have it listed on the stockmarket, so that people can buy and sell it the same way they buy and sell shares. And, in the US at least, there are reportedly more ETFs than there are companies on the market.

If that sounds strange to you, it should. And if it sounds counterproductive, you're on the right track, too. At their best, ETFs give investors low-cost access to whole indices, sectors or investment strategies. At their worst, they're expensive structures designed to find new ways to separate investors from slivers of their cash. After all, those yachts and holiday houses won't buy themselves. Yes, that's a little cynical ... but only a little.

Over time, it's reasonable to assume (and, in my case, hope) the number of ETFs falls. Many are simply copies of other ETFs, provided by different managers. And the more funds there are, the higher the fees (because each has less scale benefit than if there were fewer, larger funds). And others are based on investment strategies that simply won't stand the test of time.

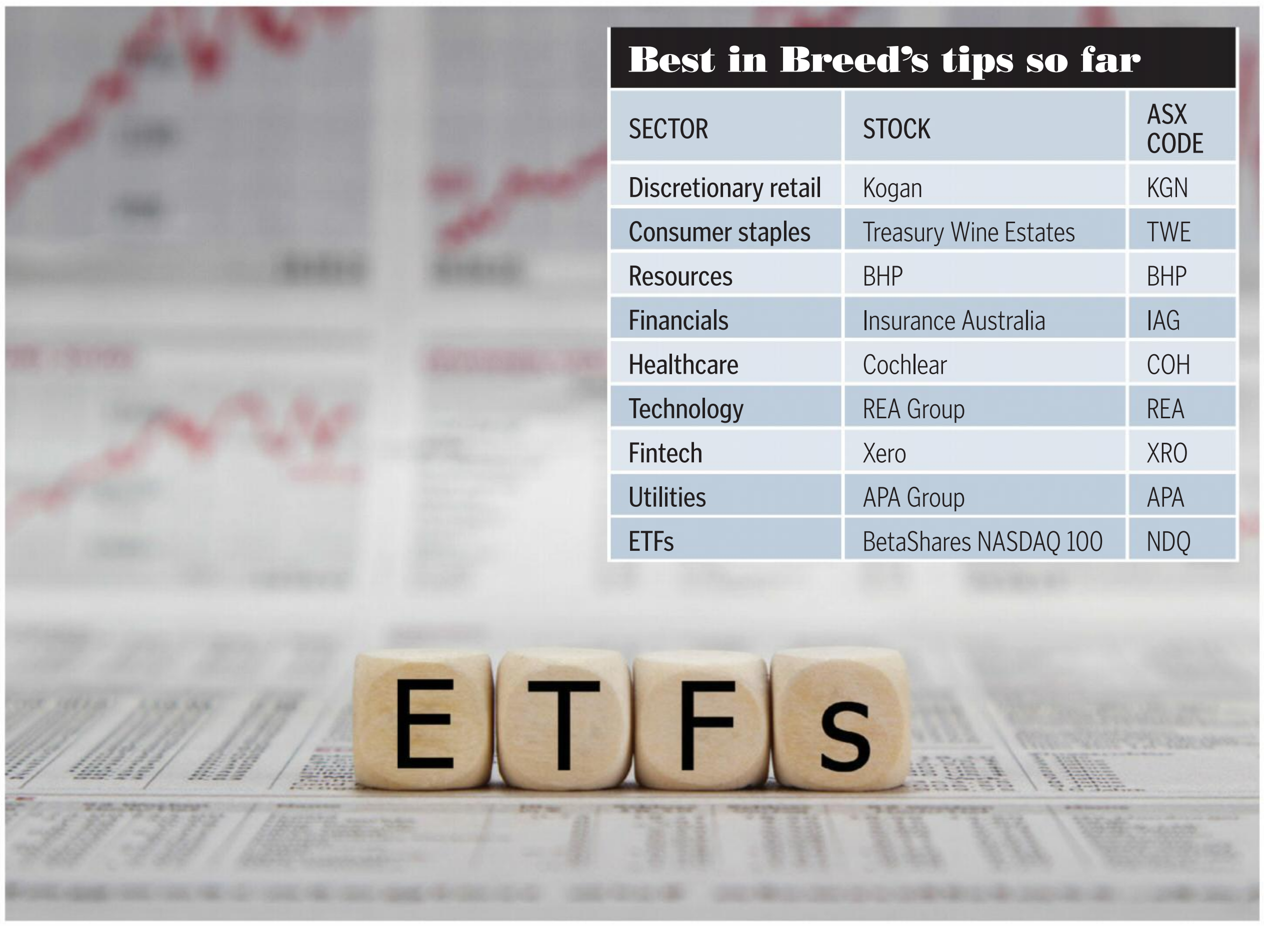
That's the future, though. The challenge, in the present, is to work out which ETFs are worth buying.

For my money, it's only worth investing in an ETF for one of two reasons: you want cheap, broad diversification or you want an investment strategy you can't invest in directly. After all, if you're going to do the work to make sure an investment strategy is sound – and you think you're good at that sort of thing – you might as well buy the underlying companies themselves and avoid the extra layer of fees. For example, buying an "Australian banks" ETF – and paying a fee for the privilege – would be a little silly, when you could own the banks directly.

In the "broad market" category, you might want to invest in the ASX 300, the S&P 500, the NASDAQ 100 or the "whole world" MSCI global index. For what's usually a tiny fee, you'll get the returns of the market as a whole – a very simple, cost-effective, one-stop shop.

In the "investment strategy" bucket, you might want to invest in, for example, Asian technology companies, global cybersecurity businesses or a selection of international oil companies, all without multiple international trading accounts.

Scott Phillips is The Motley Fool's chief investment officer. You can reach him on Twitter @TMFScottP and via email ScottTheFool@gmail.com. This article contains general investment advice only (under AFSL 400691).



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

Foolish takeaway

For most investors, I still think the investment strategy group is problematic. First, you have to be right about the "theme" you're investing in, and then you have to know – or hope – that the businesses owned by the ETF are sound, reasonably priced and can capitalise on that trend.

For my money (literally – I own some), the best role for ETFs in your portfolio is to give you cheap, instant diversification. Among that group, I think the best long-term performer is likely to be the BetaShares NASDAQ 100 ETF (ASX: NDQ), and that makes it – for the second year in a row – the Best in Breed among ETFs.

Prepare for take-off

STORY JAMES CARLISLE

Flight Centre has hit a rough patch, but it could come out the other side as a leaner, more profitable business

Flight Centre has posed two conundrums for investors over the years: its wild cyclicality and the overarching threat of the internet to its bricks-and-mortar business model. The former has made it difficult to assess a base level for earnings and the latter has made it hard to value them.

Ironically, the Covid-19 pandemic may have solved both. For once we know exactly where we are in the cycle – right at the bottom.

While the closure of half its stores will hasten the company's move to a more sustainable business model, based on corporate travel, the challenge now is to figure out how the new Flight Centre might look on the other side of the pandemic and to assess its chances of making it there.

To deal with the second question first, the chances are good. After the April capital raising, at the end of July the company had liquidity of $1.1 billion and a monthly cash burn of $43 million (after $17 million of revenue and $10 million of JobKeeper payments). That should give it at least a year of running room.

> The virus may have provided the impetus for a much-needed restructure

Also, a significant portion of Flight Centre's business involves only domestic travel, including about half of tickets sold in Australia (though a smaller portion of total transaction value, or TTV, and profit) and the "overwhelming majority" (according to management) of corporate volume.

TTV is also likely to begin to recover even while international travel remains subdued (most particularly, of course, due to Australia's closed borders).

Flight Centre looks well placed to survive the pandemic, but how will the new company look?

The most obvious change, alongside the reduced cost base, is the closure of about half the company's stores, reducing the number by 45% to 516 in Australia and by 63% to 222 overseas.

This will directly impact the TTV and profits earned by Flight Centre's leisure business. The impact, however, won't be proportionate to the reduction in store (and staff) numbers, because management will close the least profitable stores.

Indeed, as a result of online competition, it's likely that many of Flight Centre's stores had become marginally profitable in any case. The pandemic may actually have provided the impetus for a much-needed restructuring.

The corporate business should also emerge largely intact. Covid-19 is accelerating the shift to more efficient, remote behaviours in many areas, including corporate travel budgets. But managers will still need to visit offices to keep people engaged and get a proper feel for what's going on; and you're more likely to clinch a new account if you make the trip in person. Video conferencing no doubt has a place, but it can't fully replace the personal touch.

Overlaying this is the underlying growth of the sector. Unlike Flight Centre's leisure business, technology is helping here, with an array of tools that can help companies manage their travel requirements. Even if travel budgets are reduced, we'd expect corporate travel agents to manage an increasing share of them.

And there's a long runway for growth, with Flight Centre accounting for less than 1% of the $US1.5 trillion ($2 trillion) corporate travel market, despite being one of the top four players.

Flight Centre's corporate business is also global, with the US overtaking Australia shortly before the pandemic struck to become its largest market, with just over a third of TTV. Australia counts for another third, while Europe, the Middle East and Africa contribute just over 20% and Asia 10%.

Previously management has intimated that profits were split about 50/50 between the corporate and leisure businesses, but for the first time it has chosen to disclose it fully and it turns out that in 2019 it was more along the

The corporate business should emerge largely intact ... managers will still visit offices to keep people engaged

lines of 68/32. That means corporate made a margin of 3% on its $9 billion of total transaction value in 2019, while leisure made just 0.9% on its $13.9 billion.

We should be careful about extrapolating too much from 2019, since management said it was a good year for corporate and the landscape has obviously changed. But 2020 was going well for corporate before the pandemic struck and it has continued to win business since.

The FCM brand, which covers larger business accounts, secured mandates worth $US1.3 billion in 2020, including $US360 million in the second half. So far in 2021 it has won business worth about $US290 million. Given its higher margins, the corporate business is also in the best position to return to profitability, and can be expected to do so at about 30%-35% of pre-Covid TTV.

Corporate also has the benefit of a solid base of essential services travel (about 25% of pre-Covid TTV) and a domestic focus, with about 60% of pre-Covid TTV being domestic, compared with 25%-30% for leisure. As a result, corporate was tracking ahead of leisure in most regions in July, albeit off a low base.

Chief executive Graham Turner has noted that the approach towards the virus was "quite conservative" in Australia and that it was less so overseas. In his view, the timeline to the removal of restrictions is "probably not going to be quite as long" as most people think, although it would of course be helped considerably by a vaccine.

One way or another, Turner believes that "travel will start coming back to some level of normality during the calendar year 2021", but that a full recovery in international travel should not be expected until 2024 (as per IATA forecasts). "With our lower cost base," he added, "we believe we can get to a profitable situation probably during next year, but it's very much up in the air."

Flight Centre remains a risky proposition and we recommend keeping it below 3% of your portfolio. But the recovery could come more quickly than expected and the company's transition to corporate travel is happening at just the right time and at a quicker pace than we previously expected. That's where the value lies. It's a speculative buy below $13.

James Carlisle is a senior analyst at Intelligent Investor.

FLIGHT CENTRE'S JOURNEY

	2019	2020	CHANGE
Corporate TTV	$9.0bn	$6.9bn	-23%
Leisure TTV	$13.9bn	$7.4bn	-46%
Other TTV	$880m	$970m	+10%
Total TTV	$23.7bn	$15.3bn	-35%
Corporate underlying PBT	$268m	$74m	-72%
Leisure underlying PBT	$129m	-$527m	-509%
Other underlying PBT	-$54m	-$57m	+6%
Total underlying PBT	$343m	-$510m	-249%
Net profit	$264m	-$662m	-351%
EPS ($)	$2.24m	-$5.52m	-346%
DPS	$3.07	–	

TTV: Total transaction value. PBT: Profit before tax. EPS: Earnings per share. DPS: Dividend per share. Figures are rounded.

Source: Intelligent Investor

YOUR GUIDE TO MANAGED FUNDS DATA

DATABANK

The tables on these pages contain data and information to help you compare managed funds, which are pooled funds managed professionally by investment experts.

Managed funds displayed in these tables are multi-sector or asset class specific. Multi-sector managed funds invest across a diversified mix of asset types spanning equities, property, bonds, cash, infrastructure, private equity and alternatives.

Managed funds are normally set up as unit trusts. You may be able to invest in them directly or through a platform.

Top 5 Multi Sector funds by size

Name	APIR code	Mngmnt fee %pa	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Vanguard Growth Index Fund	VAN0110AU	0.29%	20/11/2002	$5,388m	0.0%	33	6.0%	8
Vanguard Balanced Index Fund	VAN0108AU	0.29%	20/11/2002	$5,304m	1.5%	11	5.6%	10
QIC Growth Fund	QIC0002AU	0.50%	6/03/2002	$4,952m	-2.6%	66	4.5%	36
Vanguard High Growth Index Fund	VAN0111AU	0.29%	20/11/2002	$3,056m	-1.7%	53	6.3%	5
Vanguard Conservative Index Fund	VAN0109AU	0.29%	20/11/2002	$2,584m	2.6%	5	5.0%	20
AVERAGE*		0.76%		$523m	-1.9%	109	4.1%	97

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	0.18%	30/06/1997	$12,676m	-9.5%	65	5.3%	53
Fidelity Australian Equities Fund	FID0008AU	0.85%	30/06/2003	$5,003m	-6.5%	41	6.1%	38
Dimensional Australian Core Equity	DFA0003AU	0.28%	3/07/2006	$2,613m	-11.6%	79	5.7%	45
iShares Wholesale Australian Equity Index Fund	BGL0005AU	0.20%	31/05/1998	$2,426m	-9.7%	66	5.2%	54
Bennelong ex-20 Australian Equities Fund	BFL0004AU	0.95%	2/11/2009	$2,415m	10.4%	1	12.6%	5
AVERAGE*		0.80%		$540m	-8.2%	115	5.7%	100

Top 5 International Equities funds by size

Name	APIR code	Mngmnt fee %pa	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Vanguard International Shares Index Fund	VAN0003AU	0.18%	30/06/1997	$15,553m	3.7%	59	8.4%	39
Magellan Global Fund	MGE0001AU	1.35%	1/07/2007	$11,484m	5.8%	42	10.5%	16
MFS Global Equity Trust	MIA0001AU	0.77%	24/04/1997	$5,286m	-0.4%	85	8.5%	32
iShares Wholesale International Equity Index Fund	BGL0104AU	0.20%	31/10/1999	$4,157m	3.7%	56	8.4%	36
Walter Scott Global Equity Fund	MAQ0410AU	1.28%	28/02/2005	$3,818m	5.9%	41	11.7%	7
AVERAGE*		0.94%		$692m	2.5%	141	7.7%	99

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
Macquarie Balanced Growth Fund	MAQ0048AU	0.70%	31/01/1994	$725m	4.4%	3	7.1%	1
IOOF MultiMix Growth Trust	IOF0097AU	0.96%	29/04/2008	$613m	0.1%	28	6.8%	2
Fiducian Ultra Growth Fund	FPS0014AU	1.45%	1/09/2008	$191m	-2.2%	61	6.6%	3
IOOF MultiMix Balanced Growth Trust	IOF0093AU	0.92%	29/04/2008	$1,751m	1.1%	20	6.3%	4
Vanguard High Growth Index Fund	VAN0111AU	0.29%	20/11/2002	$3,056m	-1.7%	53	6.3%	5
AVERAGE*		0.76%		$523m	-1.9%	109	4.1%	97

Source: Rainmaker Information. Data sourced as at July 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**

RAINMAKER INFORMATION

INDUSTRY INTELLIGENCE

DATABANK

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
Selector Australian Equities Fund	DDH0002AU	1.18%	7/12/2004	$64m	-1.4%	14	15.0%	1
Fidelity Future Leaders Fund	FID0026AU	1.20%	22/07/2013	$725m	-1.3%	13	14.6%	2
Bennelong Concentrated Aust Equities	BFL0002AU	0.85%	30/01/2009	$902m	7.7%	2	14.3%	3
Bennelong ex-20 Australian Equities Fund	BFL0004AU	0.95%	2/11/2009	$2,415m	10.4%	1	12.6%	4
Bennelong Australian Equities Fund	BFL0001AU	0.95%	30/01/2009	$563m	6.3%	3	11.2%	5
AVERAGE*		0.79%		$578m	-8.3%	98	5.7%	87

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
T. Rowe Price Global Equity Fund	ETL0071AU	1.18%	15/09/2006	$3,696m	21.5%	6	14.9%	1
Franklin Global Growth Fund	FRT0009AU	1.13%	1/10/2008	$295m	21.9%	5	14.7%	2
Evans and Partners International Fund	ETL0390AU	1.25%	18/02/2014	$52m	3.7%	41	13.5%	3
Nikko AM Global Share Fund	SUN0031AU	0.99%	30/11/1995	$100m	10.1%	18	12.4%	4
Intermede Global Equities Fund	PPL0036AU	0.99%	20/03/2015	$142m	14.0%	10	12.1%	5
AVERAGE*		0.97%		$812m	1.2%	111	7.6%	82

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
Munro Global Growth Fund	MUA0002AU	1.35%	1/08/2016	$544m	29.9%	1		
Loftus Peak Global Disruption Fund	MMC0110AU	1.20%	15/11/2016	$107m	29.5%	2		
Fiducian Technology Fund	FPS0010AU	1.36%	1/05/2000	$147m	28.1%	3	18.0%	1
CC Marsico Global Fund – Institutional	CHN0001AU	1.03%	10/12/2015	$32m	26.9%	4		
Lakehouse Global Growth Fund	OMF1140AU	1.30%	1/12/2017	$201m	26.4%	5		
AVERAGE*		0.83%		$630m	-2.1%	324	8.9%	271

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
Schroder Global Recovery Fund	SCH0095AU	0.98%	18/08/2017	$1m	-24.3%	364		
Allan Gray Australia Equity Fund	ETL0060AU	0.75%	4/05/2006	$1,373m	-23.4%	363	6.4%	109
Auscap Long Short Australian Equities	ASX0001AU	1.54%	30/11/2012	$205m	-22.6%	362	0.9%	296
Lazard Select Australian Equity Fund	LAZ0005AU	1.15%	7/06/2002	$158m	-20.6%	361	2.2%	279
Vanguard Global Value Equity Fund	VAN0074AU	0.35%	8/09/2016	$7m	-19.9%	360		
AVERAGE*		0.82%		$596m	-2.3%	364	5.8%	296

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 – July 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
AustralianSuper – Balanced	Industry	S	0.2%	6	6.8%	1	6.7%	1	AAA
TASPLAN – OnTrack Build	Industry	LC	-0.8%	16	6.7%	2			AAA
Australian Ethical Super Employer – Balanced (accumulation)	Retail	S	0.0%	7	6.6%	3	6.2%	5	AAA
Virgin Money SED – LifeStage Tracker 1974-1978	Retail	LC	-1.9%	26	6.6%	5	6.2%		AAA
Vision Super Saver – Balanced Growth	Industry	S	1.5%	2	6.5%	5	6.2%	4	AAA
First State Super Employer – Growth	Industry	LC	0.6%	5	6.3%	6	6.0%	9	AAA
Media Super – Balanced	Industry	S	-0.9%	17	6.2%	7	6.1%	6	AAA
IOOF ESE – IOOF Balanced Investor Trust	Retail	S	-0.6%	13	6.2%	8	5.4%	22	AAA
LGS Accumulation Scheme – High Growth	Industry	LC	-1.6%	21	6.0%	9	6.1%	7	AAA
QSuper Accumulation – Lifetime Aspire 1	Government	LC	-0.6%	15	6.0%	10	6.5%	2	AAA
HESTA – Core Pool	Industry	S	-0.5%	12	6.0%	11	5.8%	14	AAA
Equip MyFuture – Equip MySuper	Industry	S	0.8%	4	5.7%	12	5.6%	18	AAA
WA Super – My WA Super	Industry	S	1.2%	3	5.7%	13	4.9%	28	AAA
StatewideSuper – MySuper	Industry	S	-1.9%	25	5.6%	14	6.0%	8	AAA
NGS Super – Diversified (MySuper)	Industry	S	-1.3%	19	5.6%	15	5.6%	16	AAA
Sunsuper Super Savings – Lifecycle Balanced Pool	Industry	LC	-2.6%	33	5.6%	16	5.9%	12	AAA
CareSuper – Balanced	Industry	S	-0.2%	9	5.6%	17	6.0%	10	AAA
BUSS(Q) MySuper – Balanced Growth	Industry	S	1.8%	1	5.5%	18	6.0%	11	AAA
Mercer CS – Mercer SmartPath 1974-1978	Retail	LC	-3.1%	37	5.5%	19	4.7%	29	AAA
legalsuper – MySuper Balanced	Industry	S	-0.6%	14	5.5%	20	5.6%	19	AAA
SelectingSuper MySuper/Default Option Index			-1.6%		5.2%		5.2%		

Rankings are made on returns to multiple decimal points.

SelectingSuper Benchmark Indices – Workplace Super

INDEX NAME	Performance to July 31, 2020		
	1-year	3-years pa	5-years pa
SelectingSuper MySuper/Default Option	-2%	5%	5%
SelectingSuper Growth	-3%	5%	5%
SelectingSuper Balanced	-1%	5%	5%
SelectingSuper Capital Stable	0%	4%	4%
SelectingSuper Australian Equities	-8%	5%	5%
SelectingSuper International Equities	1%	7%	6%

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.

SELECTING SUPER AAA QUALITY
INDEPENDENT RESEARCH CONDUCTED BY RAINMAKER INFORMATION

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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Australia 2000
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"I made more money doing up and selling old cars than I did from my actual job"

What was your first job?

I was a motor mechanic at Cumberland Cabs in Granville, Sydney, in the late 1970s. I remember going from place to place looking for an apprenticeship and the line-up was blocks long because it was a guaranteed four years of security and you're learning a skill to set you up for the rest of your life. My father talked me into that. In fact, I bought my first home by buying old cars and doing them up and selling them, and I made more money doing that than in my actual job.

What's the best money advice you've received?

I remember when I was an apprentice someone said to me, "The first $10 you earn will be the hardest you ever earn in your life." I was on $52 a week and he was absolutely right. I never thought I'd save $10,000. My commerce teacher told me if you look after your cents, your dollars will take care of themselves. It's putting one step in front of the other at all times that creates an enormous journey.

What's the best investment decision you've made?

Buying my first home without a doubt. I was 17 when I started saving. My parents grew up in housing commission and I was one of seven kids. My dad said if you ever save for anything, save for your own home and no one can ever turn you out of it. I was 19 when I bought my house. I bought a block of land first, for $17,000, and the rest is history.

What's the worst investment decision you've made?

I got a Torana and tried to turn it into a Porsche. My boss's wife said to me, "You're not paying another cent of your wages on that car", and she pushed me to get the loan for the block of land.

What is your favourite thing to splurge on?

I do love anything to do with cars, so every now and then I'll pay to hire a really nice car to drive around or take to a race track. I went out to the desert in Las Vegas and took a McLaren out.

If you had $10,000 where would you invest it?

It would be something to do with health these days. The two things of the future are we're all getting older and everyone is looking at ways to protect themselves from ageing, and that's one of the reasons I'm in the health and fitness industry.

What would you do if you had only $50 left in the bank?

I'd divide it into increments of $10 a day and I'd try to do something with the $10 to increase the value of it each day. Buy something and sell it and each day I could see my progress.

Do you intend to leave an inheritance?

No, what I want to do is give everything away before I die and then I know exactly where it's going. I've seen too many families broken apart by arguments over inheritances. I have bought special things that remind me of my children or certain places I've been or things we've done together that were amazing, and I think the kids will get more out of that than any cash that I can leave them. Cash comes and goes. For me this life is all about experiences, but we need money for that.

DANNI NIX

Pat Farmer

Ultra-marathon athlete Pat Farmer was inspired to start running by 61-year-old farmer Cliff Young, who won the inaugural Sydney to Melbourne event. At 18, Farmer was the youngest competitor in the race. Not able to make money from running, he won endorsements from banks and insurance and communications companies, and has since raised millions of dollars for charity. Entering politics, he held the federal parliament seat of Macarthur from 2001 until 2010, when he left to run from the North Pole to the South Pole.

How did your travels around the world affect your views on money?

Enormously. I did a run in Uganda last year and my goal was to raise $100,000 for Cents for Seeds, for the Love Mercy Foundation, where $30 buys 30kg of seeds, and that's like someone over here winning the lottery. They plant the seeds, use the seeds to barter for other goods they need and they repay the loan and still have seeds for the next year. We don't realise how very, very fortunate we are in this country. Most people complain that schools don't have the latest computers or science labs, but in Colombia in South America most houses don't even have electricity.

Finish this sentence: money makes ...

money, that's obvious. If you've got it, you can use it to make more money. It's like smiles – if you smile you can produce a smile from others.


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