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SEVEN STOCKBROKING SECRETS
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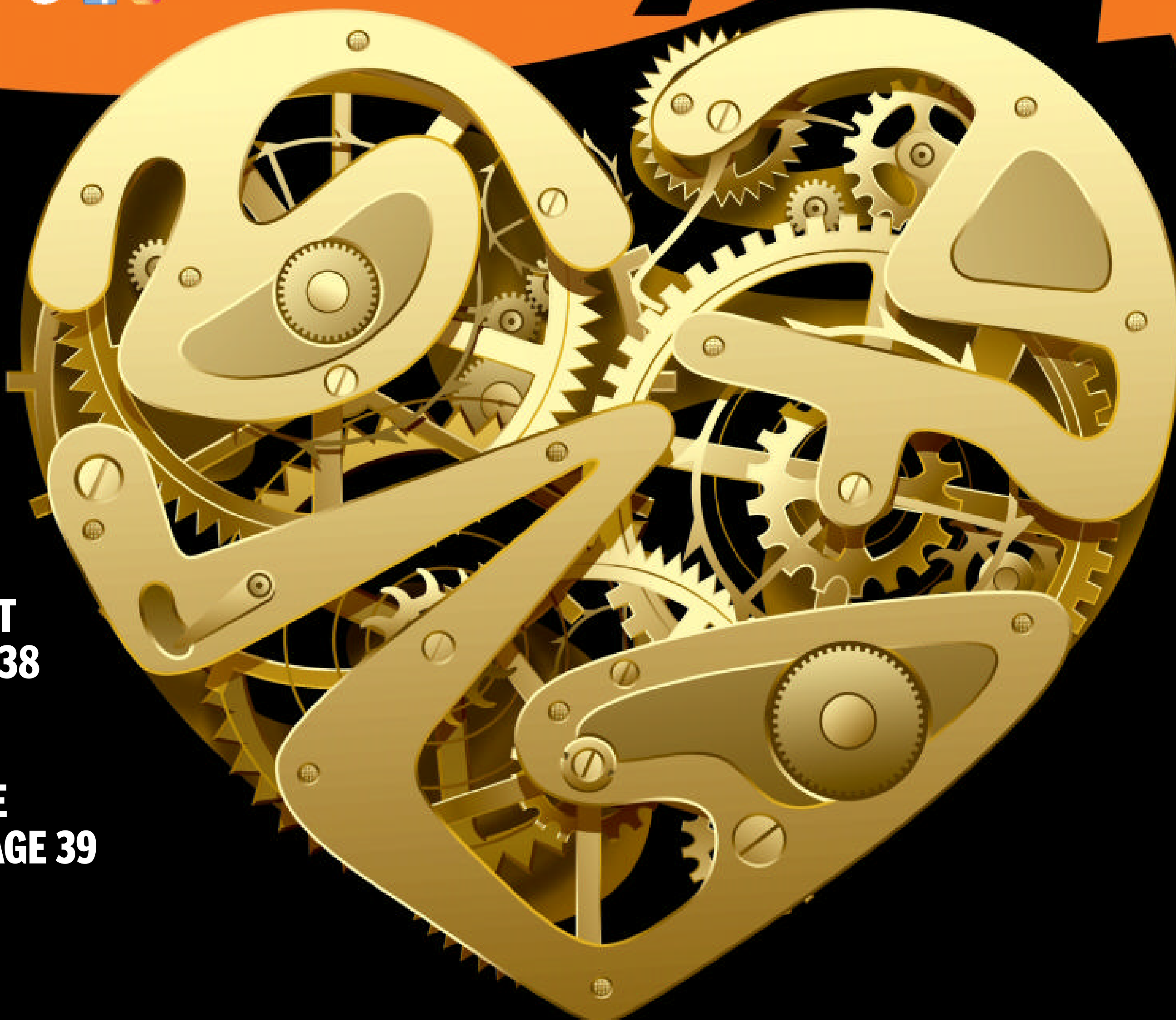

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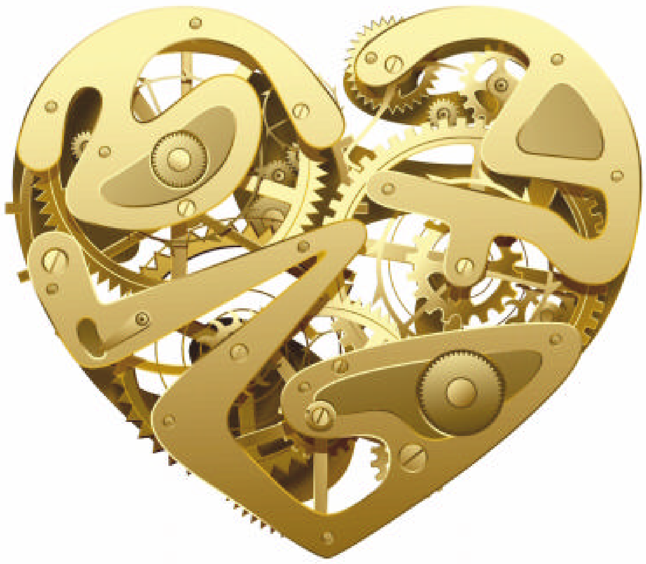

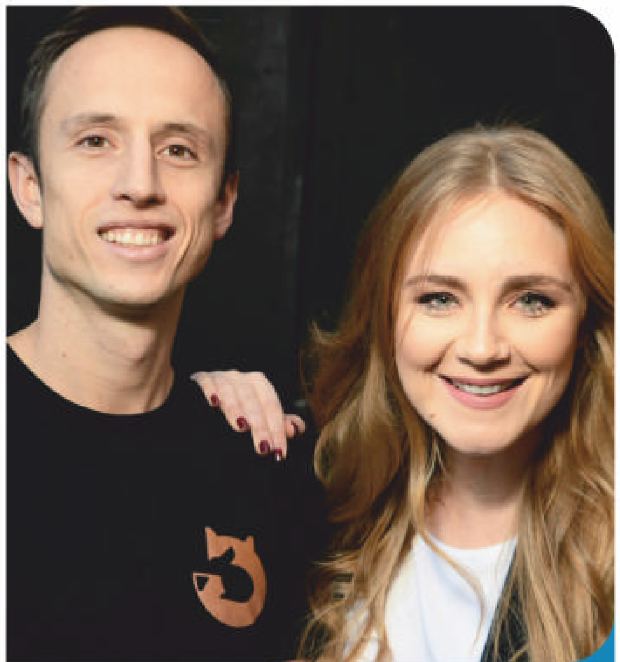

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EDITOR'S DESK

Keep a level head

As we go to press, the Prime Minister has announced travel restrictions to help stem the spread of COVID-19. It's a worrying time for all of us and we hope that everyone continues to take the necessary precautions to stay safe.

March 16 will go down as one of the worst days in the markets since the crash of 1987. That bloodbath was considered hard to beat and here we are confronting the same prospects.

But, as the saying goes, you never cross the same river twice. The 1987 market run and later the 2007-08 GFC were different from the health-related worries we face today. Judging by the immediate response from central banks, everyone is determined to use all the levers at their disposal to keep the economy going, the markets stable and the job market where it was before the outbreak.

There's no doubt we are entering uncharted waters, but as long-time investor Paul Clitheroe advises in his column, it pays to stay calm during a crisis (page 10).

So keeping a long-term perspective, in our cover story (page 34) we explore what levers you can pull to fast-track your wealth, despite any speed bumps you may encounter during your working life. We've sourced helpful government rules and demographic trends that can work in your favour at various ages and stages.

On other pages, you'll find thought-provoking views about when and where to invest. We believe that with knowledge of previous downturns comes wisdom, but only take up opportunities that fit your tolerance for risk.

A big thank-you to all our contributors who have made this a must-read issue for anyone who wants to get ahead and reach their financial goals. Time, not timing, should be your focus.

Michelle

Michelle Baltazar, Editor-in-chief

Feedback

Letter of the month

Side hustles help a family to survive

Your side hustle article brought back great memories (cover story, October 2019). As a teenager, my friend and I were always looking to supplement our meagre pocket money with various schemes. These included collecting bottles to cash in for deposit, pet sitting (which ended with us chasing an escaped goat through the streets of our small town) and breeding guinea pigs (foiled when we discovered they were both females).

Throughout my life, finances have corresponded hugely with life events. My family were once reasonably well-off farmers, before being devastated by the drought and forced to sell up. After this, I found myself as a single mother and side hustles were an important part of my family's survival. Successful ideas included entering competitions (I once won $10,000 through *Money* magazine, which paid off our tractor loan!), collecting snails for a scientific organisation and freelance writing.

At the moment we are in a low point and I seriously had to weigh up whether I could afford the cost of your magazine, but I'm glad I did. The side hustle article has restarted my entrepreneurial fire, and the internet has certainly created a whole new host of possibilities – extra money, here we come!

Thanks *Money* – I think the purchase price will be paid back in full!

Kate

How 'ethical' investing punishes the poor

I read with interest the article "What If?" by Annette Sampson in your February issue, titled "Companies or funds that I invest in behave ethically" (page 70).

I am concerned by your fascination for so-called "ethical funds". In my experience, they support the status quo and prevent the poor from doing better. For example, coal. A perfect example is the Adani mine. Its coal will be used to help power the massive expansion of electrical infrastructure in India, allowing poor people to have electric light. The implications are staggering, including improved health care and nutrition and higher-paying jobs. I believe it is unethical to oppose such coal mines.

I worked for a US oil and gas company once. Our regional office attempted to buy out several thousand slaves. The "king" of these people contacted ethical activists in the US and had the proposal blocked. To my knowledge, those people are still enslaved.

On another occasion, the company made a bid in Myanmar to develop an oil and gas field. As part of the proposal, the company would have built roads, hospitals, schools, giant power stations for the main city and provided emergency services. It had already done so in other south-east Asian locations. That's a dramatically improved life for several million people. It was blocked by US and regional activists because they didn't like the ruling party. Other nations' oil companies went in instead, the services to the poor were not delivered, and Myanmar abruptly halted liberalising its economy.

The rich did not suffer.

It's a bit like California fishermen suing "big oil" washing up on beaches. The case will fail because history books state the oil comes from natural vents. In addition, the region remains a rich fishing ground, although those same fishermen are extracting too much crab and fish from the sea, then blaming anyone else for the overfishing.

I have numerous other experiences. End result, I refuse to invest in so-called "ethical funds". I do not care how profitable they are, but I do care, very much, about how so called "ethical" policies trample on the rights and freedoms of the poor.

Peter

Ed's note: This is a truncated letter from a comment Peter made on the web version of the article, as well as an emailed letter.

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What's something you've always wanted but can't afford?

ANNETTE SAMPSON
Annette, who writes for *Money*, says: "I've always fancied swanning around in Boomerang (the Spanish Mission-style mansion in Sydney's Elizabeth Bay) or one of the hillside palazzos in Florence. Though even if I could afford the asking price, I'd be hard-pressed to afford the upkeep. Or the servants!"

SCOTT PHILLIPS
Scott, *Money's* Best in Breed columnist, says: "In what may be a sign of age, I'd love a big property in the NSW Southern Highlands, with a house right on top of a hill with a panoramic viewa. A bloke can dream."

VITA PALESTRANT
Vita, who writes for *Money* about super, says: "Enough money to open doors to power because, let's face it: money buys you access. And with that access, I'd lobby for a free and open press, tougher financial regulation, real action on climate change and an end to developers self-certifying developments."

PAM WALKLEY
A founding editor of *Money* and a real estate expert, Pam says: "I would love to own an original Picasso – the museum dedicated to his work in Paris is my absolute favourite in the world. It'll never happen, but one can always fantasise."

The Money team

EDITORIAL
Founder & editorial adviser
Paul Clitheroe
Editor-in-chief
Michelle Baltazar
(02) 8234 7500
michelle.baltazar@moneymag.com.au
Managing editor
Darren Snyder
(02) 8234 7528
darren.snyder@moneymag.com.au
Editor-at-large
Julia Newbould
julia.newbould@moneymag.com.au
Art director
Ann Loveday
Designer
Andrew McLagan
Senior sub-editors
Bob Christensen, Debbie Duncan
Senior writers
Susan Hely, Pam Walkley
Staff writer
David Thornton
Online content producer
Sharyn McCowen

CONTRIBUTING WRITERS
Jessica Amir, Nathan Bell, David Bonnici, Alexandra Cain, Peter Dockrill, Greg Hoffman, Roger Montgomery, Benjamin Ong, Marcus Padley, Scott Phillips, Vita Palestrant, Anthony O'Brien, Tom Ravlic, Zach Riaz, Annette Sampson, Phil Slade, Jamie Williamson

CONTRIBUTING ARTISTS
Nic Duncan, Hayden Brotchie, Reg Lynch, Jim Tsinganos, John Tiedemann

PHOTOGRAPHS
Getty Images

PRE-PRESS
Peter Suchecki

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

Senior account manager
Natalie Bevilacqua
(02) 8234 7531
natalie.bevilacqua@moneymag.com.au

MARKETING
Marketing manager
Julian Clarkstone

MANAGEMENT
Managing director
Christopher Page
Executive director
Alex Dunnin

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

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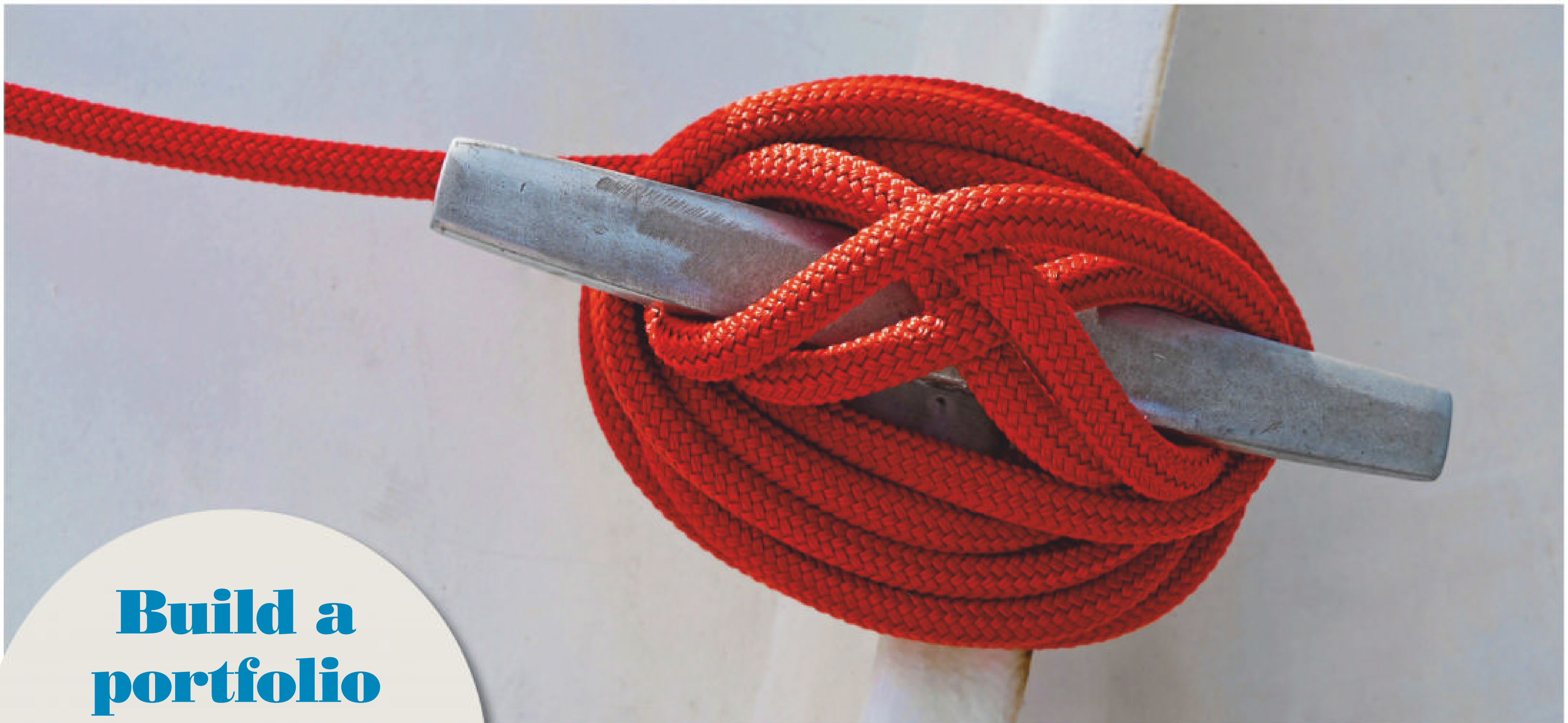


Build a portfolio when it's calm, before the next crisis

Well, this is rather uncomfortable. Like all humans, I am not particularly good with the unknown, even though over two decades I have often said in this column that global issues such as war, plague, investment madness and pestilence will always impact on us and markets.

Going way back to the mid 1300s, it is estimated that up to 60% of the population of Europe died with the Black Death, or bubonic plague. The Spanish flu of 1918-1920 is estimated to have infected a bit over 25% of the world's population, then some 1.8 billion. It is believed around 500 million were infected, with deaths of 40 million to 50 million, though some argue it could have been 100 million. If these numbers are reasonably accurate, while a death rate of some 10% is terrible, it is certainly better than the bubonic plague's estimated death rate of over 50%

Over the past few decades we have seen plenty of nasty viruses. I made the mistake of looking up the World Health Organisation's record of diseases going back into history and was quite surprised to see a vast list for each year. That was depressing.

Anyway, this is not a health column or predictor of mortality rates from old age, viruses or eating too much. About all I know is that humans are little economic miracles and as we go about our lives earning a few dollars and spending them, we generate all the economic activity on the planet. So having quite a few of us about, in good health and doing our thing every day, is really important.

At the time of writing I have had a large number of people ask me what to do with their investments. Some were asking should they sell up and keep it in cash. Others wondered whether they should buy while the market has dropped.

Of course, in the short term I have no idea, but for many decades I have hung onto the principle that more people, who are living longer with more wealth, means more economic activity. That drives up the price of property, shares, businesses and so on. So all I can focus on to answer the "buy or sell?" question is "Are there more or fewer of us?".

Here the February 26 edition of *The Sydney Morning Herald* was quite helpful. It is clear that the COVID-19 virus is spreading rapidly, but what is the long-term economic impact? These numbers are pretty brutal, but Professor Raina MacIntyre, head of the biosecurity program at UNSW's Kirby Institute, said in the *Herald* that we could manage the virus "but widespread transmission could result in 25% to 70% of the population becoming infected". That is a big range, so the Kirby Institute looked at a 50% infection rate, based on the current death rate of 2% to 3%. This is where it gets ugly. We would have "492,000 to 738,000 people dying, over 3 million needing a hospital bed and over 1 million people needing an ICU bed".

By the time you read this we will know a lot more, but given so much is unknown, I am doing what I normally do in a downturn, whether it is a financial event or a human event, and that is to sit tight. Like most *Money* readers, I hold a diversified portfolio. Selling in a panic never seems to work, but equally I am not buying. Things are simply too uncertain.

If there is a money lesson in any of these quite regular crises of one type or another, it is to hold investments that suit your risk profile and your lifestyle. The time to build a robust portfolio is not during a crisis; it is when things are calm, as you know the next crisis will not be far away.

One thing is for sure: while it is good to be prepared and the experts present a possible worst case, let us hope the situation does not eventuate.

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

NEWS & VIEWS

THE BUZZ

Banks come to the aid of customers in a crisis

In February, we saw banks offer several new support packages and initiatives that attempt to address various personal finance issues their customers may face.

Starting with coronavirus, Westpac offered its impacted business customers an option to extend their loan term for up to three months; defer loan repayments for up to three months; access term deposit funds without a reduction in the interest rate; and defer payments for business credit cards.

A week later NAB told us it's now giving all customers the option to block gambling transactions via its banking app. The feature blocks sports betting, casino games, lottery tickets and other online gambling services. It was originally made available through the app in December 2019, but for iOS devices only (it's now available for Android). The bank says more than 10,000 customers have turned on the feature since its roll-out.

The app feature is in addition to NAB's gambling restriction service that started in March 2019, and this can be accessed by calling the bank's customer support team. Both the app and customer support can lift the restriction, but customers will have to wait 48 hours before they can gamble again.

In the final week of February, Commonwealth Bank launched its Home Loan Compassionate Care product. It provides complimentary protection to owner-occupiers (aged 18-59) by paying their repayments for a year if they, their spouse or dependant passes away or is diagnosed with a terminal illness. The bank worked with insurer AIA to deliver the product to existing customers at no cost and "to thank them for their loyalty".

These three examples are only a selection of the latest wave of customer support measures from the banks. A colleague of mine made the point that this support (excluding the coronavirus measure) probably should have been well in place before the banking royal commission. I agree wholeheartedly.

But if the royal commission has meant banks think more critically about rewarding loyalty, and makes them more compassionate, more sensitive, more socially aware and more adaptive when it comes to addressing their customers' needs in a crisis, then this is a sign of progress.

Darren Snyder

CALENDAR OF EVENTS

Tuesday, April 7
RBA interest rate decision

Tuesday, April 14
NAB business confidence

Wednesday, April 15
Westpac consumer confidence index

Thursday, April 16
Unemployment rate

ON MY MIND

Regions get a raw deal

I have become aware recently of the lack of competition in regional Australia for loans. In a regional town like South Australia's Burra – a charming place of about 1000 people north of Adelaide – many lenders will not grant any security values to properties there. This means most loans come from the Commonwealth Bank, BankSA (which has the only ATM in town and is a Westpac subsidiary) and a handful of others.

Some lenders have a list of postcodes they will lend to (this list appears to echo mortgage insurers), or they have arbitrary rules such as only using security value over properties within 30km of a town population of 10,000 or more (ruling out most of South Australia). This means regional borrowers are probably paying more for their loans than folk in capital cities and large towns.

I propose the federal government mandate that APRA publish a list of loan-to-valuation ratios for all town postcodes. All lenders will be required to accept this list as a minimum security value for those properties. This will improve competition for loans and thus lower borrowing costs for regional property.

Steve Greatrex, certified financial planner, Wealth on Track

NEWS BITES

Clime Investment Management has launched a suite of separately managed account (SMA) investment portfolios for self-managed investors. Options include balanced or growth-oriented multi-asset portfolios launched in 2019, and the Clime Direct All Cap Australian shares portfolio launched in 2015.

First State Super is in merger talks with WA Super. The two have signed a memorandum of understanding to undertake due diligence, set to be completed by mid-year. First State Super manages about $90 billion in funds under management for more than 800,000 members, while WA Super manages about $4 billion for 55,000 members.

Colonial First State will cut the fees on its superannuation products, in a move set to save its 200,000 members an average of $500 a year. The changes will affect retail products (legacy super, pension and FirstChoice wholesale personal super), FirstChoice Employer Super and the FirstWrap and Beacon products.

Know thy neighbour

In January and February, Relationships Australia partnered with the Australian National University for a survey about people's feelings towards their neighbours and neighbourhoods. It was held in advance of Neighbour Day 2020 (March 29).

From more than 2100 respondents, 52% said they felt in some way similar to their neighbours. This translates into at least one of my neighbours making sense of the world in the same way I do.

Close to 75% said they can identify with their neighbours. This means that at the very least there are certain traits my neighbours and I share.

What I'd be interested to see is whether neighbourhoods with higher similarity and identity scores work better together for economic or financial benefit.

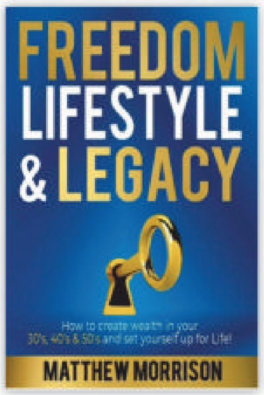
I was impressed recently when a neighbour suggested they would be prepared to start a neighbourhood co-op for gardening tools and machinery. If this goes ahead, I'd be the first to sign up. For me, the project reinforced how important it is to know your community, because there's potential for everybody to benefit.

Darren Snyder

56%

of women are committed to saving for a home deposit versus 45% of men, according to a Mortgage Choice survey. More than 30% of women have bought, or are likely to buy, a property on their own – up from about 25% last year.

BOOK OF THE MONTH



FREEDOM, LIFESTYLE & LEGACY
By Matthew Morrison
Self-published, $29.95

Financial adviser Matthew Morrison is on a mission. He wants to inspire and enable as many people as possible to create financial freedom while leaving a legacy of generational wealth.

Morrison's book is as much about what you can learn from his personal financial planning journey as it is about his seven-step plan for financial freedom.

He starts by walking you through 21 reasons people don't achieve their money goals, and explains how you can avoid making the same mistakes. He then helps you develop your money game plan.

Ten readers can win a copy.

In 25 words or less tell us what you think is the best money rule you live by. Enter online at moneymag.com.au/win or send entries to Money, Level 7, 55 Clarence Street, Sydney, 2000. Entries open on March 30, 2020 and close on April 26, 2020.

APP OF THE MONTH

GETREMINDED
COST: FREE
OS: IOS 9.0 OR LATER; ANDROID 4.1 OR LATER

This is an app for the time poor as well as those reluctant to fix their finances because they don't know where to start.

GetReminded delivers reminder emails and/or in-app notifications before your bill payment, contract, event, task or any other personal commitment reaches its expiry date.

You can also sort the reminders to alert you mid-term. This means you can stay on top of the best rates and prices in the market and can always ask for a better deal.

Better still, the emails or notifications will include offers so that you can start your search for the cheapest or best deal when it suits.

The app can be used to declutter your finances (think cancelling unwanted or unused subscription services), as well as to show you exactly what you are paying for, says co-founder Silje Dreyer.

DARREN SNYDER

TAX TIP

Subdivision can cause a headache

Given rising house prices in our big cities, it can be tempting to consider subdividing your block. Home owners with more land than they need may see subdividing as a quick and easy way to make money.

But can it cause a tax headache? The answer is probably yes.

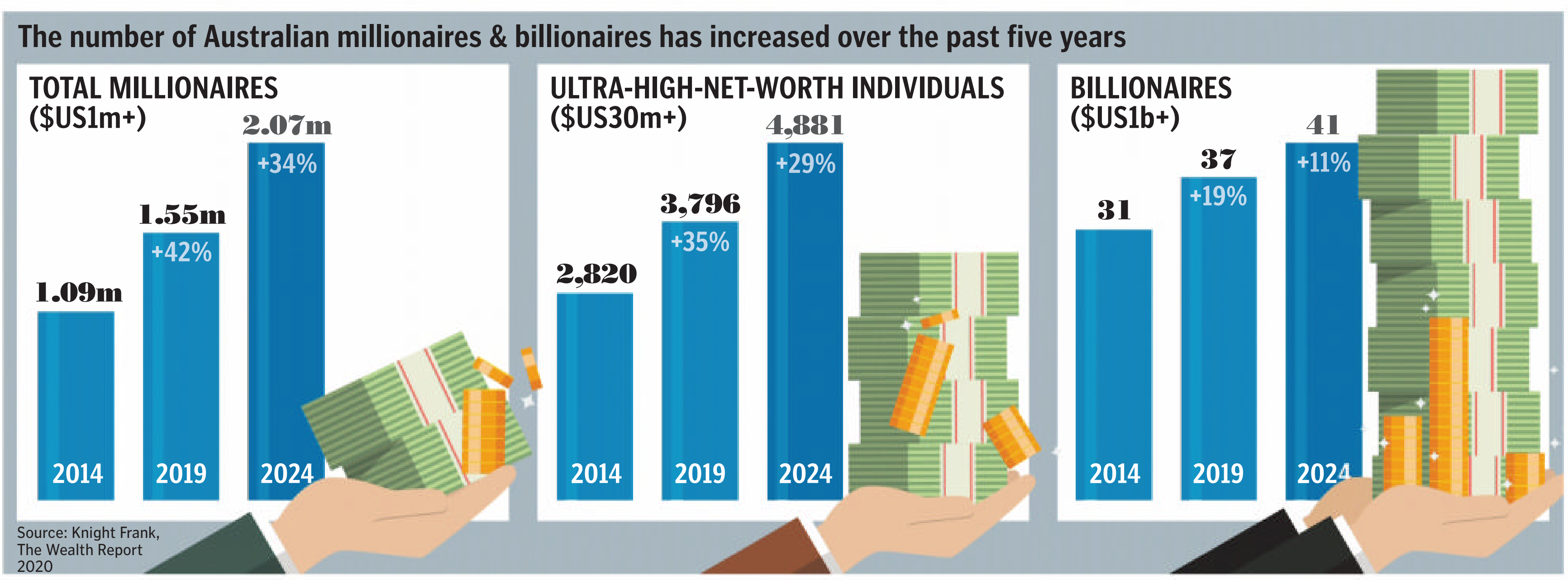
For a start, you need to consider capital gains tax (CGT). Although subdividing your block doesn't itself trigger a capital gain, because there is no disposal of anything, you will need to apportion the amount you originally paid (the "cost base") of your land between the subdivided blocks. The best advice is to get a qualified valuer to do it.

When there's a subsequent sale of one or more of the subdivided plots, CGT may be an issue. If you sell the part on which your home sits, you won't generally be liable for CGT because of the main residence exemption. If the part sold is adjacent to or surrounding your home, the main residence exemption typically won't apply and CGT will be payable based on the difference between the sale proceeds and the cost base (which you'll have worked out at the time of subdivision).

If you build a house on the adjacent plot and then sell the house and land rather than making a capital profit, there's a chance the ATO might view it as a profit-making venture, meaning you could be liable for income tax (not CGT) and might also have to account for GST on the sale proceeds.

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

SNAPSHOT We're an increasingly rich mob



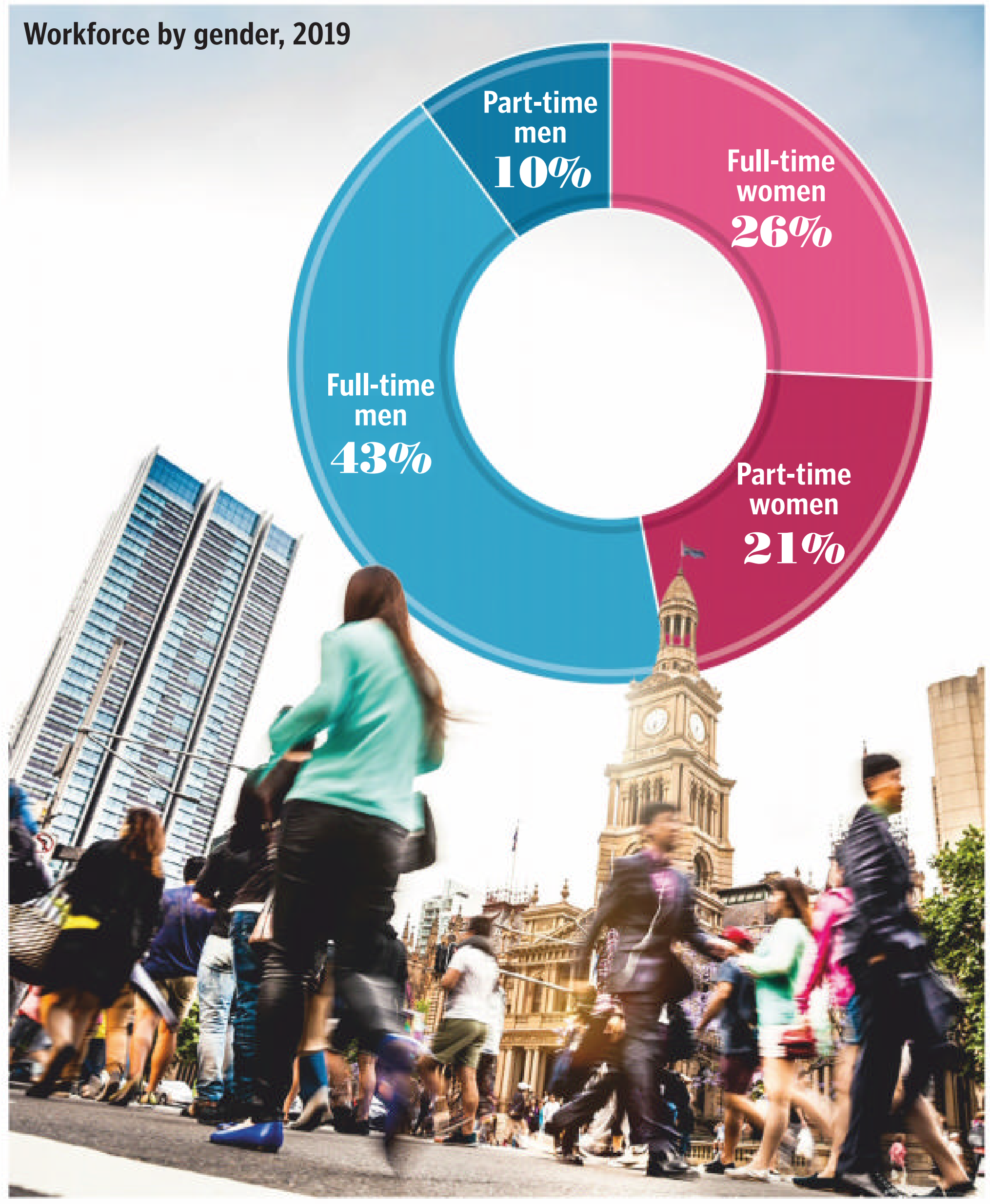
Source: Knight Frank, The Wealth Report 2020

MY MONEY

▶ MORE MONEY STORIES ON P46-53

RETURN TO WORK

Subsidy limit deters mothers



Current childcare policy is a disincentive for professional, university-educated women to return to work, wiping up to 12 million working hours from the economy each year, according to a report from the Australian Institute of Project Management.

CEO Elizabeth Foley says the means-tested childcare subsidy, introduced in July 2018, discourages women with a professional background from returning to work after having children.

"Under the current settings, if combined family income exceeds the set upper limits by just $1, the amount provided by the childcare subsidy scheme plunges by at least half and in some circumstances by more than half," she says.

"These built-in financial cliffs really exacerbate the work disincentives facing younger working mothers, dissuading them from working more than three days a week."

AIPM prepared the report to coincide with International Women's Day in March. It identifies eight areas for improving gender equity in the workplace: valuing women, workforce participation, affordable childcare, flexible work, industry and occupational segregation, gender pay, the superannuation gap and workplace psychological safety.

"In Australia, only 25% of the ASX-listed executive leadership team are women," says Foley. "At that level, the gender pay gap averages 21.3%, meaning women are being paid almost $26,000 less each year than men filling identical roles and carrying identical responsibilities."

Collectors bag a new favourite

Designer handbags have typically been seen as luxury fashion accessories that do more damage to the hip pocket than good. But this is changing.

Like rare whisky, luxury handbags are increasingly being viewed as an investment. So much so that Art Market Research (AMR), which supplies much of the data for the Knight Frank Luxury Investment Index), has introduced the first indices tracking the price performance of handbags, especially those made by Hermès.

In 2017, a Hermès Himalaya Birkin fetched $US386,000 ($587,000) at a Christie's auction in Hong Kong, setting a world auction record.

The index has doubled in value over the past decade, rising 13% in 2019 alone.

"All of our indices on antiques and collectables use a basket of goods methodology in the same way as the consumer price index," says AMR's Sebastian Duthy. "However, it's only been possible to create an index on handbags now because of the frequency with which many iconic pieces are coming to auction today."

As for other collectibles, Knight Frank's Wealth Report says the environmental debate and potential legal changes led to uncertainty among classic car buyers last year. The fine wine market grew by just 1% in 2019, and yellow diamonds performed well as declining prices made them more accessible.

COMPILED BY DAVID THORNTON

PROPERTY

PRICE GROWTH

Tassie leads the field

Property values increased in 23 out of 50 separate regional house and unit markets over the year to January 2020. The quarterly market update from CoreLogic shows that house prices did better than apartments, with gains in 15 and eight regions respectively.

Launceston and north-east Tasmania were the standout performers across both housing and unit markets, with more than 7% growth in house prices and a 13.6% increase in apartment prices.

"It is no surprise to see the Launceston and north-east region of Tasmania topping the list for capital growth," says Eliza Owen, CoreLogic's head of residential research. "The region has benefited from a City Deal [a state-federal partnership], increased tourism, which is boosting the local economy, and a spillover of growth from Hobart, as people seek more affordable housing."

CoreLogic predicts growth in high-amenity areas that are close to major population centres. The Gold Coast and the Sunshine Coast, Geelong, and the Newcastle and Lake Macquarie regions are all expected to do well.

House prices performed best on the Gold Coast, up 6.2%, followed by Cairns (4.2%). Tasmania posted the highest price growth in units, with Launceston and north-east Tasmania up 13.6%. Ballarat was next at (7.8%).

PROPORTION OF FAMILY INCOME NEEDED TO MEET LOAN REPAYMENTS

	Dec qtr 2019	Sep qtr 2019	Dec qtr 2018
NSW	42.8%	39.2%	39.5%
VIC	36.5%	34.6%	35.2%
QLD	30.6%	29.6%	30.2%
SA	28.0%	27.1%	28.1%
WA	24.9%	24.4%	25.3%
TAS	29.2%	27.6%	27.9%
NT	21.0%	21.2%	21.7%
ACT	22.3%	21.2%	22.2%
AUS	**34.7%**	**32.7%**	**33.3%**

Source: REIA

Low rates fail to improve affordability

Despite record low interest rates, housing affordability declined 2% in the December quarter, according to the REIA Housing Affordability Report.

"Across Australia in the last [December] quarter, housing affordability has declined in all states and territories except for the Northern Territory, where there was an improvement," says REIA president Adrian Kelly. "During the December quarter, the Reserve Bank reduced the official cash rate to 0.75% and the quarterly average variable standard rate decreased to 4.8%." (The RBA reduced the rate further, to 0.5%, in March.)

NSW remained the least affordable place to own a home, with the proportion of income required to meet loan repayments increasing to 42.8%. Victoria isn't much better, with the income needed to meet average loan repayments up to 36.5%. The Northern Territory remains the most affordable place to buy a home with only 21.7% of income needed to repay a loan.

Meanwhile, rental affordability remained much the same, with the proportion of family income needed to meet repayments increasing only 0.1% to 23.6%.

HOUSING AFFORDABILITY

2.0% QUARTERLY DECLINE

1.4% ANNUAL DECLINE

RENTAL AFFORDABILITY

0.1% QUARTERLY DECLINE

0.4% ANNUAL IMPROVEMENT

Source: REIA

▶ MORE PROPERTY STORIES ON P54-63

COMPILED BY DARREN SNYDER

INVESTING

▶MORE INVESTING STORIES ON P64-72

SUPER CONTRIBUTIONS

Workers worry about retirement

Research from Investment Trends shows that only 47% of working Australians above the age of 40 believe they are prepared for retirement. Insufficient superannuation contributions were found to be a key source of pessimism – only 25% of non-retirees think they contribute enough to retire comfortably.

"While many Australians worry about their retirement prospects, there is only a small difference in superannuation contribution levels between those who fear being unable to retire comfortably and those who are positive about their prospects," says Investment Trend's King Loong Choi.

"Australians who believe they will live comfortably in retirement typically contribute 11% of their annual household income into their super fund, meaning that an additional contribution of 1.5%pa above the super guarantee level (of 9.5%) contributes significantly to their peace of mind.

"Even among lower-income households, a slight increase in super contribution levels corresponds with greater confidence in retirement outcomes."

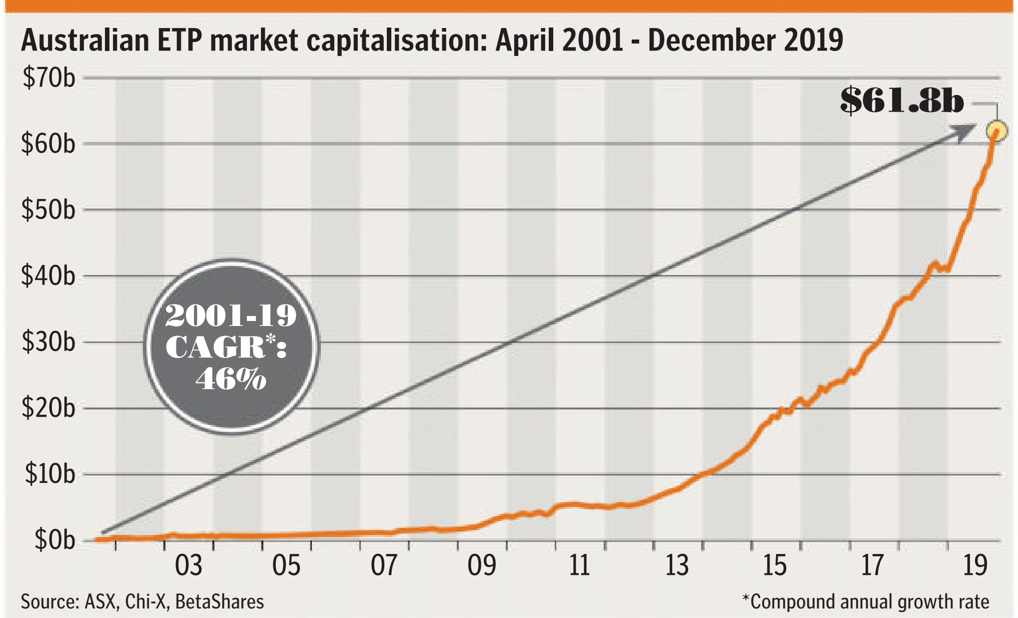
Many non-retirees claim information about retirement is hard to come by. Forty per cent say they have searched for retirement-related information, and among those only half found anything useful.

"Currently, super funds are the most frequent point of contact for those seeking information on retirement, but with only half saying their info needs were sufficiently met, there is room to improve both the accessibility and relevance of content," says Choi.

It is crucial that relevant retirement information is easy to find, as those who succeed in finding it are highly likely to take further action – almost 90% of them.

"And the actions these people take are important ones, most often preparing a will, seeking financial advice and making voluntary super contributions," says Choi.

WHERE OUR SAVINGS END UP



Cautious investors stash their money in ETFs

Exchange traded fund markets (ETF) here and abroad hit all-time highs in 2019. Australia's ETF market ended the year at $61.8 billion in funds under management, 52% higher than in 2018.

"Unquestionably the industry was assisted by strong asset value appreciation, but nonetheless about 60% of the year's industry growth came from net inflows, with $12.9 billion flowing in over the course of the year," says Ilan Israelstam, from BetaShares. "This represents far and away the highest annual inflows on record and, in fact, represents a 65% increase on the previous annual record (in 2017)."

The same story applies globally, with the ETF industry ballooning world-wide to $US6.35 trillion, representing year-on-year growth of 32%.

Fixed-income ETFs led the way, accounting for 47% of inflows in 2019.

"In an unpredictable and low-interest-rate environment, we're finding that many investors are looking for exposures that offer defensive benefits and diversification and are using ETFs to achieve this," says BetaShares chief executive Alex Vynokur.

COMPILED BY DARREN SNYDER

SHARES

▶MORE SHARES STORIES ON P74-85

DIVIDENDS

Aussie payouts fall behind

Global dividends hit a record high of $1.43 trillion last year, up 3.5% on 2018, according to fund manager Janus Henderson.

While this "headline growth rate" is good news for income investors, the underlying rate of 5.4% shows the trend is beginning to flatten. (The headline rate is lower because it takes into account the stronger US dollar and other technical factors.)

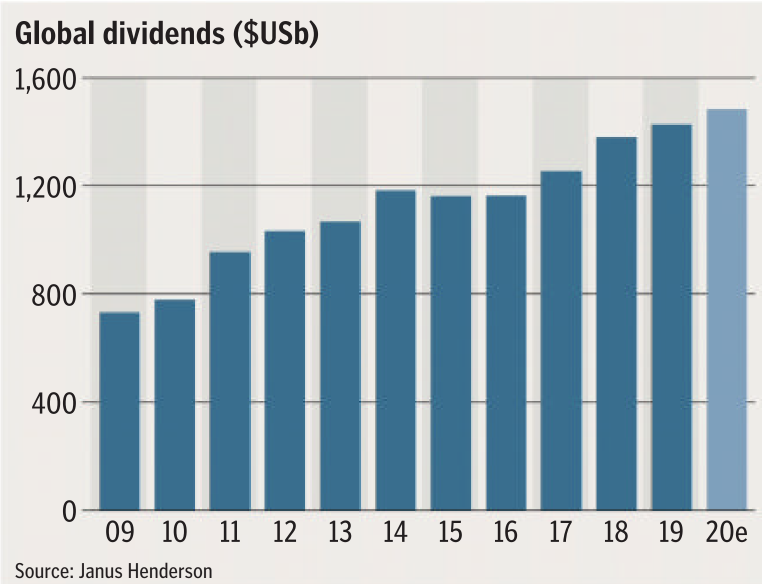
The rise in dividends was driven by North America, emerging markets and Japan, while Australia, Europe and the UK fell below the global average.

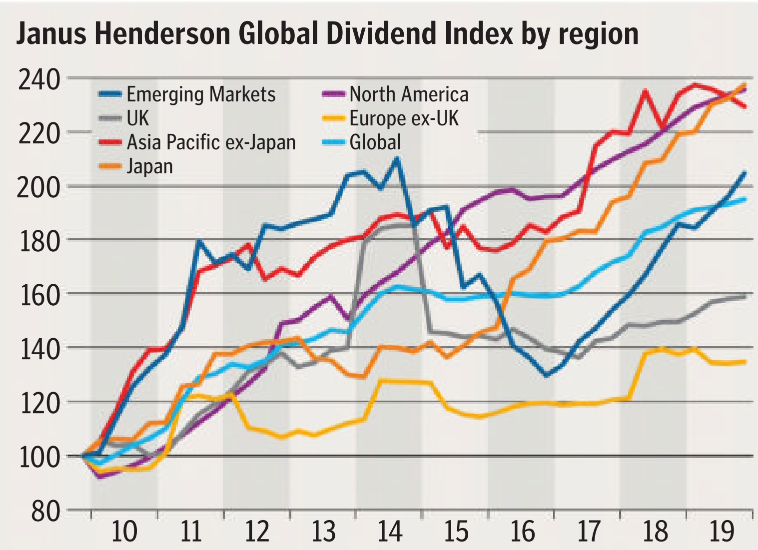
Australian payouts dropped 3.3% on an underlying basis. Forty per cent of Australian companies cut their dividends in 2019, most notably NAB and Telstra.

Australia's dividends rose 60% over the past decade, compared with 100% globally. However, this is a function of Australia's already high dividend payout ratios and therefore reduced expansion capacity.

This year Janus Henderson forecasts headline growth of $1.48 trillion, a 3.9% improvement on 2019.

"Australian payouts have proven more vulnerable than peers elsewhere in part because payout ratios are so high, but also because of the country's exposure to China," says Ben Lofthouse, co-manager of global equity income at Janus Henderson. "This highlights how a global approach to income enables investors to take advantage of the benefits of both geographical and sectoral diversification."





Source: Janus Henderson

TPG reported decent half-year year numbers and offered a small upgrade, and the market reacted by sending the shares up 10% post the result. Yet those events weren't necessarily connected. More important than the result was that the ACCC confirmed it would not appeal the decision to allow TPG's merger with Vodafone Hutchison Australia.

HOLD TPG Telecom (TPM)

The Intelligent Investor Gaurav Sodhi

RECOMMENDATION

BUY below $7.00 | **HOLD** up to $12.00 | **SELL** above $12.00

HOLD at $7.96

Source: Intelligent Investor; price as at March 10, 2020 close of business

The best part of TPG is its corporate business, which provides fibre services to enterprises. It generating just 30% of sales but 48% of profits.

Cost discipline has always been one of TPG's strong suits. NBN's incursion into TPG territory has been slowed by technical issues, but it will pick up now. In that world, low costs will be vital.

The mobile division is small, barely profitable and shrinking. The addition of Vodafone mobile changes everything. Vodafone is currently sub-scale because it doesn't have enough customers. The business, drowning in debt, can't afford network reinvestment and is light on both bandwidth and fibre. TPG solves all of these problems.

Mobile will take time to build but TPG has form in attracting customers and lowering cost. That will make a big difference to mobile profitability and we expect the new TPG/VHA mobile business to be far more competitive than it is today.

When the merger is complete everything will change, in our view, for the better.

Gaurav Sodhi is the deputy head of research at Intelligent Investor.

COMPILED BY DAVID THORNTON

STORY JAMIE WILLIAMSON

Young at heart

Despite years of talking about increasing the reach of financial advice, it has stagnated at two in 10 Australians and remained in this ball park for some time. The number of women opting for a career in financial advice is also stuck around the same ratio, and it is becoming increasingly difficult to attract new, particularly young, talent to the industry.

After realising that a big cross-section of the community is, for the most part, being excluded – or certainly feeling excluded – from seeking advice, Jessica Brady and Glen Hare saw an opportunity and founded Fox & Hare.

Having worked together for about a decade in business development at Macquarie, Brady and Hare grew tired of visiting advice practices and meeting the same "middle-aged or older white men that typically serviced that same demographic".

Hare explains: "I loved my job but it kind of made me wonder who was helping everybody else. Who's helping the people that look like me and my mates?"

They soon realised that very few advisers were catering to younger demographics because very few younger people were seeking advice. But why? After all, the earlier you start planning your financial future, the better off you'll be when that future becomes the present.

To gain a better understanding, Brady and Hare held several focus groups. Among a broad sample of ages, genders, sexual orientations, ethnicities and occupations, the overwhelming consensus was that the prospect of seeing an adviser is intimidating and potentially expensive. Participants expected they would be judged for not having already sorted their finances or assumed there was a level of financial literacy required to access advice. A majority also felt that they didn't earn enough to warrant seeking advice.

Fact file

Jessica Brady

co-founder of financial advice firm Fox & Hare, age 32, lives in Sydney's eastern suburbs. Enjoys reading, cooking, yoga and hiking, doesn't own a TV. Growing up in a family that had to budget carefully instilled in her the value of money and "the idea that if I wanted something I had to work really hard for it".

Glen Hare

co-founder of Fox & Hare, age 32, lives in Sydney's Coogee. A gym junkie who loves the beach, community work and anything that involves structure and organisation. A big foodie – will try anything and has been known to drive two hours just to go to a new restaurant.

Those who had sought advice previously reported feeling that they weren't listened to or that they didn't identify with the adviser, making the whole process uncomfortable. "The biggest challenge we have is that our ideal client doesn't even know what an adviser does and they also don't know when the right time to see one is," says Hare.

Taking on board what they'd heard, Brady and Hare set about creating the Fox & Hare brand. With a focus on maximising the customer experience, they looked outside financial services. Uber, Airbnb, Facebook, Instagram and small tech start-ups in particular served as inspiration. They paid careful attention to the content of their website. "It's so easy to speak in jargon and financial advice language because that's what's natural when you've been in the industry for some time, and we also assume a level of financial literacy that a lot of clients or potential clients don't have," says Brady.

The focus on client experience flows through to the business's back office. They looked outside financial services to embed technology that is largely industry agnostic. "Unfortunately, the tech that exists in financial services is not representative of the money in the industry," says Brady. "These organisations have huge profits and it blows my mind that they have such archaic systems, and the level of integration is really low."

Resigning from Macquarie in July 2017, Hare, who doubles as the practice's head of IT, spent several months researching and testing solutions to set up the ideal technology ahead of their launch the following October.

Video-sharing site Vimeo, video-captioning service Rev and document-sharing and storage platform SharePoint all made the cut, along with Zoom for video conferencing and Loom to record their screen for demonstration videos. Hubspot handles customer relationship management.

Fox & Hare sends statements of advice to clients via the electronic signature tool DocuSign. It also includes an explanatory PowerPoint presentation and a quick video summary of the strategy.

"We don't see the value in a client receiving a 50-page printout. This way they can access and review the statement of advice

HAYDEN BROTCHIE

For many younger people, the prospect of seeing an adviser is intimidating and potentially expensive at any time and it isn't taking up space on a shelf, collecting dust. Plus, it comes with the added bonus of saving trees," says Brady.

The strength of its technology has created significant efficiencies within the practice and afforded Brady and Hare greater client-facing time which, in turn, is further adding to the overall client experience.

"A lot of what we do is behavioural coaching, which takes time. People know what a budget is and that it's best to have one, but that doesn't mean they stick to it," says Brady.

Fox & Hare uses MyProsperity to track client goals to their accounts each month. As motivation, it developed three coaching programs: Get Sorted, Like A Boss and World Domination. They are all offered at a fixed fee and the client – known as a member – selects the program based on where they're at in life and the complexity of their finances.

Brady believes Fox & Hare's fixed fee, non-aligned offering is more appealing to younger demographics. "They seem to really like the transparency and the fact that they can see what they're getting for their money, and they can see right away that it is affordable because it's priced with them in mind," she says.

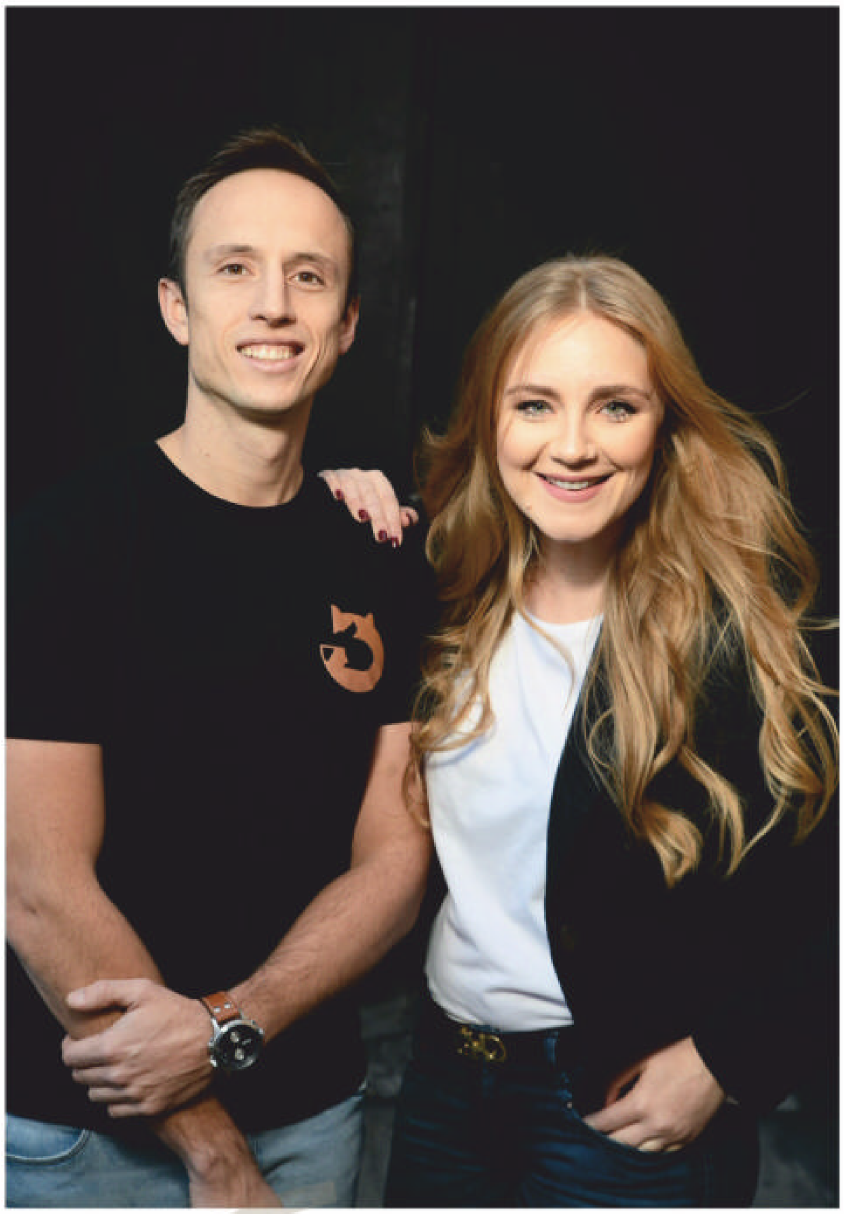
Currently, Fox & Hare's youngest client is 21 and the oldest is 50. "The biggest asset that our clients have on their side is time," says Hare. "They have so much time to really build their wealth to make sure they can do all the things that they aspire to do."

In fact, for many Fox & Hare clients time is their only asset. For Brady and Hare, assets under management are irrelevant and not monitored because many of their clients have no assets whatsoever – just mountains of credit card debt.

"Getting out of debt is probably the most common goal our clients share. Buying property, starting a business and starting a family are also up there," Hare says.

Again, Fox & Hare is challenging tradition. The advice industry has typically focused its efforts on pre-retirees and retirees with bigger balances.

"We want to help people irrespective of their age, gender, ethnicity, sexual orientation or income. We want to be seen as an organisation that works with everyone that



Passionate about education ... Glen Hare and Jessica Brady.

"People know that it's best to have a budget, but that doesn't mean they stick to it"

has goals and wants to put a plan in place to get there," says Hare.

Client reaction to the chaos caused by the coronavirus has helped reassure them that they are on the right track. "I've had one client call me concerned, but the rest have been the opposite," says Brady. "What this has proven, and we take as a win, is that we've done a really good job of prepping clients for market volatility and explaining that downturns present opportunities.

"I love that people are engaged and that they're caring, but I wish they cared more all the time and not just during times of crisis. I wish we were engaged with our money more broadly instead of needing a trigger. We should be regularly checking in on our finances."

Since opening in 2017, the Fox & Hare team has grown to seven, including a paraplanner in regional NSW and a small team in Cebu, Philippines, that helps with reporting and data management, and advice management.

Having spent the bulk of their careers with corporate giants, all the little things that come with running a small business have proved the biggest challenge so far, says Hare. "It's been a big learning curve. If the printer breaks we have to Google how to fix it. In comparison to all of that, the advice piece has been a walk in the park."

The duo recently collaborated with broking firm Pure Finance to launch a free online community called Ladies Talk Money, which includes an eight-part video series and several how-to guides. "I'm hoping it will create a safe space for women to open up, share and learn to ultimately have the confidence to reach out and seek advice," says Brady.

Here she draws on her experiences sitting on the Y Connect Advisory Committee for YWCA NSW. Among other services, the YWCA provides mentoring for young women, financial literacy and life skills.

Hare also dedicates much of his spare time to helping young people through Out for Australia, a charitable organisation that encourages LGBTIQ students and aspiring professionals to be their authentic self in the workplace. And as a business, Fox & Hare partners with School for Life, which educates about 1000 children in central Uganda each year.

"We passionately believe education can change the world," says Hare. "What we learn in those volunteer roles is really helping us further shape our brand and the brand that we want to project. At the end of the day, we just want to make sure that everyone feels comfortable to seek advice because the sooner they do, the sooner it'll change their life."

HAYDEN BROTCHIE

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CASE STUDY

NIC DUNCAN

How to invest for the kids

NAME: Courtenay Lockyer
STATUS: Mother of a five-year-old daughter, Airlie, and a two-year-old son, Lachie
QUESTIONS: How do I set up separate share trading accounts for my kids? What are the best investments with capital growth over the next 15 years for my kids? Where can I continue my sharemarket education without paying too much?

ANSWERS: Open an account for each child as a trust account with you as the power of attorney. Look into insurance bonds. Use high-growth, low-cost exchange traded funds or index funds for capital growth. Stick to the courses offered by the ASX for sharemarket education and keep up to date through mainstream financial publications.

Saving for your children can contribute significantly to their lives when they are older. By the time they are 18, the savings could pay university fees, foster talents such as sport, music or drama, or pay for their first overseas trip or a car.

But it often isn't as easy as it seems as parents face the dilemma of where to put the money without paying high rates of tax. With interest rates so low, the search becomes even more complicated.

Courtenay Lockyer has been saving for her two children by setting aside birthday and Christmas money from grandparents and relatives, plus forgoing impulse purchases. Recently she swept $500 for daughter Airlie into the BetaShares Global Quality Leaders exchange traded fund (ETF), which invests outside Australia in 150 global companies such as Apple, Intel, Visa, Johnson & Johnson and Facebook. "I liked the investment idea and the fees were competitive," says Courtenay. The ETF had a spectacular run in 2019, returning 34% over the calendar year. Courtenay used her nabtrade online trading account platform and understands that she has to hold her kids' investments in her name, as there is an 18-year-old limit. But Courtenay would like to keep Airlie's investment separate from her own shares.

"Was this the best way to go about it? I can see her dividends will get paid into my cash account, which I will have to sift through and transfer out into her account."

Courtenay plans to buy more shares for herself and Lachie when the time is right. "How will I be able to determine whose stocks and dividend payments are whose?"

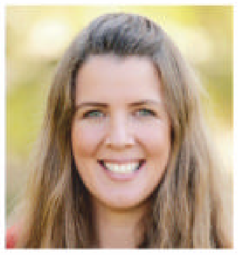
Also what sorts of investments are good for the long term for her kids?

Courtenay began dabbling in share trading a few years ago. "I like managing the money," she says. She visited a financial adviser for a while before she bought a block of land with her partner Mark and built a house.

Courtenay's search for investment wisdom has led her to Dale Gillham, who wrote *Accelerate Your Wealth* and *How to Beat the Managed Funds by 20%*. She watches his YouTube channel weekly. She completed an online share trading course last year and would like to keep learning about the sharemarket.

Courtenay has bought shares such as Ramsay Health, Domain, Telstra, Transurban, Altura Mining and a diversified fund, the Vanguard Australian Shares High Yield ETF. She puts a trailing stop on her shares of around 15% below her entry price. Is she on the right track and how can she improve her investment strategy?

COMPILED BY SUSAN HELY



Beware the killer tax rates

MICHELLE STONE

Michelle is director and lead adviser at Feel Good Financial Planning. She has been providing advice since 1999.

Parents are unable to set up share trading accounts in their children's names directly. The account would be in your name held in trust for the children, who would be the beneficiaries. This would be linked to a bank account in the same name for dividends. Having the investment in your child's name means any assessable income or crystallised gain is taxable to them in that financial year. This can be costly in terms of tax, depending on the level of investment and returns, as children are taxed as high as 66% on amounts earned between $417 and $1307 and a 45% flat rate on the total amount if it exceeds $1307.

An alternative could be an education or insurance bond. First, the income is internally taxed at the company rate of 30%, which generally is lower. Second, if held for 10 years, there is no tax on the capital growth if crystallised. With a child's education bond, if drawdowns are used to fund education, the income tax is refunded. Through these bond instruments, you can invest in ETFs and managed funds.

It's hard to outperform a high tax rate, so focus on the appropriate tax structure, then the underlying investment.

What are the best investments with capital growth for my kids over the next 15 years?

The traditional asset classes that provide long-term growth are shares and property, both Australian and international. At Feel Good we mostly use index funds to get exposure to these asset classes. Index funds have been shown to outperform actively managed funds in the long term and are low in cost. The SPIVA 2019 report shows that in respect of general equity funds, a whopping 93% of actively managed funds underperformed the S&P/ASX 200 index in the preceding 12 months. If professional investment managers in most cases underperform an index fund over both the short and long term, it is highly unlikely a non-institutional investor such as a mum or dad would be able to do better.

Where can I continue my sharemarket education without paying too much?

The ASX website has free information suitable for beginners and as a fundamentals refresher. Beyond this, it has day courses for as low as $40. However, I recommend you see a financial planner before continuing your investment journey. As professionals gaining 40-plus hours of experience weekly, it would be hard for you as an individual to outperform them when taking into account strategic tax advice and detailed long-range modelling. Plans start at $3300 a year and should generate more value than they cost. A white paper compiled by Vanguard on the value of advice in September 2019 indicated that retiring investors had a probability of more than 80% of achieving their objectives when receiving financial advice.

Key question will help shape a strategy

EVAN LUCAS

Evan is the chief market strategist at InvestSMART and has been researching global markets for over a decade.

Courtenay, your scenario is very close to my personal situation, and if you would indulge me a bit I will answer your questions with an explanation of what I have done.

First, ask yourself what you want for this nest egg/investment fund.

In my case, I wanted to fund my daughter's education; it looks as if you want to hand over an investment fund to your children at around their 18th birthday. Asking yourself this question creates an investment time frame, risk profile and strategy.

So, my time frame is 12 years as I expect to start drawing down when my daughter heads to high school. As I have a longer investment time frame, I can be a bit more assertive (risk profile) as I know time will smooth out any downturns (short-term market events).

With an assertive risk profile and a 12-year investment horizon there are a few extra questions I asked myself:

What kind of returns do I expect and want?

The best way to answer this is, "What does the market give me?" By this I mean, what is the average yearly return of the S&P/ASX 200. The answer is 9.5%pa on a capital return basis (on a total return basis, including dividends, it's 13%). That is a solid result and a good benchmark for any investor.

How much time do I have to research and invest?

Even for someone who works in the investment industry, the time I have to run this personal investment is low. I know that the time needed to "beat the market" (better than 9.5%pa) is high and it's better for me to concentrate on working other money streams.

A big factor in getting the best out of your investments is to minimise fees – they are a killer for returns. You want to compound your returns, not your fees, so I wanted to make sure I pay as little in fees as I can.

All this pushed me towards ETFs. They are low cost, and "lock in" market returns while giving me exposure to an array of markets and assets I wanted (for example, S&P 500 and ASX 200). That means I might not "find" a big mover like CSL, but ETFs mitigate the risk of buying the wrong stock. Besides, I will gain exposure to CSL anyway, as it's inside the ASX 200 ETF.

To further maximise my return, any dividend or income is reinvested through dividend reinvestment plans, giving me a better total return. I also add to the fund every three months with a regular contribution to build scale and increase the return.

So I now have a high-growth portfolio of ETFs that I believe will help me achieve my goal of paying for my daughter's education.

How you construct your portfolio is up to you – there is a plethora of strategies and options you could take. However, construction can be difficult, so one idea might be to look at providers that do it for you. Their rates vary, but they can be quite cheap, with some charging as little as $8.25 a month. At InvestSMART, for example, we cap our fees, meaning as you add to the portfolio over the coming years once you cross the threshold you will never pay more than our capped fee price.

How do I set up share trading accounts for my kids so that they are separate from mine?

The easiest way is to open a trust account for each child with you as the power of attorney. Most firms will have a "how to" guide on their website.

Where can I continue my sharemarket education without paying too much?

There are plenty of providers, including online chat forums and mainstream publications such as *The Australian Financial Review*.

Q&A

Rather than buying another property, it would be smart for Jackson to …

Renovate the 'old clinker' to add tax-free value

Q I just saw your response to "Should we renovate our home or invest?" from a 2016 edition. My situation is a little different, as we are 55 and 57. I wonder if you could help with this ongoing dilemma I have had as our money manager.

My partner and I have 10 years to retirement. We owe $270,000 on our mortgage. We bought the home for $562,000 five years ago – we're slow starters – and it is worth $900,000 now.

The house is an old clinker brick place with two bedrooms, which really does need some work. We always knew it would as it has no guest space and no wardrobe space. My partner would like to renovate to give us an extra bedroom, building up to capture the city view.

Our combined income is around $5300 a fortnight ($30,000 and $300,000pa as a student and chief executive).

We will pay the mortgage off in 10 years at $1220 a fortnight. Our expenses are high, but we have around $1000 a fortnight to invest.

We have put extra payments into our super and are aiming for around $1 million.

We have $60,000, which I would like to invest in a managed fund. Combined with the spare $1000 per fortnight, this will be enough to get an investment property in five years.

I can't work out how a renovation will do anything other than destroy my plans for a buoyant financial future. Is it foolish to consider a renovation at this age, rather than further investment strategies? We're a bit behind the eight ball for people our age, so I don't want to do anything stupid.

Hmm. An interesting question, Jackson. I have a feeling there is a pretty simple answer here. You talk about your house being "an old clinker" that needs critical work to be your long-term home. It has gone up in value by some 80% in five years and a renovation would capture city views.

You would need to get an agent or two in for "before and after renovation" valuations, but my gut feel is: why buy an unknown investment property with all the costs and hassle, when you can add value, tax free, to a very successfully located family home? As they say, success breeds success. Clearly your home is really well located, given its huge jump in value.

This call is up to you and your partner, but if I was in your situation, I'd forget the investment property and after doing my research add real value to your family home. Clearly, the property is not what you want it to be. If you add well-planned money to this property, it will greatly increase its value. Alternatively, you could have a home that is not suitable for you plus an investment property.

At the end of the day, it is all money in property, so why not go with the one you know, with no stamp duty costs and the ability to sell if needed with no capital gains tax?

Please seek expert property advice, but to my mind adding value to property you know, with lifestyle, cost and tax advantages, sounds pretty smart to me.

NEED PAUL'S HELP?

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

Sorry, but Paul can't personally answer your questions other than in the Q&A column. By submitting your question to *Money*, you consent to having your question and the response you receive from Paul published in the print and digital edition of *Money*.

With a debt of more than $1.5 million, Elizabeth can't pay the bills, so …

Investment property has to go

Q I am 48 and my husband is 56. He works full time and I work part time (four or five days a week). We have kids still in high school.

We own a home (valued at $1.8 million, loan $900,000) and an investment property ($780,000 and $610,000).

About five years ago I became ill and was unable to work for some time. Six months later I went back to work two days a week, then the year after I was able to increase my days.

In the past three years my husband has been in and out of work. During the times he was not working our debts just increased, as we did not have any money set aside. We had payment plans for utilities and other bills.

Two or three years ago we refinanced and consolidated our debt with Pepper Money. Our debt is about $1.5 million at 5.46% interest. Repayments are $9450 a month.

Our income is about $14,000 a month, including rent.

But we are struggling to keep up with all our bills and mortgage payments. We have accumulated further debt on top of the $1.5 million. We now have a credit card debt of about $60,000.

We are in a cycle that we cannot seem to get out of. The refinancing has not helped us – we are worse off. We thought we should sell the investment property to lower the debt. But this takes time and no one is interested at the moment.

We want to leave Pepper as the interest rate is too high. IMB Bank has said that if we sell the investment property it would consider a loan.

We do not live a lavish lifestyle. We have not gone away on holidays for the past four years and when we did get away for a break it was driving to the coast for a five-day getaway.

We are stuck as to where to go to next. I would really appreciate some advice about what to do and who to talk to.

Elizabeth, I am not in the least surprised that you are doing it tough with repayments of nearly $9500 a month. While your current income leaves you with a reasonable surplus, I have no doubt that your extra debts, such as the $60,000 on your credit card, are really cutting into that surplus.

The positive news is you have quite a bit of equity in your house and the investment property and, critically, you have recognised the downward spiral you are in.

My great concern, and I am sure yours as well, is that the equity you have, in particular in your home, gets eaten up by high-interest debt.

First, I really think you need to talk to a financial counsellor. Now this is not going to be some website-type service that basically packages up debt and sees you in even more trouble (while it makes nice fees on the deal).

I would suggest contacting Financial Counselling Australia. You can reach them on their national debt hotline on 1800 007 007. They do not charge for their services, as their funding is predominantly provided by the government. Where I think they may really be able to help is that they work with your type of situation where ill health and other life events leave people struggling. They may be able to work with your lenders using the hardship clause to help relieve the financial pressure.

But it seems to me that to break the cycle you are in, the investment property really has to be sold. You mention "no one is interested". This is a worry to me, as with super low interest rates in many parts of Australia, property is doing much better. You have put a value on it of $780,000, with a loan of $610,000. This is an expensive property and I would hope that at such a high value it is in a location with some demand.

I cannot give you anything other than general information in a column such as this, but I would be pretty surprised if a professional counsellor's advice regarding the investment property was anything other than "it has to go".

I agree with you. I think if it was gone a mainstream lender would give you a home mortgage at around 3%. That, I think, would be the start of turning your finances around.

If the investment property is totally unsaleable, then you have to consider if your home has to be sold before your significant equity is lost to growing, high-interest debt.

This is a very personal and complex issue. In your shoes, I do suggest you set up an appointment with Financial Counselling. I'd also suggest you get an idea of what your investment property will sell for. The counsellor, or any other professional, will be unlikely to disagree with that strategy, so you should have this information.

Q&A

Robyn worries that her super choice is "too safe", but …

You need to be able to sleep at night

Q I am a 60-year-old female and am currently working a four-day week, which earns me $57,000pa. I salary sacrifice the maximum amount into super and have a balance of $520,000 in a conservative account.

I would like to know if a transition to retirement account will provide me with any further savings? I do not need the extra money to live on currently, as I am quite comfortable living on $36,000pa, but have read that I may save a few thousand a year if I have a transition to retirement (TTR) pension. I have chosen a conservative investment option for obvious reasons, but question if my choice is playing it too safe.

I am aiming to save enough super to provide $40,000 a year in retirement. I do not have any dependants and have bought a house with my sister, so I basically own half a house.

My aim is to retire at 62 if I have enough funds to do so. Do your calculations suggest that I am on track to achieve my goal?

Hi Robyn. I'd have a chat to your fund about the value in a TTR option. It is in possession of all the necessary facts and tax data and can give you an exact statement about any savings. This is well worth doing.

But the key fact is that you are maximising your contributions via salary sacrifice. A conservative fund will be less impacted by sharemarket movements, so it is not unreasonable to assume that in two years you would have over $600,000, with your contributions, even if its performance was only modest.

With no dependants, leaving an inheritance beyond the half share of your house is probably not important to you. So the question becomes: Can around $600,000 generate some $40,000 a year for many decades? This would require your fund to earn a return in the order of 6.5% a year. This, I would suggest, is too high a hope for a conservative fund.

I took a look at ASIC's "how long will my money last?" calculator on its MoneySmart website and in the absence of any age pension, based on historically sensible returns, it would get you into your 80s. But as you fall below the asset test for single aged pensioners, your government age pension will increasingly cut in. This is a complex issue and, again, your super fund can model your complete position, including inflation and the aged pension. Working an extra year or so can also be modelled. This can make a big difference.

While you are meeting with your fund's advisers, or an independent adviser, a conversation about whether you should move some of your super to a balanced option is also worth having. This is not to be done lightly. It involves a complete understanding of the risk and return trade-off and your own tolerance for risk. The key here is to not do anything that would cause you to lose sleep at night.

Anoop wants a better term deposit return, although …

Exchange rate is a big risk

Q Since term deposit rates in Australia are at their lowest, is it possible to invest in a term deposit overseas where interest rates are higher? Or would the currency exchange variation offset this advantage when trying to return the money to Australia?

Interesting question, Anoop. You have hit the nail on the head. Sure, you can get better rates in some countries, but these will not be first world economies, where interest rates are all pretty close to zero, so currency will be the key driver of return.

I watch with huge amusement "expert" predictions on currency. Here I can tell you that while some get it right for a year or two, currency guessing is a mug's game. You may as well go for dog six in whatever race you choose at the Dapto races.

If you have money you need in the short term, I'd stick with deposits with our local financial institutions. If you can invest it for the longer term, say five years or more, then you probably need to look at growth assets such as shares.

CASE STUDY

Budding investor ... Lewis Kranitis is keen to put his savings to work.

Is it the wrong time to buy more shares?

As a reader of your magazine I have a couple of questions. I am a 19-year-old who finished my HSC last year and am looking to start an apprenticeship in carpentry. I am doing casual work (30 to 40 hours a week) earning anywhere between $350 and $800. I have $30,000 in cash across two banks (Newcastle Permanent and ING), more than $2000 in shares and just under $2000 in super.

I am highly interested in the stockmarket and am looking to put $15,000 into two exchange traded funds (ETFs} and place another $5000 into individual shares. I have been researching where I will place this money for several months and am just waiting for the right price. However, I have become slightly sceptical about Australia's economy and was wondering whether I am taking too much risk. Should I put some money into diversifying my portfolio and attempt to protect myself against a recession? Are there further financial investments that I should be looking into?

Lewis

Paul's verdict: I see no need to hurry in this volatile climate

Invest in stages. Dollar cost averaging is so clever yet so simple.

Lewis, you are in great financial shape at such a young age. My youngest child is 25, so thinking back to when I was 19 is really going back into ancient history.

But, like you, I was moving on to further study after my HSC. As a young country kid, I had moved to Sydney and was living in a residential college at UNSW. As I recall, my sole asset was a pushbike and I think I had a few hundred dollars from working during the holidays at the Griffith Leagues Club.

The key issue for any young person is knowledge, education and experience. I think you are wise in starting your apprenticeship. Skills in most areas are in short supply and well rewarded. Even better, you will earn as you learn.

Now to your money. One of the few truths about money is compound returns and here the earlier you start the better. Another important money truth is that the most reliable way to accumulate wealth is to spend less than you earn. This you obviously do, but compound interest only works for those who save and invest.

The next truth is risk and return. At my age of 64, risk is a bigger issue. For me to lose large chunks of my capital on a permanent basis is a really bad idea. So I avoid investments with potential losses of 100%. However, the main reason I have a bit of capital is that I took this type of risk in my 20s, 30s and 40s when I used my capital to start businesses. A few of these did indeed lose 100% of what I put in, but others thrived.

For me, risk is something I need to manage through diversification. I am towards the end of my career; you are at the start of yours. The only reason you would not invest in shares or ETFs is if you needed access to your money in the short term. This could be for travel, a car or all sorts of personal reasons. As you know, markets in the short term are highly unpredictable.

As I write this column the coronavirus is spreading quite rapidly. Markets have had a pretty decent drop. I have no idea where this will end up, but as it always has, through flood, famine, world wars and plagues, the world will blunder along.

So I don't see any great hurry to start investing in this volatile climate, but I agree with your idea of building up a portfolio of ETFs and shares.

With some unpredictable times in front of us, another money truth may help you. If you were to divide your money into, say, three pools, you could invest on three separate dates over months or even a year. This is "dollar cost averaging". It is so clever yet so simple. If you invest a third of your money and then the market falls further, you make your next investment at lower prices. At lower prices you buy more, at higher prices you buy less, so you automatically get a better average price. This is one reason why regular contributions to superannuation work so well.

At 19, you will see plenty of recessions and plenty of global disasters, but my advice is to invest steadily throughout your working life. Take a look at a long-term share graph going back over at least a century. In the short term you will see all sorts of terrible downturns, but look at the graph over decades or a century and it moves one way ... upwards.

The only thing that would change that is a dramatic and permanent population decrease. Since about 1800 our population has moved from around one billion to 7.8 billion today. That is an awful lot of people who all generate demand, for things like carpentry and *Money* magazine.

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.

SMART SPENDING

Destination Iceland

Natural wonderland ... clockwise, from above, northern lights appear over Kirkjufell mountain and Kirkjufellfoss waterfall; Hallgrimskirkja Cathedral in the capital, Reykjavik; Viking boat sculpture in Reykjavik; bathers at the Blue Lagoon.

Six things to do

1. Chase: Track down as many waterfalls as you can. Iceland's renowned falls are plentiful along the country's tourist ring road. Gullfoss, Skogafoss and Gooafoss are the big three. Consider your timing, however, as tourist buses can often crowd the view.

2. Embrace: Iceland's farm-stay accommodation isn't your average caravan park/hostel style accommodation. Farmhouses offer a real community experience as you dine with locals and travellers alike. This is often the best way to get the scoop on the best vantage points for the aurora borealis (northern lights) if you are lucky to be able to experience them.

3. Watch: Iceland's natural aura, along with its booming tourist industry, lends itself to the dreaded tourist tax. Dining out can easily end up in a $120-plus schnitzel and beer. Supermarket meals or a simple picnic can dodge the exorbitant prices. You might be pleasantly surprised: the instant carbonara is remarkably palatable.

4. Indulge: The Blue Lagoon, a geothermal spa located in a lava field with water supplied by a nearby power station, is an absolute must. The $150 entry fee is more than worth it. Treat yourself to an unlimited time in its soothing, mineral-rich waters, indulging in a never-ending facial. Poolside bars sweeten the deal. It's hugely popular, so book well ahead.

5. Explore: Iceland has a bounty of glorious glaciers. Hike the largest, Vatnajokull, in the south-east and hydrate with some prehistoric water as the century-old ice melts away and trickles in front of your eyes.

6. Amble: Wander the streets of the capital Reykjavik and immerse yourself in the history of the small island nation. The dichotomy between its Viking heritage and natural grandeur is embraced in the streetscape. Its main cathedral, Hallgrimskirkja, reflects Iceland's volcanic past, and harbour sculptures capture the first Viking explorers in their glory. Enjoy a performance at the recently constructed Opera House if you can.

HUGH NIEUWLAND

DRIVING PASSION

They may be small but they're big on safety

One of the great things about today's new cars is that buying an affordable first ride for novice drivers doesn't mean having to compromise on safety. Hatchbacks are usually the car of choice for young drivers because they're affordable, economical and a lot easier to handle.

In the past, smaller cars weren't as safe as bigger vehicles, but today they're technological wonders, often achieving a five-star safety rating in crash tests.

Most new-generation small cars come with active safety features such as autonomous emergency braking, reversing cameras and infotainment systems that allow for hands-free phone calls and link music and navigation apps.

Five-star ANCAP-rated options starting around $20,000 include the Hyundai i30 ($20,240-$33,040), the Toyota Corolla ($23,335-$33,635) and stylish European hatches like the Fiat 500 ($19,250-$23,250) and Volkswagen Polo. Some small SUVs, such as the Hyundai Venue ($19,990-$25,490) and Kia Seltos, also fit the bill.

DAVID BONNICI, WHICHCAR.COM.AU

$20,240-$25,990

Mazda 2

Available as a hatch or sedan, the updated Mazda 2 looks good, feels nice inside and is fun to drive. Every Mazda 2 is equipped with Android Auto/Apple CarPlay smartphone pairing and has autonomous emergency braking. Even the cheapest version comes with a host of active safety features, including blind spot monitoring.

Pros: Economical; equipment list.
Cons: Higher entry price than previously; tight boot space in hatchback.
mazda.com.au

$18,990-$25,390

Volkswagen Polo

This is the cheapest way you can wrap genuine German engineering around your loved ones. It has Android Auto/Apple CarPlay and safety systems such as an auto-braking system that operates at city or highway speeds. It also has a driver fatigue monitor that assesses the driver's use of the steering wheel over long journeys.

Pros: Perky engines; great road-holding.
Cons: Conservative looks; limited paint options.
volkswagen.com.au

$25,490-$35,990

Kia Seltos

The feature-packed SUV offers plenty of space and comfort, with autonomous emergency braking across the range. Top-spec versions come with a more advanced auto-braking system with pedestrian and cyclist detection and advanced smart cruise control, which slows the vehicle to a stop in heavy traffic (an option in cheaper versions).

Pros: Ride and handling; huge boot; standard features.
Cons: Hard plastic interior surfaces.
kia.com

EXTRAVAGANCE

Grand proportions

Spoil your loved ones this Easter, and add a touch of Australiana, with this magnificent, hand-painted 20kg Belgian chocolate egg from award-winning artisan chocolatier Nina's Chocolates.

How much: the magnificent 20kg egg (pictured) costs $1000 but smaller Nina's Chocolate eggs are priced from $8. Where to buy: 27 Gymea Bay Road, Gymea, or ninaschocolates.com.au

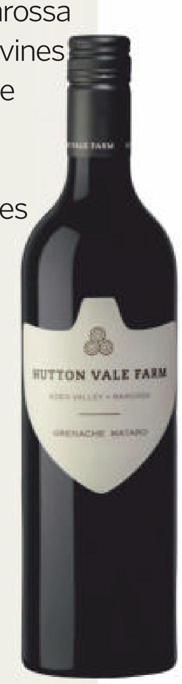
WINE SPOTLIGHT

2019 Wickhams Road Pinot Noir $19

You won't find better Australian pinots than those released under this label by Hoddles Creek. From the 2019 vintage, the Yarra Valley wine has ripe, dark plum and mulberry aromas and silky smooth texture. Its rich, concentrated flavours show depth of flavour and gentle power before a soft, supple finish.

SPLURGE

2012 Hutton Vale Grenache Mataro $75

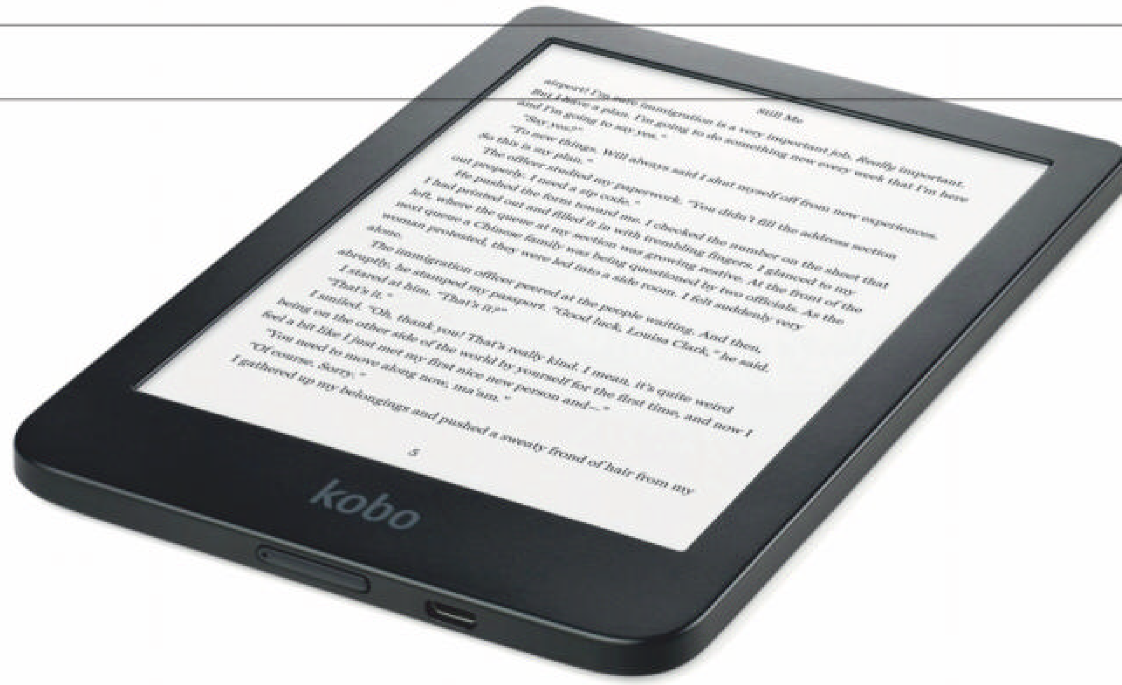


The Angas family has farmed in the Barossa since 1843 with vines dating back more than 100 years. They produce smallish quantities of age-worthy high-end Barossa wines: riesling, shiraz, cabernet and this grenache mataro. The 2012 is vibrant with intense blackberry and redcurrant pastille flavours, velvety texture and a satisfying finish.

PETER FORRESTAL

SMART SPENDING

SMART TECH



Go digital to declutter your life

No matter how big your apartment or house, it never really seems as if there's enough room, does it? Unless you're naturally gifted with minimalistic tendencies, it's easy to accumulate superfluous physical possessions that end up cluttering your living space.

At first it might be just the odd object (or two), but with time – not to mention children – a home that once seemed roomy and brimming with limitless three-dimensional possibilities suddenly feels like the cramped confines of a sardine tin. And how much of this stuff sparks joy, anyhow?

This is where technology can help. If your physical space is starting to resemble an endangered species, gain some room back by weaning yourself off physical possessions and using their digital counterparts instead.

Books, CDs, video games, and DVD/Blu-ray collections are all examples of things that take up oodles of shelf space, but in most instances the same products can be enjoyed digitally. It's an intangible alternative that doesn't take up any physical space.

PETER DOCKRILL

What is it? Kobo Clara HD (pictured)
How much? $179.95
Pros: Amazon's Kindle is the brand most people think about when it comes to e-readers, but the venerable Kobo has a long history of offering equally strong devices. The Clara HD is Kobo's cheapest model, but it offers everything most people could want in an e-reader and integrates with public libraries too.
Cons: Doesn't offer quite the same charm as curling up with a good, old-fashioned book, but think of the space you could save.
kobo.com/au/en

What is it? Apple Music
How much? From $11.99 monthly ($5.99 for students)
Pros: Younger people don't have this problem, but older readers may still have shelves stacked with CDs bought decades ago. Almost all of that music (and about 60 million other songs) can be enjoyed while freeing those shelves for the cost of just a handful of CDs per year.
Cons: None, except you need to keep paying to listen. Check out Spotify and other competitors to find the best streaming option for you.
apple.com/au

What is it? PlayStation Store
How much? Varies
Pros: Video games no longer need to be stored in piles of cases in your living room. Shopfronts like the PlayStation Store give you the option of downloading whatever you want to play directly to your console, and the best part is you don't even need to get up off the couch to swap discs.
Cons: You can't sell digital copies of games you no longer want, as you can with physical versions.
store.playstation.com/en-au

GIVE IT UP

Greyhound Rescue

What is it? April is adopt-a-greyhound month and Greyhound Rescue is one of several greyhound rehoming services across Australia. Founded in 2009, the not-for-profit organisation has rehabilitated and homed more than 1000 greyhounds. It currently has about 70 dogs in its care.
Where your money goes: The south-west Sydney kennel facility relies on donations and fundraising to pay for the initial desexing, vaccinating, microchipping and testing for heartworm. There are also long-term costs to keep the greyhounds fed and sheltered until they find a home.
How to donate: Greyhound Rescue has more than 100 volunteers looking after the greyhounds at the kennels or in foster care. You can donate either through PayPal or direct bank transfer and these details are at the website greyhoundrescue.com.au. You can also buy merchandise such as greeting cards, dog shirts, tote bags and dog bandanas.

DARREN SNYDER

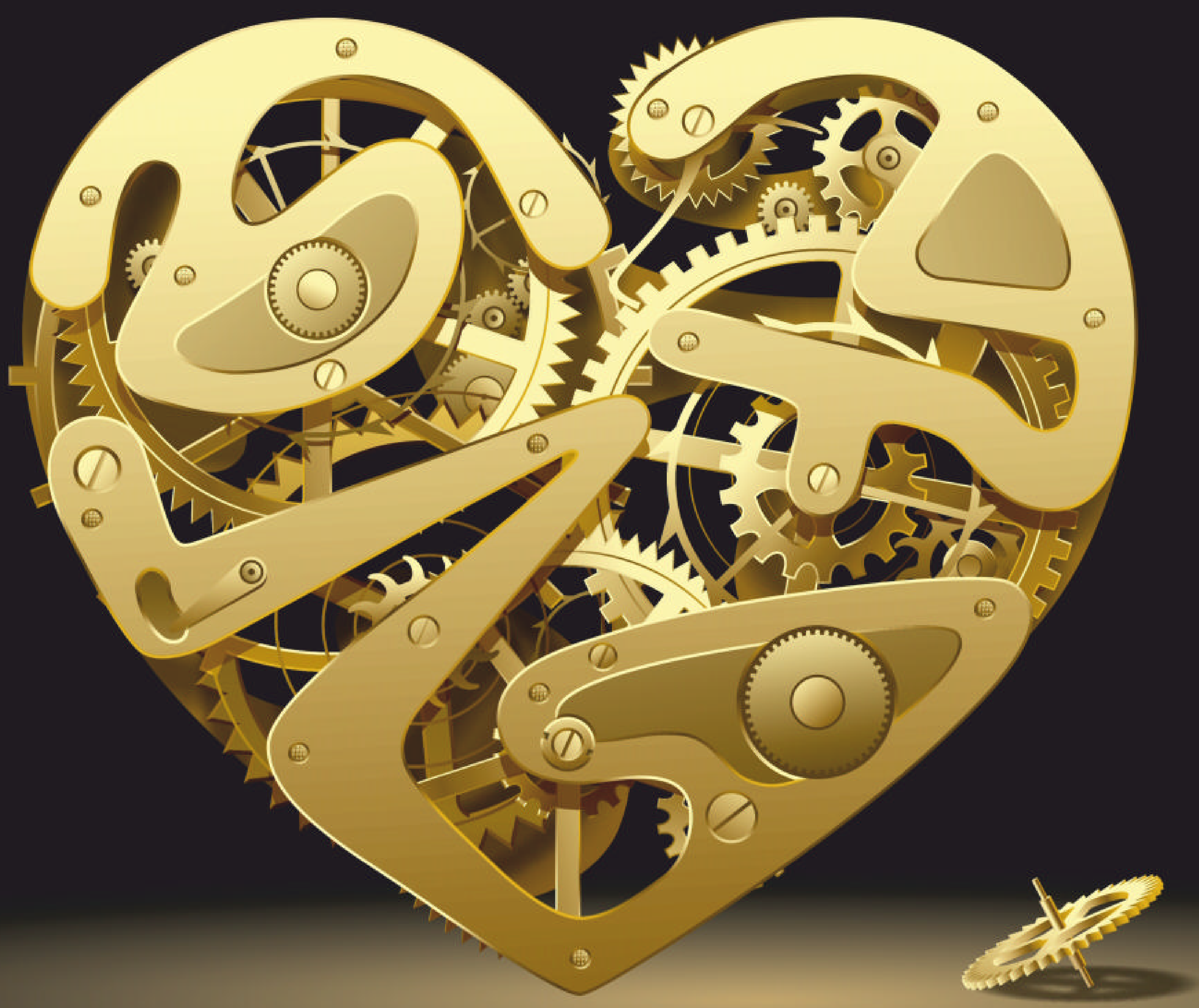
WEBFIND

PREVENTALLERGIES.ORG.AU

Allergic diseases affect more than four million Australians and this number has continued to climb at a significant rate for the past 20 years. As part of the National Allergy Strategy, this website provides information to help prevent food allergies among babies as well as tips about how to identify allergic reactions. DARREN SNYDER

Whether it's your savings, super, share portfolio or insurance, a few smart moves can get your finances into better shape

KICKSTART YOUR WEALTH



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STORY
JULIA NEWBOULD

Plenty of research tells us we're not saving enough, we fear having too little in retirement, we're underinsured and our investments are too concentrated. Messages like these can leave us wondering where to start when assessing our financial health. Financial wellbeing is about tracking how much you're earning and spending, and saving to cover planned and unexpected expenses. It's also about the ability to set money goals and monitoring your progress to achieve them.

An Investment Trends' survey of more than 5200 workers above the age of 40 found more than half are not as prepared for retirement as they should be. They also believe that the super guarantee (SG) won't be enough for their retirement. We explain how to get your super back on track as well as the figures you need for a comfortable retirement.

The key here is to contribute over and above the SG when you can afford to do so. "Australians who believe they will live comfortably in retirement typically contribute 11% of their annual household income into their super fund," says Investment Trends senior analyst King Loong Choi. "Even among lower-income households, a slight increase in the super contribution levels corresponds with greater confidence in retirement outcomes."

When it comes to shares, people start their investment journey at different times and for different reasons. It can be seen as a stepping stone to save for a home deposit, when there is little to be earned in a bank account. For others it can be the use of extra savings to invest outside super.

Keeping an eye on the financial health of your portfolio is crucial and should be done: when you start out, to make sure you have the right investments to meet your needs; when you have built up assets, to confirm the mix is still right and adjust it if required; and when your employment or financial position changes or the health of your dividends becomes the primary focus.

Regularly checking throughout life that you are protected with the appropriate insurance cover is also vital. Annual premiums are a big expense, but the cost could be much greater if you get it wrong. The insurance industry frequently implements changes when it comes to condition definitions, payment structures and premiums, so it's important to know what you're covered for, and for how much.

Does your super seem to be lagging behind where you'd like it to be, or is there repair work to be done on your savings or share portfolio? Or maybe you need reassurance that you could cope should one of life's curveballs come your way. If you've answered yes to any of these questions, read on to find strategies to help turn your finances around.

SUPER

Take control at every age

Super becomes a reality for most people when they hit their late 40s or early 50s. It's the time when you start thinking about your next move – do you plan to stay in the same job for the next 10 to 15 years; do you move house when the kids have left; or is it time for a sea change or tree change?

Apart from the family home, superannuation will likely be your largest asset in retirement. Wondering if you will have enough and how you compare to others your age is a common concern.

As at December 2019, the ASFA retirement standard estimates a couple aged around 65 can spend $62,069 a year and achieve a comfortable retirement, whereas a single needs $43,255. This affords you a range of leisure activities, private health insurance, a reasonable car, good clothes and the occasional international holiday.

A modest retirement lifestyle will cost a couple $40,560 and a single $28,165. This is better than living solely off the age pension and allows you to afford basic activities, according to ASFA. Both budgets assume you own your home.

SUPER

IN YOUR 20s

At this age, superannuation should be all about growth and starting to build a healthy retirement balance. The top priority is to choose a fund that suits you – check its fees, investment options and portability (you might want to keep the fund if you change jobs).

This is also a good age to put extra money into super. Any additional contributions now means less scrambling to build your nest egg in the years nearing retirement.

If you contribute just $25 a week extra into your super, or 1%-3% of your salary, it will make a significant difference to your retirement balance. According to the MoneySmart calculator from ASIC, putting $100 a month into your super for 40 years will build it by $152,000 (at an estimated 5%pa). If you earn $70,000pa and contribute an extra 2% of your salary, your balance on retirement can increase by more than 15% ($294,324 versus $345,237).

"If younger people make a small additional contribution now it will make a big difference later, and if it can be made tax effectively it will provide an even bigger benefit," says Geoffrey Pacecca, University of SA financial planning lecturer and GAP financial adviser.

"Another aspect is to know how super is invested and, in particular, make sure you are exposed to growth assets. A lot of people accept the default allocation, but it's important they understand what that is, given how important that asset is longer term.

"An extra $50 a fortnight will make a sizeable difference to someone who has a 30- to 40-year horizon. The problem is cash flow restraints, caused by young families, high debt and a high cost of living, but if they can set aside as a strategy a forced saving of a small amount, it will make an enormous difference in 20 to 30 years' time."

Ben Nash, Pivot Wealth founder and adviser, says younger people should check their super regularly, but beyond that there doesn't need to be much effort.

"What's important when you're young is making sure you have the right type of super fund for what you want to get out of it," says Nash. "Specifically, [it should be] a fund that allows a considered investment approach so you can educate yourself enough so you can follow an active or passive, ethical or socially responsible strategy and so that you can access those sorts of investments, ideally in a cost-effective way," says Nash.

"Once you do that it really shouldn't require a lot of attention. It's just a matter of checking – at least on an annual basis – that what's most appropriate for you hasn't changed."

AVERAGE SUPER BALANCES BY AGE

	25-34	35-44	45-54	55-64	65-74	75+
Men	$41,700	$100,300	$196,400	$332,700	$446,600	$366,200
Women	$33,200	$69,300	$129,100	$245,100	$378,600	$270,300

Source: Association of Super Funds of Australia (ASFA), 2018

IN YOUR 30s and 40s

This is the time when you are likely to be adding to your financial responsibilities, whether that's supporting a family, taking out your first mortgage or hopefully increasing your salary. Saving some of the extra income into your super fund is a wise move, but be careful to balance this to avoid accruing too much debt – paying down the mortgage and other debt must be weighed up against saving for the future.

However, Pacecca says you should not ignore super as an investment vehicle given the level of tax concessions it offers. If you have insurance in your super, you might consider offsetting the fees by contributing extra. For example, if your annual premium for life insurance and income protection is $3000, consider contributing this amount pre-tax into your super. This way your contributions are directly adding to your savings.

For his clients, Nash says salary sacrificing is a great idea. "We normally agree that when clients get a pay increase they direct a percentage of that increase into super. You're increasing what you're putting in but you never actually feel the money coming out."

In your 50s

This is your chance to make any changes to ensure you hit your target. It is typically the age when people start to have more disposable income – children may be leaving home, school fees might be ending and you are typically in your best earning years. You should definitely try to salary sacrifice as much as possible into your account (to the maximum $25,000, including the SG). Also, check your investment options – are you really making the most of the growth opportunities and low fees?

This is also a good time to check your insurance. If circumstances have changed it may affect the level of cover you need. Remember that if you have insurance within super you might like to pay the premiums with additional money rather than take them out of your future balance.

At this point, says Pacecca, it's important to work on a retirement outlook that shows your current projections against where you need to be, and this can provide you with the impetus to tweak your budget and allocate more funds to super.

For clients in their 50s with a mortgage, Lighthouse Capital financial adviser Julia Schortinghuis calculates how they can be debt free by retirement. She looks at their current progress and how much they think they will need in super, and works out if it's realistic or not.

"We encourage them to utilise the concessional contributions up to $25,000 as well as considering after-tax contributions if appropriate. We also look at investment bonds and family trusts as ways to invest tax effectively," she says.

Another tip for pre-retirees is to consider contribution splitting between partners, particularly if someone is getting close to the transfer balance cap of $1.6 million. This allows you to split up to 85% of the previous year's concessional contributions, says Schortinghuis.

IN YOUR 60s

You might be close to retirement but need to add a little more to your funds. You can take advantage of a transition to retirement strategy by salary sacrificing the maximum amount into your super while also drawing it down to maintain expenses. Also look at your investment strategy in super and make sure it's still relevant to your situation.

As people move to retirement, it's best if they are mortgage and debt free.

"Moving to retirement, hopefully if we've done our job properly there's no mortgage or inefficient debt. We look at what's the safe drawdown rate for the life expectancy. Five years either side is our rule of thumb and there are legislated minimums, which is a good starting point," says Shortinghuis.

"Another potential consideration is that if someone is close to meeting Centrelink eligibility, it is possible to incorporate an annuity as they have favourable treatment in relation to Centrelink."

What you can do with your super

1 SALARY SACRIFICE

Salary sacrificing is typically putting pre-tax dollars from your salary into your superannuation account. Your employer is legally obliged to contribute 9.5% of your salary but you are able to contribute extra, up to $25,000 (concessional) each year. You can contribute a total of up to $100,000 after tax.

2 CO-CONTRIBUTION

You are eligible for a government co-contribution (maximum of $500) if you are a low-to-middle income earner who has made a personal (after-tax) contribution.

3 TAX BREAKS

Concessional contributions are those on which you have benefited from a lower tax rate. Non-concessional contributions have already been taxed. Both receive concessional tax treatment on earnings inside super.

4 INVESTMENT OPTIONS

If you haven't paid much attention to your super you are probably in a balanced fund by default. Depending on your fund you might be in an age-based option. Check that this is in line with your circumstances and plans. Talk to a professional if necessary to understand the choices.

5 MAKE EXTRA CONTRIBUTIONS TO PAY FOR INSURANCE

Holding insurance within super may help with cash flow, as you will pay your premiums with pre-tax dollars, but this is money that isn't going towards your retirement. Consider covering the cost by adding this amount into your super account so you don't diminish any future benefit. Alternatively, investigate taking cover outside super.

SAVINGS

Build wealth from the bottle up

Having one less coffee each work day can save you $960 over 12 months; stop buying lunch ($10) and you can save an extra $2400 a year. Over five years this adds up to $16,800.

These are pretty simple changes and if there are two of you saving together then you can double the amount. Cutting out one drink ($10) on the weekend can save an additional $2600 over five years or $5200 if there are two of you committed to the goal. All up a couple can save more than $36,000 over five years (see table).

Each year *Money* magazine runs its Best of the Best Awards, which provide, among other things, the cheapest car insurance, income protection, home and contents insurance, car loans, personal loans, home loans, credit cards, mobile plans and broadband plans. Using this information can save you hundreds of dollars a year to add to the balance. Even talking to your insurance, energy or mobile provider can result in negotiating a better deal.

Other simple saving hacks include the popular soft drink bottle challenge, which has you filling a 600ml bottle with $2 coins to give you around $880. A 1L bottle will hold $1500.

You might find it easier to save by deducting immediately from your pay packet. For example, to save $10,000 a year, you would need to deduct $192 week, $384 a fortnight or $833 a month. If this is siphoned off to a savings account before it can reach your spending account, your budget becomes easier to manage.

Financial experts say you should aim to save between 10% and 20% of your income as a rule of thumb, but for many people keeping expenses down can result in far greater savings.

One tried and tested way to save is the 50/30/20 budgeting method, and the example below shows how a household earning $2000pw can make this work.

Pay rises or bonuses can then be halved. One half can add to living expenses and the other half to savings. Savings can then be prioritised into:

- 20% to your buffer for emergencies or unexpected expenses. This could be things like a major home repair, an unexpected illness or a surprise bill.
- 30% for "fun". This is likely to include your short- to medium-term goals, whether it's travel, a new car or a great party.
- 50% for "future you", which is your longer-term savings, including additional contributions to super.

NET HOUSEHOLD INCOME		$2000pw
Essentials	**50%**	**$1000**
Nice to have	30%	$600
Savings – broken down in to:	20%	$400
Buffer	20%	$80
Fun	30%	$120
Future	50%	$200

SAVE UP TO $36k IN 5 YEARS

Day	Working week	1 year	5 years
$4 (coffee)	$20	$960	$4800
$10 (lunch)	$50	$2400	$12,000
$14 (lunch & coffee)	$70	$3360	$16,800
$28 (two lunches & coffees)	$140	$6720	$33,600
If you added this to one less drink on weekends			
$10 (drink)		$520	$2600
			$36,200

case study

Go hard when you're young

Peter Di Natale bought his first property at 18. It was a one-bedroom unit in Redcliffe, near Brisbane, which he saw as enforced saving. Six years later it was paid off. He then bought a two-bedroom villa in Jannali, in southern Sydney, and lived there for 10 years.

As mortgage repayment calculators weren't widely available he decided just to double the repayments. This meant he was able to upgrade to a three-bedroom apartment in Cammeray, in north Sydney, which he also paid off in five years using the same strategy.

Di Natale took advantage of offset accounts and selling managed funds he had accrued to pay the mortgage. Since then, he has saved blocks of $10,000, which he then invested in building a share portfolio with some of the recommendations from *Money*, and also bought an investment property with family.

"While I've earned a good income, I don't need to spend a lot and I always aim to save 65% of my salary," he says. "I don't have a new car, I don't buy expensive clothes, I like dining out but not fine dining. I would prefer to spend my money on travel experiences.

"Putting in the hard yards when younger, doing more socialising at home, I really sacrificed everything to get ahead and once I got ahead more money came in. And now I have investments, more money is coming in and I can take a break."

Di Natale says being engaged with his superannuation and salary sacrificing will hopefully see him on track to retire at 55. This will then allow him to give something back to the community, such as teaching English to children in Indonesia.

SHARES

Take charge of your portfolio

Those who have been invested in shares for some time might be in a "set-and-forget" mode. Others may have an evolving portfolio that they continuing to finetune.

Either way, an investment strategy, including how you choose to diversify, is all-important. You also need to check in regularly to ensure you are still on track.

And be careful with set-and-forget strategies. For example, if you've decided to put 20% of your money into financial stocks and they have now grown to represent 40% of your portfolio, consider whether the asset mix still suits your plans. If it doesn't, take the opportunity to rebalance by selling some of the profitable shares and redistributing the money into other stocks.

This should be done at least annually, although you might choose to do it more frequently. A rule of thumb is to rebalance whenever the total holding of a particular share moves to more than 5% of the portfolio's total value.

Your stock selection should be focused on quality companies that will grow earnings rather than just picking stocks with a high yield, says Jonathan Philpot, HLB Mann Judd wealth management partner.

"When you consider the length of time that you will own a good-quality stock, the dividend yield may never change. If the share price doubles over a 10-year period, the dividend will also double," he says. "This also includes those stocks that may have a bad year and will not pay a dividend for that year. These are not necessarily a sell – no company ever has uninterrupted growth. The resource stocks are a great example of that at the moment – only a few years ago dividends were about 20% of what they are now paying."

Financial adviser Geoffrey Pacecca says clients intending to manage their own portfolio should get professional advice, particularly if dealing with a share portfolio that represents a high proportion of total net worth.

"Quite often in the DIY situation, and even people with brokers linked to their account who are passive investors, they experience severe losses with particular shareholdings," he says.

"Another issue is that overexposure to Australian shares provides a risk of lack of diversification, given that Australian shares represent less than 1% of the world's sharemarket.

"Thirdly, make sure you get good advice to minimise the tax ramifications of selling shares. If you're doing it yourself and you've made a nice capital gain and you don't know the tax rules, you could erode a substantial amount in tax."

You do not want to trigger capital gains tax if you're still working. "It's best to wait for a financial year where there is nil or very little employment income before selling the investment assets that have a large capital gain," says Philpot.

"However, people also need to be mindful if they want to put the proceeds towards super. Are you still able to pass the work test to make the super contribution?

"One of the biggest traps that retirees fall into is having all their investments in one spouse's name. This is often due to the lower income earner building up the investment wealth in the working years. Simply selling half of a share portfolio into joint names in

Tips for new investors

Set up a direct debit into your share trading account and look at it as a savings strategy. It can harness the power of compounding returns and even out market fluctuations. Start out small but get into the regular discipline of paying yourself first, which is important when you're trying to achieve your long-term goals.

Decide an amount (for example, $500), send it to your trading account and seed that into the market. If the market is down then you can buy more units; the next time, depending on what the market is doing, you buy a different number of shares for the same cost. This is called dollar cost averaging.

a single financial year may result in a large capital gain. However, over a few financial years it may make sense particularly if the end result is that both individuals will not have any tax to pay and, even better, receive a tax refund of franking credits."

Getting started

When starting in the sharemarket, Bell Direct market analyst Jessica Amir says people often know more about investing than they think.

"Would-be investors often say they have all this money to invest and don't know where to start. Often when you get chatting you find out they do know quite a lot depending on what they do for work or what their family does," says Amir. "One of the world's best investors, Peter Lynch, says you can have one up on Wall Street if you have information from your job."

$500 is all you need to get started in the market, says Amir. Then think about the companies that you interact with on a daily basis. Are they in growing parts of the market? If so, then roll up your sleeves and read as much as you can about the company.

Reporting season is a good time to start. And even if you've been a long-time investor, these are key lines in any company's financials that you need to check:

- Net profit after tax (NPAT). Are profits growing? Traditionally when profits are growing companies are likely to return capital to shareholders in the way of dividends. It can pay to compare rivals – for example, Coles versus Woolworths.
- Revenue. Is it higher than it was at the same time last year and is it doing better than its peers?
- Earnings or EBIT (earnings before interest and tax). If earnings are growing, the company's share price is likely to grow.
- Dividends. Investors like it when dividends are growing or steady. If it's a property stock it's called a distribution.

"If you are an investor who doesn't feel like doing the legwork or rolling up your sleeves, or don't have time or don't feel comfortable or can't get access to research to back up your thinking, then I'd consider investing in exchange traded funds," says Amir. "That way with one share you can access a diversified portfolio.

"Once you've done your initial legwork, check the broker research to see what the experts are thinking. Analysts have expectations for earnings growth and profit growth. They will also outline risks for the sector and will always give a price target. This is a good indication of whether a stock has more room to grow, and ultimately the aim is to get a better return than cash at the bank.

INSURANCE

Weigh the costs and benefits

The recent bushfires and floods are a sober reminder of loss. In building and maintaining wealth, making a home and raising a family, you put it all at risk if you don't have adequate insurance.

And it's not a set-and-forget strategy. People tend to need the full suite of insurances when they have young families – life, total and permanent disability insurance (TPD), trauma and income protection, with the latter being required pretty much throughout one's working years.

As you progress through life it's likely that the required levels will change and as you get older you may need less. Premiums generally increase with age and it becomes important to regularly monitor your level of cover with a view to balancing costs and benefits.

There are several issues that people face with insurance, including overinsurance, underinsurance and lack of knowledge of the details of their cover.

How it is paid for is also an issue. As the cost is often a significant imposition on cash flow, it is often paid through super, but in that case it is eating into retirement savings. If income protection is paid outside super, it becomes tax deductible.

Lighthouse Capital's Julia Schortinghuis says she often recommends that people funding insurance through super should consider making concessional contributions to cover the premiums.

Changing insurance providers will typically mean new underwriting, which as you age may bring up health issues that could result in loadings on your premium or exclusions. It is certainly an area where professional advice can help. *M*

case study

Family's cover bought precious time

A close friend and colleague, Trish Prince, a Fitzpatricks Private Wealth financial adviser, and her daughter tragically lost their husband and father, Michael, to melanoma. At the age of 44, not long after participating in the Ride to Conquer Cancer with colleagues, Michael took his bike out and found he was breathless. About 10 days later he went to see his doctor. A scan later that day revealed a cancerous tumour in the lung. Michael sadly lost his battle in November 2017.

Insurance allowed Trish to stop work the day he was diagnosed, and enabled her to work part-time from May to November that year, which gave them precious time together. Without insurances, it was time they simply wouldn't have had.

They had come very close to not being insured a few years earlier. Michael was looking to reduce the number of super funds that he had. What he didn't realise was that by closing his fund he would automatically cancel the insurance cover he had through super.

Michael had a pre-existing condition (a melanoma removed when he was 18), which meant that automatic cover was essential for him because melanoma would have been excluded where underwriting was required. The existing cover (which he nearly cancelled) formed part of the overall picture in order to meet the family's priorities and needs at that time.

It is vital to first check what you have before making any changes and seriously consider "opting in" to automatic cover when you join a new employer.

Trish's advice for those who feel they can't afford personal insurance is resolute – you can afford some. Choose which events are a priority and put some cover in place. You can own life and TPD insurance through your super, and even income protection. Income protection outside of super is a tax-deductible expense and she encourages people to put some trauma protection in place when they are young and healthy.

Julia Schortinghuis, financial planner, Lighthouse Capital

SPONSORED CONTENT

RESPONSIBLE INVESTMENT

Bushfires ignite greater interest in ESG

EVERYDAY INVESTORS CAN HELP MAKE THE WORLD A BETTER PLACE BY PUSHING THEIR SUPER FUND TO ADOPT RESPONSIBLE INVESTING PRACTICES.

The Australian summer was catastrophic for many people, their property and our native flora and fauna. And as Australians wore these losses a shift in our environmental awareness took place. We're waking up to the role of climate in triggering national emergencies.

The first rumblings of this shift were felt when drought began to receive widespread attention. What was happening in our backyard resonated more than the melting of Antarctica and rising sea levels.

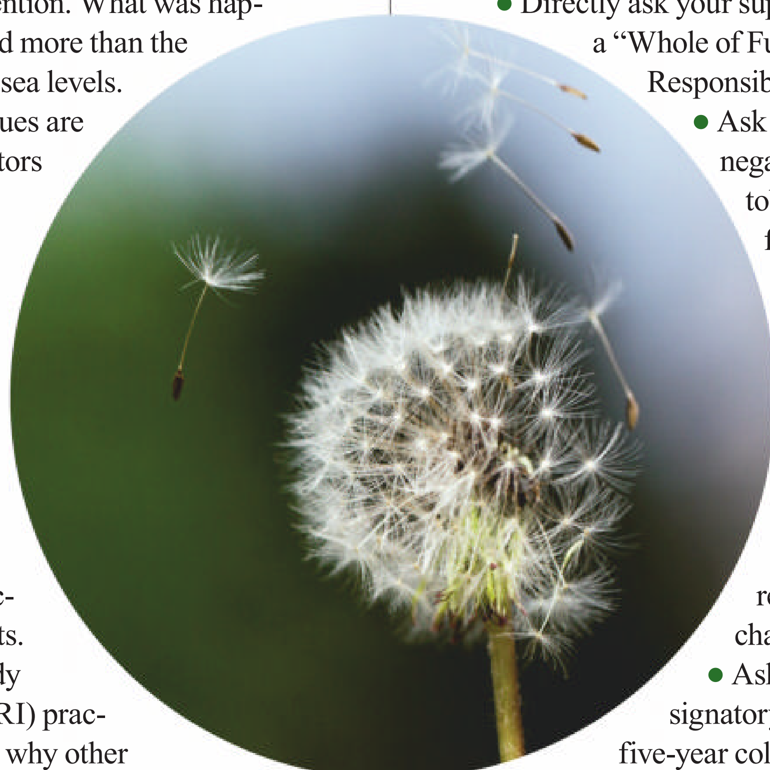
These mainstream climate issues are also mobilising savers and investors to call on their financial institutions to fulfil their fiduciary responsibilities when it comes to protecting the environment. With the largest retirement pot in Australia, super funds are in the spotlight.

The court of public opinion has spoken and super funds can no longer ignore environmental, social and governance (ESG) factors when it comes to investments.

For those funds that are already applying responsible investing (RI) practices, it is difficult to understand why other funds are reluctant to come to the RI party. These RI-compliant funds are outperforming their peers that lag on RI practices, according to analysis by the Responsible Investment Association of Australasia (RIAA). Indeed, the super funds that employ RI strategies across their entire fund consistently outperform their RI-ambivalent peers over five-, three- and one-year time frames.

This raises the question why change is not happening at a faster rate. Why aren't all super funds articulating and demonstrating a comprehensive approach to responsible investment? A survey from RIAA found that the majority of funds exclude fossil fuels from their portfolio compared with a minority that exclude tobacco and armaments.

This failure to respond will see everyday Australians increasingly asking their super fund why it is failing to act. They know that super funds can use their power to influence the investment strategies of the largest asset managers in the world. BlackRock recently announced it would sell more than $US500 million of thermal coal shares.



The starting point for investors is to find out just how seriously their super fund takes ESG issues. This is not always easy as climate-related financial disclosure requirements are opaque, but there are a number of steps investors can take:

- Directly ask your super fund if it has been awarded a "Whole of Fund" Certification as a Responsible Super Fund by the RIAA.
- Ask your super fund to reveal its negative screening criteria for tobacco, armaments, gambling, fossil fuels and nuclear or uranium. Compare this information with industry best-practice funds such as LGS.
- Use the RIAA online search function that will select super funds that are actively applying strategies focused on renewable energy and climate change solutions.
- Ask your super fund if it is a signatory to Climate Action 100+, a five-year collaborative engagement program to engage with top listed companies around the world to drive clean energy transition and achieve the Paris agreement goals.
- Ask your super fund how it engages with the companies in which it invests about ESG issues through one-on-one meetings, briefings, phone calls and letters. For example, has it supported climate-change-related resolutions at BHP and Origin Energy company meetings?

Australians are waking up to their ability to influence and know that ESG issues are no longer peripheral to investment decisions. The idea that investors can use their superannuation to make the world a better place, where the threat of bushfires and drought is considered, is an appealing proposition – especially when millions of people have invested almost $3 trillion for their retirement.

MOYA YIP, head of responsible investment, LGS.

Explore the other routes

STORY DARREN SNYDER

Rather than parting with a big wad of your hard-earned cash, you can have a car with less financial pain and plenty of flexibility

You need a car but don't have the tens of thousands of dollars to pay for one upfront. Maybe you have the cash but can't commit to owning a car for the long term. Or did your workplace offer you a car and you're unsure if the package will be cost effective?

The good news is that there are solutions to all these scenarios. The number one rule, as Paul Clitheroe always says, is "buy the cheapest car your ego can live with".

This remains true even when you're weighing up options such as car leases, loans or subscriptions. How you finance the purchase of your next vehicle will be just as important as selecting the ride itself because there's potential to save thousands.

For lease

Salary sacrificing the purchase of a car with a novated car lease is a good option for employees. It involves a three-way agreement between the employee, the employer and the car lease company.

The employer agrees to meet the car lease payments and operating costs by reducing the employee's pre-tax salary (see case study 1, page 48).

You can also opt for associated car leases, where the car lease company (as financier) is replaced with an associate – usually a spouse on a lower income because the lease can then become part of an income-splitting tax strategy. The associate collects the leasing fee, which is added to assessable income, and reduces tax liability by claiming the car's running costs.

Jenny Brown, chief executive and financial adviser at JBS Financial Strategists, says the two most important factors when taking out a novated or associated car lease are that the employee has more dollars in their pocket after tax and that the employer agrees.

She says a novated car lease isn't always the cheapest option for buying a car, but it's the most tax effective.

Keep in mind that if you opt for one of these leases, you'll have to make an after-tax contribution into the salary package so the employer doesn't end up liable for fringe benefits tax – a financial adviser or salary packaging expert can help here.

Buyer beware

Watch out for any hidden costs that the car lease company might fail to disclose when entering a novated car lease, warns Brown. At an absolute minimum make sure you know your monthly payment and the interest rate, she says.

Jason Petersen, head of wealth management and adviser at Five Financial, says one of the issues he sees is employers who have a preferred supplier but with exorbitant interest rates.

"Unfortunately, they'll sell it to their employees as this great tax-saving strategy and they'll show you a few scenarios [and comparisons]," says Petersen.

In these scenarios the novated lease will always look better, but it will pay to do your homework – even car dealerships may offer more competitive rates.

Another pitfall to watch out for is lease add-ons such as tyre protection, wheel protection, scratch protection or lease protection plans (where if you're out of work the lease company will pay your lease for a period of time).

"Most people I advise would have income protection, so why would you have the lease protection plus income protection. The price of these [lease protections] can be ridiculous," says Petersen.

Brown recommends making sure you have the right lease in place. If you're self-employed, for example, it might be best to have a chattel mortgage or commercial hire purchase, whereas a novated lease is better for an employee.

And, of course, you should make sure you can afford the lease as well as know what it will cost to refinance or pay it out at any time and what exit fees exist.

Petersen says it's not uncommon for clients to start a lease as a tax-saving strategy. But he recommends weighing up whether you need an upgrade in the first place or whether you'd save more by buying an older model or demo instead.

Lenders close the gap

Lenders are now offering car and personal loan rates below 5%, making them a worthwhile alternative when it comes to financing your vehicle (see case study 2, page 48).

"Car sales are in the doldrums and car loan providers need to compete for each and every borrower out there," says Vadim Taube, chief executive at comparison website InfoChoice. "The point at which you purchase the vehicle is the final stop in the process of getting the new car, so it's unlikely to be the place where the cheapest finance deals are being offered."

Taube says borrowers have a great choice of low-rate car loans from banks and credit unions. Online lenders such as Harmony and Moneyplace are also setting interest rates according to your own credit score or rating, so they are picking up plenty of borrowers who are rejected by the banks, he says.

While it is possible to use the equity in your home to buy a car, this is not always the preferred option when considering your wider financial plans.

If you use your home loan to buy a car, you need to pay back the extra debt as soon as possible

LOWEST FIVE-YEAR CAR LOAN RATES

Lender	Loan – 5 years	Rate pa, fixed 5 years	Comparison rate pa
Loans.com.au	Green car loan	4.19%	4.73%
RateSetter	Car loan^	4.69%	6.03%
Loans.com.au	New car loan	4.89%	5.44%
Move Bank	New car loan	4.89%	5.16%
bankfirst	Green car loan	5.29%	5.50%

Source: InfoChoice as at February 26, 2020. Comparison rates are based on a loan of $30,000 and a term of five years unless otherwise indicated in the product name with^, in which case the comparison rate is based on a loan of $10,000 and a term of three years.

Brown says a self-employed person would be more likely to use their mortgage to get a car, and there's no doubt that you can access cheaper interest rates.

Use your mortgage redraw or top up your home loan to buy a car, however, and you're taking money out of, say, a 20-year loan versus a car you're going to turn over in four or five years, says Brown.

Petersen says that in weighing up your car financing options, it's important to remember that an equity loan is non-deductible debt.

If you do decide to buy a car using home equity, Petersen recommends treating the debt as a normal car loan and paying it down as quickly as possible. This way you could pay off the car in the same – or shorter if you're super disciplined – time frame but with less interest.

Netflix of cars

When you lease a car or finance it through a loan, at the very least you're probably making a four- to five-year commitment. This is not everyone's cup of tea.

Car subscription services are the latest option for anyone thinking about buying a vehicle. Depending on the provider, your subscription might last a week or month, or it could be open-ended. And it's all about flexibility – you can swap your car if your current doesn't suit.

Most car subscription services will pay for the car, its servicing and maintenance as well as the insurance and registration (see case study 3, page 48). Some providers may also charge an upfront subscription fee and run a credit check, as well as verify your identification. How you pay for and cancel your subscription varies. All you have to pay for is fuel and tolls.

Car subscription service Carly says there are plenty of scenarios suited to this arrangement (see New parents, page 48). "There are a lot of people doing gig and contract work now, and they're thinking, well, if I'm only working for seven months of the year, do

CASE STUDY 1
NOVATED LEASE FOR MICHAEL'S $50,000 CAR

	Salary package (employee contribution method)	No salary package
Salary	$70,000	$70,000
Total car expenses (pre-tax)	$9772.84*	$0
GST cost	$909.10	$0
GST credit	$1797.53	$0
Salary before income tax	$61,115.59	$70,000
Income tax	$12,631.59	$15,697
Includes Medicare levy	$1222.31	$1400
Salary after income tax	$48,483.71	$54,303
Less employee contribution	$10,000*	$0
Less total car expenses (after tax)	$0	$19,112.84*
Balance of salary available	$38,483.71	$35,190.16

Source:JBS Salary Packaging.
*Breakdown of expenses is as follows:
• Annual lease $11,112.84 (four-year term) • Fuel $3000 • Registration $1000
• Maintenance $2000 • Insurance $2000 • Admin fee $660 (for salary package only)

CASE STUDY 2
CAR LOAN FOR MICHAEL'S $50,000 CAR

Salary	$70,000
Salary after income tax	$54,303
Car loan	$50,000 (four years)
Interest rate (fixed)	4.19%
Monthly loan repayment	$1133.21
Annual loan repayment	$13,598.52
Car costs	
Fuel	$3000
Registration	$1000
Maintenance	$2000
Insurance	$2000
Balance of salary available	$32,704.48

Source: Infochoice.com.au, JBS Packaging. Annual loan repayment does not include fees.

CASE STUDY 3
CAR SUBSCRIPTION FOR MICHAEL

Salary	$70,000
Salary after income tax	$54,303
Car subscription – Option 1	$259pw ($13,468pa)
Car subscription – Option 2	$350pw ($18,200pa)
Fuel	$3000
Balance of salary available	$37,835 (option 1), $33,103 (option 2)

Sources: carly.co, JBS Salary Packaging. Carly subscription includes registration, maintenance, insurance and the first 1200 kilometres every month. You must pay for fuel and tolls. Other providers may charge an upfront subscription fee.

I really need a car for 12 months?" says Carly chief executive Chris Noone.

He points out that with a loan or lease there are likely to be costs involved if you want to change your car in the short term. "Then there's the hassle in the weeks of selling and negotiation, and then buying another vehicle. Then there's stamp duty to pay, registration costs and so on," he says.

Noone says if you're considering a car subscription, in many ways you need to think of it in the same way as if you were buying a car. For example, practical issues such as: Will the vehicle fit in your garage? Will it easily drive up your driveway or can you reverse it into your driveway?

He also warns that it's important to read the fine print to avoid being locked into longer ownership terms or non-refundable deposits, which is the case with some car subscription services. ***M***

New parents adjust to a baby on board

Sydney-based executive David hadn't owned a car for 10 years and his wife had been without one for six years. They enjoyed the flexibility and savings of not having one.

They used the hourly subscription service GoGet maybe two to three times a month to visit in-laws or for the occasional emergency trip to the shops.

But when their new baby came along, they needed access to a vehicle with an authorised, fitted child seat (which they also hired), as well as a vehicle they could park in their apartment complex, so they turned to the Carly subscription service.

"It probably works out a tiny bit cheaper to have a lease or loan, but from my perspective it wasn't worth the loss of flexibility, nor the commitment to a long-term contract with balloon payments," says David.

The couple are also using Carly as a test case to see whether they'll need a permanent vehicle over the long term.

Track down the best savers

Interest rates barely keep up with inflation, so it pays to shop around

I was 18 when I opened my first savings account. I had just got confirmation that McDonald's at Circular Quay would be delighted to train me as a "crew member". They wanted all my personal details, including my bank account, where they would deposit my fortnightly wages.

To someone who had for a long time relied on the Bank of Mum and Dad, my first savings account coincided with my first steps towards financial independence.

My savings account simply kept ticking along with incremental additions of interest. Home loan rates were more than 10% at one point and , unlike mortgage payers, I benefited from high interest on my savings.

Those days are long gone. Today none of the big four banks pays close to the inflation rate on any savings account. Since the Reserve Bank cut rates last March, CommBank, for example, has cut rates on three of its most popular savings accounts – the GoalSaver, the YouthSaver and the Netbank Saver. At the time of going to press, the other three banks would have gone down the same path.

This is a downside of savings accounts. They are vulnerable to rate cuts and cannot be guaranteed.

Just as McDonald's has come a long way since its basic burger-and-fries meal deal in the days of my youth, the banking industry has come up with its own version of upselling, which can be in the form of a better mobile banking experience, a rewards scheme and competitive savings rate from regional banks and neo banks (banks that live online).

Jason Bryce, researcher at InfoChoice, says one of the top savings rates at present is from a neo bank, Judo, which offers well over 2%pa for longer terms.

While term deposits and day-to-day transaction accounts or savings accounts are technically distinct products, the new banks are making their products attractive whether you're looking for a short- or long-term place to put your cash.

Meanwhile, faced with cutting rates last month, Xinja bank didn't lower its rates but instead stopped accepting new customers for its Stash account, which pays 2.25%pa with no minimum deposit rules.

Outside neo banking, the early innovators are also worth considering. ME Bank has easy rules for savers to follow so they can earn high bonus interest rates, while for depositors in the under-25 bracket Bank of Queensland boasts a market-leading rate of 3%pa.

If you have an environmental bent, UBank offers a range of "green" term deposits, which match your savings to a portfolio of renewable energy projects. Minimum deposit is $1000 and your savings could start earning interest over two, five, seven, eight, 10 and 11 months. This is a far cry from the days when term deposits were associated with three-year or five-year lock-in periods.

The big four are facing competition from the neo banks and other major banks head-on. Jessica Gleeson, general manager of digital banking at CommBank, says it has saved its account holders $415 million annually by using machine learning to help app users better manage their bills and other finance transactions. A penny saved is a penny earnt, as they say.

The trick is to sit down and find the savings account that best matches your lifestyle and finance goals. Almost all of the high-earning savings account are fee-free with favourable withdrawal conditions. Often it's just about comparing bonus rates and working out how long you can benefit from them.

The real power of a savings account is the compounding effect over time. Rates and bonuses matter, but not as much as the amount of dollars you're saving month on month, building your wealth over the years.

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.*

TOP 10 AT-CALL SAVINGS ACCOUNT RATES FOR BALANCES UNDER $1000

NAME	PRODUCT	BASE RATE <$1000	MAX RATE <$1000	INTRO PERIOD MONTHS
Bank of Queensland	Fast Track Starter Account (for 14-24 years old)	0.2%	3%	
Macquarie Bank	Macquarie Savings Account	0.35%	2.65%	4
Heritage Bank	Online Saver	1.1%	2.5%	4
AMP	AMP Saver Account	1.4%	2.36%	4
Greater Bank	Life Saver	2.35%	2.35%	
HSBC	HSBC Serious Saver (2.35% variable intro rate for 4 months on balances up to $1m every month^)	0.45%	2.35%	4
Rabobank	Rabobank Online Savings High Interest Savings Account	0.8%	2.25%	4
Up	Up Saver Account	0.5%	2.25%	
Xinja bank	Xinja Stash Account*	2.25%	2.25%	
Citi	Citi Online Saver (2.05% variable intro rate for 4 months on balances up to $500k)	0.6%	2.05%	4
Bank of Queensland	Fast Track Saver Account	0.2%	2%	

* Suspended. Source: InfoChoice, as at March 11, 2020.

All is fair in love and wills

Financial favouritism of one child over another can lead to bitter disputes

Children have a view about whether their parents are fair or not from an early age. If their siblings are overly favoured, they will let you know. It always surprises me when one of my kids has calculated – often to the dollar – what I did for their sibling. I do try to be financially fair with my kids, as did my parents, but it isn't always easy.

As kids grow up, the bank of mum and dad is not only called on to help pay for a home deposit – it is asked to pay debts, fund divorce and shock job losses as well as grandchildren's private school fees. But if you shell out for one child, what do you do for the others?

One expensive option is to give the other children the same amount of money. Or even increase the amount for the kids who missed out when your estate is divided when you die.

Some parents don't have qualms about being more financially generous to one child over another. The child may be a low income earner while the others are well off. Or a child may have particular needs such as a disability or a mental health issue. Or the parents have a broken relationship with a child and want nothing to do with them.

Anna Hacker, national manager of estate planning at Australian Unity, says often her clients have the view that it is their money and they should be able to do what they want with it.

Robert Monahan, director of estate services at HLB Mann Judd, points out there is no law that says you must be fair to all your children. "You are free to leave your assets however you want," he says.

He recommends that if you can afford to help your children throughout their lives, do it and get the pleasure from seeing the difference it makes, but do it as a loan so the debt is repaid if the relationship breaks down.

But if you prefer to hang onto your assets and settle when you die, Monahan warns that if you don't leave something to heirs or spouses, they can make a claim on your estate. It can tear families apart.

Typically, parents leave equal shares to their children, he says.

Hacker says that equal shares can be problematic. "It can have the opposite effect to what people expect."

Children with challenging personal circumstances and more needs can contest the will on the grounds that they need more money. One child could own property and be well off while another child has no property, is unemployed and struggling. Or they are unwell and unable to work.

"They can argue that they should get more and that their parents have always supported them more," says Hacker.

She says that if you do favour a child, to make it appear fair, divide up the estate equally but allocate something additional to the child you favour. She recommends leaving them your superannuation, which is not part of the estate. You can use the binding death nomination to allocate the super to them.

But to make sure this sort of strategy doesn't send shock waves through the siblings and cause a bitter dispute, Hacker recommends that parents discuss their estate plans with their children. If one child is to receive more, justify the decision early on.

Monahan agrees this defuses the issue. It gives your children the opportunity to speak up, voice any underlying tensions and give their view on the will. It can be important for blended families with children who are fearful they will be left out of the estate. If the parents can't face this, he suggests writing letters to the kids to explain their decision.

If you don't, there is a risk that the will is challenged. While the family can work out a solution, often it can end up employing lawyers and going to mediation and, in rare cases, court.

Hacker says the morality of the claims and people's personal circumstances are weighed up. But expect to pay up and it will mean less in the estate. The wait time can be around 12 months to two years.

"There are no winners," says Hacker. "Almost all of the challenges are because one child is favoured over another."

Another reason to be fair in a will is because you never know what will happen to your children. If you favour one who has less over a successful one, you never know what will happen. A daughter in her 30s with a well-paid job and a nice house could be financially devastated by divorce or illness or job loss in their 40s.

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

Are you a delinquent?

Poor social and financial behaviour have more in common than you might think

The term "growing up" often refers to developing a sense of personal responsibility, emotional regulation and social maturity, but what about financial maturity? In the same way that poor social development for kids can lead to social delinquency in later years, inadequate financial development can also lead to financial delinquency. Developmental psychology can teach us a lot about our money behaviours.

I have two boys and am incredibly lucky that they are both fit, healthy, curious and conscientious young adults who have gifted us many great memories over the past 20 years. I was musing about this with a criminologist friend of mine and commented how eerily accurate the 6x4 phenomenon was in their development.

The basic gist of the 6x4 theory is that for the first six years of a boy's life, he tends to bond more with his mother; for the next six years it's all about dad; from 12 to 18 it's about a family friend who represents the parents' values and beliefs; and from 18 to 24 he starts to explore the world on his own. Four blocks of six years, each with its own attachment focus to help us "grow up".

I don't have a daughter, so I can't speak to any personal experience in parenting girls, but this does ring true with my boys. The first six years it was definitely all about mum, at times much to the exhaustion of my wife. But at around age six or seven, it became all about me – following me doing yard work, building things, playing music, dressing up like dad, tickle fights and lounge-room wrestles.

What is most interesting is the third phase – that of connecting with a family friend who has similar values and can help guide your teenager's development. For many families who are isolated either geographically or socially, this can be a challenging stage. For kids who fail to make this connection during their early teens, they may not learn the social values that are important to their "tribe" by the time they enter the final phase of development, which may see them start to act out as delinquents.

As I was talking this through with my criminologist friend, he was struck by how much this is reflected in criminal activity. The kids who have a strong social "tribe" with shared socially responsible values are rarely any trouble. The opposite almost predictably ends in delinquency. His theory is that as we evolved back in the days of nomadic tribes wandering the earth, boys needed to band with a non-family tribe member in order to safely learn the rules of the tribe and how to run with the pack. If this wasn't done, they would find themselves isolated and exposed to danger.

We also see this pattern in people's financial behaviours. Those who have had the chance to learn about money from trusted people with healthy financial values are less likely to become isolated and behave in ways that put their financial health in jeopardy. Spending habits, investment strategies, attitudes toward debt, susceptibility to scams, credit card use, charitable giving, loans and assessment of risk are all areas where we see financial delinquency. But don't just assume that certain sections of society are immune to this – often the most severe cases of financial delinquency involve people from wealthy families or in high paying careers.

Whether you're male or female, it's time to "grow up" financially and learn from the successes and failures of those we trust and respect – it's never too late to start.

Marks of maturity

Three things you can do to become less financially delinquent

- Find a financial mentor. Preferably someone linked to your family, who understands your context, but is trusted enough to have your best interests at heart.
- Give advice to your kids. If you don't have kids, find younger people at work, at your church or community group, anywhere that you have a respected position. Often it is in the advice we give others that we learn some of the greatest truths for ourselves.
- Change your time horizon. Don't think about how much money you have (or don't have) in the bank right now – start to think of it in terms of your net worth and your family's net worth. Set goals and work towards those goals. This leads you to think more about the slow building of wealth over time, and the generational wealth you want to leave for others.

Phil Slade is behavioural economist and psychologist for Suncorp and founder of Decida. 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.

What structure should I choose for my new venture?

Whether you want to minimise costs or protect your personal assets, the right set-up is a key to success

Congratulations if you're one of the thousands joining the ranks this year of Australia's 2.1 million-strong small business engine room.

Hopefully you've completed your research and there is a viable market for your widget or service, with the potential to make you financially secure.

One of the next essential steps is to determine the structure of your business. The options include operating as a sole trader, as a cog in a partnership or as a company or trust.

What to expect flying solo

Functioning as a sole trader is often the purest form of business structure, as it's relatively easy and inexpensive to set up. Tony Kabrovski, a chartered accountant from Harrington Advisory, says that many business owners start as sole traders because they don't want to spend money until they know whether or not they've got a viable business model.

Mark Calleja, from Mark Calleja Accounting, says operating as a sole trader works best for those launching a part-time side hustle. "In this situation, it's better off working as a sole trader as you're probably not earning enough income to warrant setting up as a company and paying the ongoing expenses such as company tax returns, annual review fees and more," he says.

As a rule of thumb, Calleja recommends $80,000 in annual revenue as the point at which a budding entrepreneur might consider transitioning to a company structure.

If a small business owner has no personal assets to protect, such as cash reserves, Calleja says operating as a sole trader also makes perfect sense. Moreover, Kabrovski adds that the Tax Act allows single operators to convert cost-effectively to a company structure "with little or no tax leakages".

A sole trader often has fewer reporting requirements and government fees to pay to stay in business and can use an existing personal tax file number (TFN) to lodge tax returns. Unlike a company, for example, sole traders can use existing bank accounts and credit cards to operate the business. However, by using business accounts you'll keep your personal and commercial transactions separate and your accounting expenses in check.

The rub with operating as a sole trader is that you're legally responsible for all aspects of the business, including any debts and losses and day-to-day decisions. As a single operator, you have unlimited liability, meaning all your personal assets such as your family home are at risk if the business bombs, warns Kabrovski.

"If you put a family home in your name, and you're also running a business in your name, then not only are you exposed to the business's liabilities your family assets are exposed to creditors too," he says.

On the tax front, a sole trader is personally liable to pay tax on all the income, and you can't split income from the business with family members.

"As a sole trader, the Tax Act makes it very difficult if you start paying your wife through the books, as it raises question marks about whether a spouse is spending the time in the business to support the income they are receiving," says Kabrovski.

Choose your partner

A partnership is a business structure involving two or more owners who distribute income or losses between themselves. This type of arrangement can assume several guises, including a general partnership where all partners share the management, decision making and the profits equally and each has unlimited liability for the debts and obligations it may incur.

There might also be a limited partnership made up of partners whose liability is limited to the amount of money they contribute to the business. Limited partners are usually referred to as silent partners – they are investors who don't play an active role in the daily management.

A partnership is relatively easy and inexpensive to establish and has minimal reporting requirements. That said, a partnership requires a separate TFN from that of the individual partners, and it must apply for an Australian business number (ABN) and use it when dealing with suppliers and

customers. If the partnership expects to earn more than $75,000, the business must register for GST.

A partnership doesn't pay income tax on the income earned. However, each partner must pay income tax on his or her share of the net partnership income. The partnership must lodge a tax return with the taxation office each year. Also, each partner must make provisions for their superannuation arrangements.

Kabrovski says joint business owners might choose a partnership over a company structure where they hold capital growth assets such as a commercial property.

"Where there are any capital gains generated through the partnership, presuming the assets are owned for longer than 12 months, the individual partners can receive a 50% capital gains tax discount," he says. "With growth assets held by a company, shareholders don't have access to a 50% discount. So, generally, capital growth assets are not held by companies."

Put your trust in a company

In 2008, I ditched my status as a sole trader and decided to start a business with a friend. With input from our accountant, my partner and I decided that operating as a company was the best structure for our start-up as we wanted to protect our homes and other assets against the possibility the new venture might fail. We courageously started the company just as the GFC began to grip economies. Thankfully, we negotiated that, my partner's initial joust with cancer in 2009 and several other non-business challenges. Sadly he passed away in 2016.

Calleja says where a partner dies or decides to quit, a company structure enables the business to continue.

"In contrast, a partnership must cease and a new structure initiated. The new structure will have set-up costs and additional red tape, such as a new ABN and bank account for starters. With a company, you buy out the other parties' shares and the business continues."

Kabrovski reveals it is possible to set up a company structure for $500. "You don't even need an accountant," he says. "All you need is an account with a shelf company provider, who will walk you through the requirements for directors, secretaries, public officers, shareholders and a registered office."

Also there are expenses for establishing a TFN, ABN and GST. "In total, you might be looking at a total compliance cost of around $1500 to establish a company structure," he says.

Moreover, Kabrovski says the ongoing accounting fees and paperwork will be no more difficult for a company than a artnership.

Tax compliance is a chief reason some SME owners steer clear of a company structure. For example, unlike a sole trader, a company must prepare a tax return for the business, and separate returns for the shareholders.

"In the past, a new business was best served by starting as a partnership. But given that it's relatively inexpensive to set up a company now, I advise new owners to start as a company with family trusts as the shareholders of the company," says Kabrovski. "So rather than having partner A of the business, I'd suggest to partner A, who has a family trust, that they use this structure to buy shares in the company."

The benefit of using family trusts is to help safeguard individuals and their personal assets, according to Kabrovski. "If there is a claim against individuals in the business, their assets are safe as the family trust structure holds the company shares."

Calleja says it will cost between $1000 and $1500 to establish a family trust.

"With a family trust the ongoing compliance requirements are financial statements and tax returns, which might cost about $2000 a year," he says.

"Having a trust enables owners to share profits as dividends with family members, which allows them to get funds out of the company in a tax-effective way."

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

Regardless of your age, there are ways to clear the affordability hurdle and get into the market

Take your first steps

STORY DAVID THORNTON

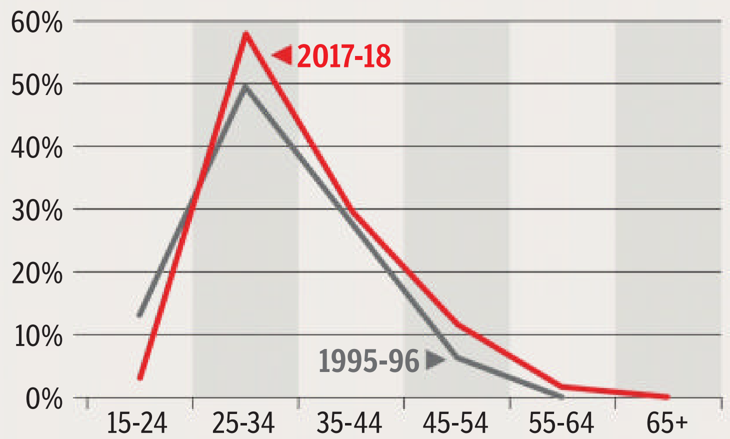
The dream of owning our own home is etched into our national psyche. Because of the high buying costs, the focus is often on struggling millennials. But there are other age groups who want to enter the property market or add to their investments.

Bureau of Statistics data tells us that more people are getting into property later in life. Australians are living longer and retiring later, so it's only natural that property investment follows the same trend.

Between 1995-96 and 2017-18, the average age of people buying their first home has increased from 33 for a new or established dwelling to 35 for a new dwelling and 36 for an established dwelling.

Late starters

Age bracket of first home buyers in 1995-96 and 2017-18



Source: ABS Housing Occupancy and Costs, July 2019

Am I too old?

While it is never too late to invest in property, be it to rent out or occupy, the challenges change as you get older.

According to State Custodians, the 40s is the decade to repay as much as possible. All things being equal, finance should be relatively easy to get, as you still have many working years ahead of you to pay it off.

"The more money you can put towards your home loan, the quicker you can repay it and set yourself up for retirement," says State Custodians, winner of *Money's* Cheapest Home Equity Line of Credit Home Loans (non-bank) in the 2020 Best of the Best awards.

The 40s could also be the age to leverage the property you already have.

"If you've held onto your property for 10 years, you'll now have significant equity," says Will Unkles, from 40 Forty Finance.

That growth in equity can be used to buy another property. "If you and your partner are working, you've paid down some of your existing mortgage and you're financially disciplined, you're in a perfect position to add to your portfolio."

Come your 50s, getting finance becomes a little trickier, but it's far from impossible.

In 2011, the National Consumer Credit Protection Act rolled out changes to the responsible lending requirements. Borrowers over 50 now have to demonstrate an exit strategy if things go pear-shaped. This could include downsizing, selling the property or redirecting income from superannuation.

"If someone's 55 or 60 and they don't have an exit strategy they'll struggle to get a loan. It's not too late, but too late to make it easy for themselves," says Andrew Crossley, property author and buyer advocate.

Exit strategies are much easier to demonstrate if the loan is for investment purposes.

"Banks are generally fine with investment properties as long as the debt can be cleared by the sale of the property," says Unkles. "They know you have your occupied home and, yes, you're taking on debt, but if you can't repay you just sell the asset and the loan is cleared. They also take into account super balances to help it clear."

Going solo

Buying a property as a single person is a double-edged sword. Investing is a game of risk and reward, and property is no different. Your financial situation alone needs to be adequate for the bank to provide you finance. This puts more weight on your shoulders. However you may also be avoiding the debts or bad credit scores of a co-borrower – lenders want to lend on assets, not liabilities. With joint mortgages, credit scoring is assessed independently, so a good credit score doesn't make up for a bad one.

If you're self-employed, bank assessments will look at more than just pay slips, assets and liabilities. They'll want to see business activity statements, tax returns and bank statements. "Low-doc" loans require less documentation for an approval, but they'll typically involve higher fees and interest rates to offset the greater risk taken on by the bank.

And be careful with those tax deductions. They'll help out the hip pocket come tax time, but could be a handicap when you apply for finance because the bank will assume you earn less than you do.

You can invest in property through a self-managed super fund (SMSF), but this comes with strict conditions. The property must:

- Meet the sole-purpose test of providing retirement benefits to fund members;
- Not be acquired from a related party of any member of the SMSF;
- Not be lived in by a fund member or any fund member's related parties;
- Not be rented by a fund member or any fund member's related parties.

There are risks associated with property investing through an SMSF: loans are usually more costly; repayments have to be made via the SMSF; loan contracts can be hard to cancel; and tax losses can't be offset against taxable income outside the fund.

Rentvesting can make it happen

Rentvesting is gaining in popularity, and will continue to do so as the areas that people want to live in become more unaffordable. The idea is pretty straightforward: you rent in the area where you want to live, and buy in the area where you can afford to invest. For example, you can rent in the inner city and invest in an outer suburb, saving the difference between the mortgage repayments and rent.

This strategy has a lot of things going for it. You can get into the market sooner, since you can buy in a cheaper area without the need to consider logistics such as schools for the kids and proximity to work, friends and family. You also have the flexibility to move your place of residence without having to worry about selling, and the stamp duty and legal costs that go with it.

In addition, investing in a property allows you to chase areas with the best rental yield, which may not be the suburb where you wish to live.

On the flip side, renting your place of residence prevents you from "making it your own" by renovating or making smaller alterations.

LOWEST-RATE INVESTOR HOME LOANS (VARIABLE)

Institution title	Product name	Rate	Comparison rate
Reduce Home Loans	Investor Rate Slasher	2.79%	2.83%
Reduce Home Loans	Investor Rate Buster	2.84%	2.84%
FreedomLend	Investor Special, LVR = 90%	2.89%	2.97%
homestar	Investor property loan	2.89%	2.92%
State Custodians	Low-rate investor, <80% LVR	2.90%	2.92%

Source: Infochoice.com.au, as at March 9, 2020

LOWEST-RATE INVESTOR HOME LOANS (FIXED, 2 YEARS)

Institution title	Product name	Rate	Comparison rate
ING	2-year fixed rate (investor)	2.84%	4.64%
Tic:Toc	Fixed-rate investor	2.89%	2.91%
Bank Australia	Premium package	2.89%	3.66%
Macquarie Bank	INV property loan offset	2.94%	3.37%
Westpac Bank	Premier Advantage, <70% LVR	2.99%	4.21%

Source: Infochoice.com.au, as at March 9, 2020

There are even some areas where mortgage repayments are cheaper than rent. Research from CoreLogic shows that more than a third of properties across Australia have estimated mortgage repayments less than rental repayments. The Gold Coast and the Sunshine Coast are the standout areas, boasting 20% of the identified suburbs nationally.

Among the capital cities, Darwin leads the pack with 77.6% of its properties exhibiting lower estimated mortgage repayments than rental costs. At the other end of the spectrum, only 7.1% of Sydney properties are cheaper to own.

Know what you're getting into

With all the talk about interest rates, one could be excused for assuming this is the only cost associated with property investment. But there are many more upfront and ongoing costs that need to be factored in.

Upfront expenses can include stamp duty, conveyancing fees, legal costs, search fees and pest and building reports. If you're selling your property through a real-estate agent, you can add agent fees, advertising costs and legal costs. Ongoing costs could include council rates, building and landlord insurance, land tax, repairs and maintenance.

And this is to say nothing of the work that will need to be undertaken if the property is long in the tooth. *M*

Rise of the neo banks

Financing property often comes down to how much risk banks and lenders are willing to take on.

Most lenders – the big four and most of the other brand-name lenders – add 2.5% "buffers" to their loan assessments. So if you are applying for a loan charging 2.5% interest, they will assess your ability to meet interest repayments of 5%.

"They say 'we're happy to take you, but we have to assess your ability to withstand a financial shock or rise in interest rates,' " says Will Unkles, from 40 Forty Finance.

Neo banks and neo lenders may not use these buffers, nor are they swamped by the overhead costs of their traditional bricks-and-mortar rivals. This gives them the freedom to take on greater risk and build their business.

The major banks have had capital adequacy ratios imposed on them by regulators due to the vast volume of investment loans they've previously written.

But non-banks that weren't attracting such volume have the capacity to take on more, says Australian Property's Andrew Crossley. "Every lender is different and this is why it's important to use a broker who has a relationship with banks and non-banks."

However, it's worth remembering that big banks reject you for a reason. If you're too risky for them, chances are the loan is too risky for you.

Learn to love your home loan

The switch from interest only to principal and interest is good for your wealth

Most of us think of our home loan as a burden, something that has to be paid every month, fortnight or week, year in year out. And this, of course, is true, but it's also possible to use your loan as a means to help you both manage your cash flow and grow your wealth.

Given today's historic low interest rates, those households who are in the great position of having a steady job and are bringing in surplus money can use that to accelerate paying off their mortgage.

Maybe you have been on an interest only (IO) loan for three to five years because finances were much tighter when you bought your home and that initial period is coming to an end. Now it's time to seek out a good principal and interest (P&I) loan so you can start whittling away the principal on your home and building equity that can be used as a springboard to build wealth.

A big advantage of a P&I loan is that it usually comes with lower rates.

Check out comparison sites including finder.com.au, mozo.com.au, infochoice.com.au and ratecity.com.au. UBank, for example, was offering a P&I loan at 2.84% at the time of writing, compared with an IO loan at 3.38%. On a $518,500 mortgage over 30 years, the monthly repayments were $2142 and $1460 respectively. After five years those paying the principal as well as the interest would have paid almost $60,000 off the principal.

But if finances are tight, and you are suffering from mortgage stress, moving to a P&I loan is going to be a challenge. Around 1.1 million Australian households (32.8% of them) are experiencing mortgage stress, defined as a cash-flow challenge, according to figures from the property analysis firm Digital Finance Analytics.

And around 730,000 IO loans will become P&I loans over this year, according to Finder, with its analysis of Australian Prudential Regulation Authority data finding that of all mortgages granted over 2015-16, 39% were interest-only, valued at $295 billion.

"If your IO loan is due to expire in the coming months, start comparing your options now," says Graham Cooke, insights manager at Finder. "There are hundreds of P&I loan products to choose from."

Don't be afraid to approach your current lender and ask for a better deal. "Banks will sometimes offer a discounted variable rate on a case-by-case basis in a bid to keep your business. It's therefore worth negotiating with your lender for the biggest rate discount you can get," says Cooke

If that fails, shop around. Mozo says its data shows that borrowers with a $400,000 mortgage could save $3390 a year, by switching from the average big bank variable rate of 3.97% to the lowest rate in its database, 2.69%. That's a total saving of $101,689 over the life of a 30-year-long loan.

If you really want to keep your repayments as low as possible, go for a new 30-year loan with your new lender even if you've been paying a mortgage for a few years. This will slow down paying off the principal on your home, but will help your cash-flow situation.

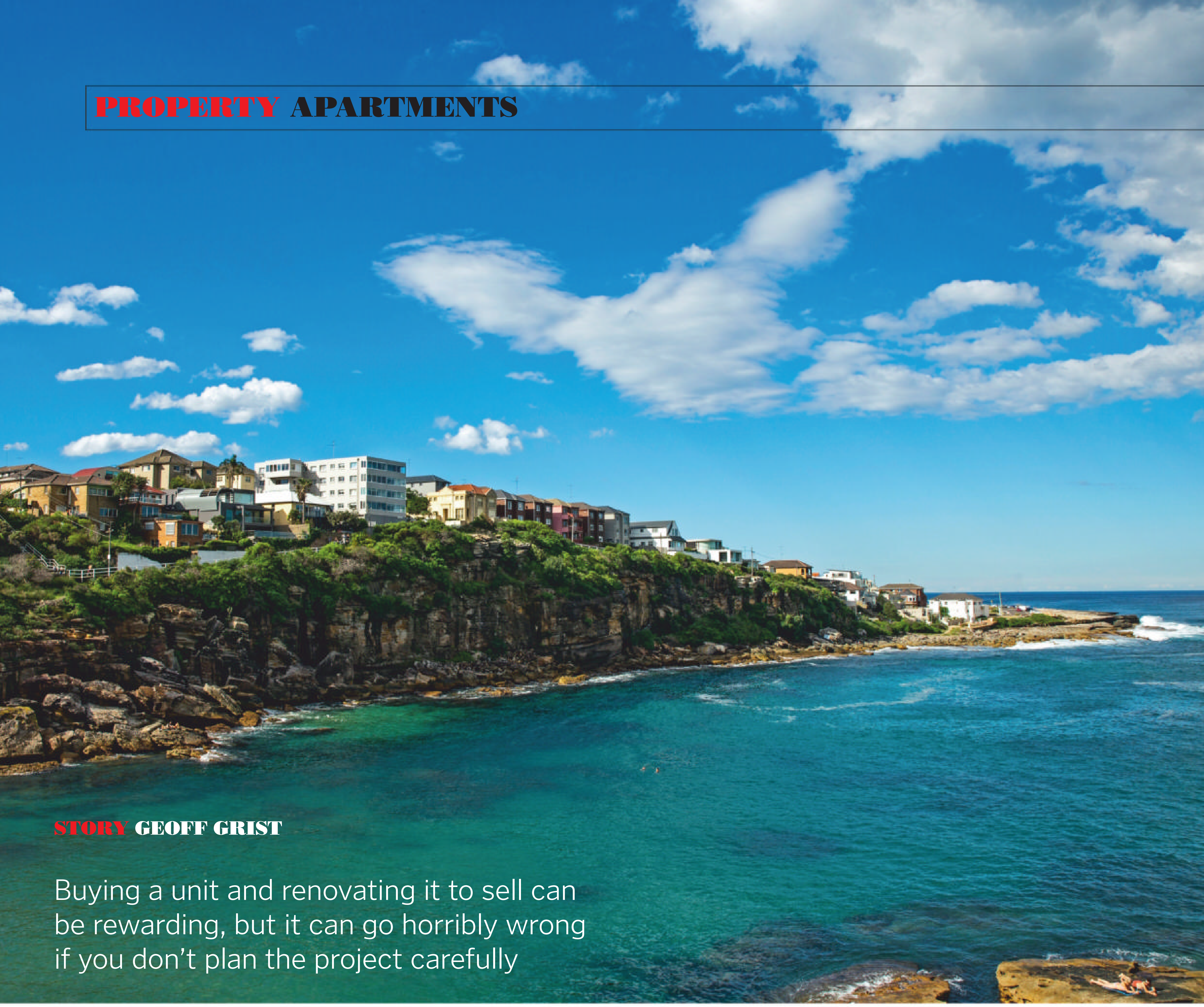
You don't have to be suffering from mortgage stress to do this – you may want to use your surplus cash for other purposes, such as investing in the sharemarket. Or you may want to reduce your working hours, and therefore your short-term income, so you have time to study to improve your long-term job prospects.

For those who really can't afford the repayments that come with a P&I loan there are a limited number of options to explore. First, you could try to roll over your IO loan with your current lender, who may consider this to keep you as a client. But tighter lending criteria have made it increasingly difficult for borrowers to extend the IO period on their loans for another term, so you may be rejected.

Another option is to refinance to an IO loan with a different lender. But again, this is not easy in today's tighter regulatory environment.

If you believe you have a hardship case, speak to your lender about your struggles. You'll need to provide an update on your income, liabilities and dependent status. The lender may consider extending the loan by 12 months to allow you to get your funds sorted. If things don't improve in this time you may need to sell, and it's better for you to control this rather than your lender. You can then either buy something cheaper or rent for a period.

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 GEOFF GRIST

Buying a unit and renovating it to sell can be rewarding, but it can go horribly wrong if you don't plan the project carefully

Flip for fun and profit

For years, there have been TV shows about competitive renovations, and you must have said to yourself at some stage, "I could do that." Despite the ups and downs, the tears and the heartaches, the contestants always seem to come out in front: better for the experience, financially and spiritually.

The Block, for example, has been running for more than 15 seasons now, pitching four couples of mixed work and life experience against each other to renovate the worst apartments or houses imaginable over a 12-week period. Anyone who knows anything about renovating knows that 12 weeks would be a real push; however, with the magic of television, they manage it.

Australians have also binge-watched *House Rules* for at least seven seasons, following as six state-based couples renovate each other's homes over the course of a week. With a real estate company sponsor on board, this show even gives us a before and after "valuation" to astound us with how much "value" the participants have added with their makeovers.

Is it even possible to renovate that quickly and add that much value to a property?

Let's do a reality TV check for a moment. These shows are designed to a format, to generate ratings. The potential profit that contestants might make after renovating a property is part of the lure to get us to watch every week. It certainly works – we love it, and the ratings are huge for these types of shows because the creators have developed the right formula.

For the record, I'm a fan. I don't recommend attempting a 12-week turnaround on a renovation, and the "value added" you see on the TV shows may not be typical. However, my years of experience tell me that if you do it right then, yes, it's absolutely possible to make money flipping property.

What about buying and holding?

Most of the professional real estate advice you will hear is that flipping doesn't work. The sage advice is to buy and hold property for the long term and it will go up in value and you will make money over time. The experts say that buying a rundown house and renovating it for short-term gain is hit-and-miss at best.

For the most part I agree. If you bought a property in 1970, it would be worth more today. Even if you bought a property in 2000, it would be worth more today. However, what if you bought it at the peak of the market in 2003 and sold it during the GFC in 2009? Then, even though you held the property for six years, you may only have been lucky enough to break even or you may have even lost money. The property market prices cycle up and they cycle down over years, like a roller coaster, so if you buy and sell at the wrong time, you may not make money.

My approach to flipping is different, however. I am not suggesting we flip houses. I am talking about buying units in the right location with the right bones for renovation – looking for the right home units to renovate, upgrade and sell. Then the choice is yours: you can keep the apartment and move in, you can keep the apartment as an investment property and lease it out or you can flip the apartment for cash.

Why apartments?

Any type of property can be flipped – houses, apartments, commercial and even industrial property – but when you think of flipping, houses may come to mind first, as they've been the most popular and talked-about option in the past. Where I live and sell real estate, we have a broad mix of houses and apartments dating from the 1900s through to the present day. As in most inner-city areas, we now have more apartments than houses. Why am I focusing on the apartments? There are three reasons I believe they are a great choice for flipping if you live in an Australian city:

- The price can be affordable.
- They're in demand.
- They attract a broad range of buyers.

How many bedrooms?

The lower the purchase price of a property in the right location, the lower the risk and the higher the chance to make some money. Studio units are the most affordable entry point into the property market, but one-bedroom units are the most popular entry point and are also affordable. Here are the main differences between the three most common unit types:

Studio units are sometimes called bedsits and are essentially one room: a combined bedroom and living room with a kitchen on the side. They range in size from 25sqm to about 42sqm.

One-bedroom units have a bedroom separate from the living room and generally cost less than two-bedroom units. They range from 44sqm to about 55sqm.

Two-bedroom units cost more, but sometimes you may find a unit of this type that's in your budget, so let's not rule them out.

Occasionally, you will find a studio unit with the potential to change the floor plan to create a one-bedroom configuration. To qualify as a bedroom, the space must have an outward facing window and, ideally, a window that opens. You can add a non-structural wall to a studio unit and create a separate room within the studio but, without a window, it's still a studio unit.

I recommend you look to buy a true one-bedroom unit with a window or door to the outside of the building, rather than a studio conversion. There will always be studio opportunities that are at an attractive price point, so of course the decision is yours. However, adding a wall to create a room doesn't change the physical size of the apartment, and it will still feel like a studio conversion.

The goal is to find the right unit to renovate so that you can turn it into an apartment – because, quite simply, apartments sell for more money than units! So, is

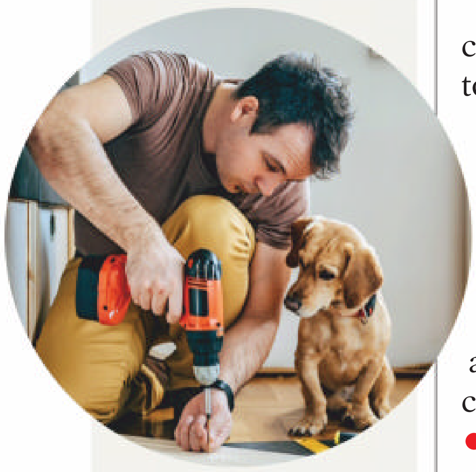
What flipping means

Flipping is buying a property and adding value to make it more attractive to a broader market, then selling it for a profit. Buy, renovate and sell in a short time – and flip it for cash.

Set a budget and keep your eye on the big prize

I suggest your renovation budget should be no more than 10% of the current value of the property. So a $500,000 property should have a maximum $50,000 renovation budget.

It's too easy to spend too much and overcapitalise. You need to keep your eye on the end prize and understand that the success of the entire project hinges on the sale price for the finished product.



flipping apartments the right wealth-creation strategy for you? Let's explore this question.

Will flipping work for you?

Whether flipping property is right for you will depend on your current situation. Your relationship status, where you live now, what you do for a living and what savings you have available will all determine your suitability to flip units. Consider these factors:

If you are single, you can make decisions unilaterally. If you have a partner or "significant other", then your decisions need to be joint decisions, as they affect both of you. Is your partner keen or at least willing to put in the time, money and effort required to flip apartments?

What are your skill sets? Do you work in the construction industry or have the experience to undertake this project yourself, or will you outsource this? Do you have a relative you plan to call on to manage the project for you?

Are you mentally tough? Sometimes, things will happen that may be a lot to manage so you will need to be resilient and flexible to finish the job.

Do you have time? What's your time worth? If you have a job, you can calculate your hourly rate and you should factor this into the project. You won't be able to pay yourself an hourly rate, but it's important to know what you may have to pay a project manager if you don't have the time yourself.

Don't forget to account for travel time from where you live or work now to the location of the unit. Tradies start at 7am and you may have to meet a plumber onsite to open up and give directions before heading back to your own job: what's the travel time in traffic to meet your trades, and what will it mean if they are running late or need to buy materials on the way?

If you do manage the job yourself, are you up to date with all the regulatory requirements?

Will you enjoy renovating to sell, or find it a big chore? If you are not going into this thinking it's going to be fun, don't do it!

Do you have enough cash?

Unlike an investment property, while you are renovating to flip you will not have a tenant paying rent, so you will have a loan and no income from the asset to make the repayments. Run your numbers and seek advice about your cash flow from purchase to sale, which could be four months, six months or longer. Consider:

- Do you have enough savings to manage repayments and either work on the renovation yourself or pay others to do it for you?
- Will you need to maintain your day job to keep the money coming in?
- Are you planning on taking four weeks' holiday from your job to save on labour and do some of the work yourself?

I recommend you create a project timeline and set realistic dates for the renovation from purchase through each major stage, so you know how much and when you will need to pay for materials and tradespeople. Allow a minimum 10% contingency for things you can't plan for.

If you don't have enough savings to pay cash for your unit and the costs of the renovation, then you will need finance provided by a bank lender (or the bank of mum and dad).

If the property market is increasing during your renovation, it will help with your spend, but if it is flat or falling you may have to reconsider what updates represent value to your potential buyer. If the market falls, you may have to hold your property longer than anticipated to achieve the price you need.

All of these are factors you need to consider in your planning stage. A renovation may be a simple paint-and-carpet or it could be the full renovation where you remove walls to create an open-plan feel. Either way, before you do anything else, talk to a mortgage broker about your financial situation so you know how much you can borrow and what it involves. A good broker will help you understand what your limits are, which will allow you to plan your next move.

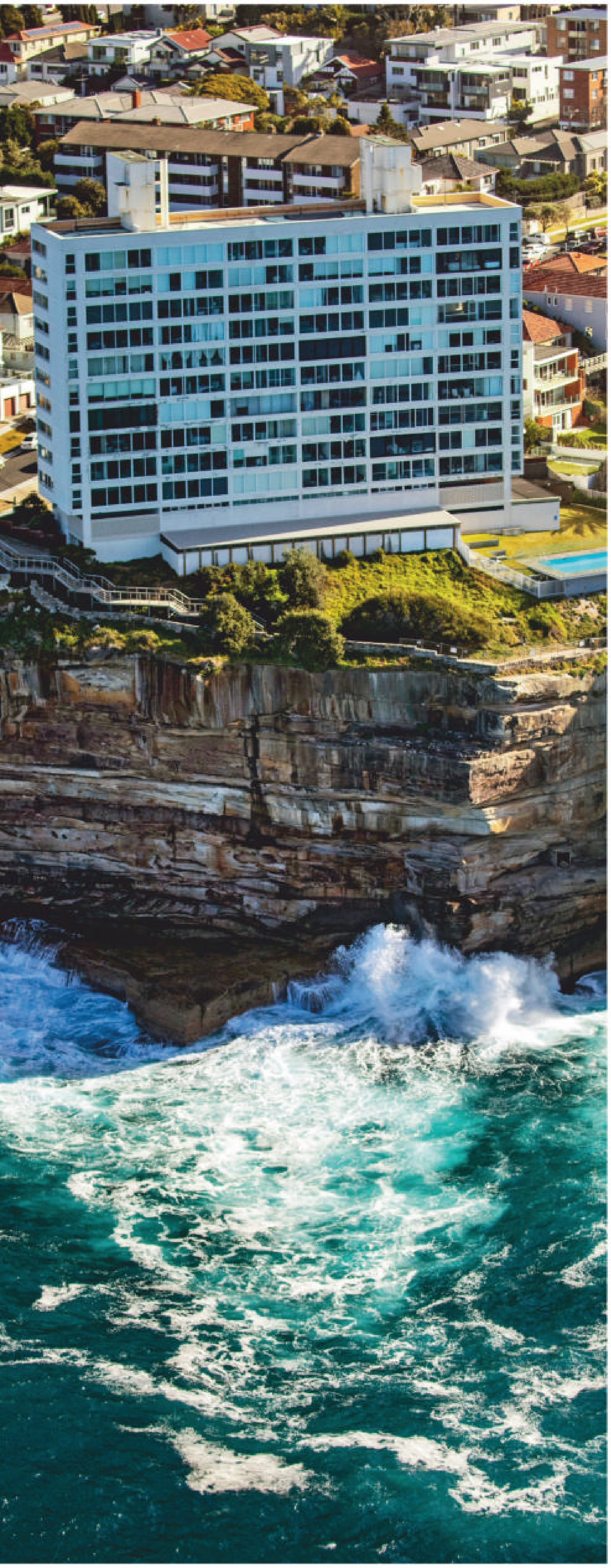
Everyone is different and nothing is chiselled in stone.

Would new apartments suit better?

The alternative to buying to renovate and add value is to buy a finished apartment in the first place. You can make a profit on new apartments when you sell in the short term if you know what to look for and where to buy. When looking at new properties online, consider more than just the floor plan. Have a look at the quality of finish, the colour schemes, the window furnishings, the combinations of tiles, carpet and timber, the kitchen appliances and storage, and be inspired about what you can do to create a luxury haven as the professionals do.

Some investors buy off the plan (that is, at the stage when there are property plans available or building is under way) with resale in mind. They then flip their off-the-plan properties by selling when they are complete or nearly complete. In a rising market, this strategy has merit; however in a flat or falling market you may be left "holding the baby".

The benefit of buying an off-the-plan apartment to flip is that they offer a range of amenities in a brand-new building, which has definite lifestyle appeal, particularly for downsizers. Many new apartment developments are luxuriously appointed and include shared facilities such as swimming pools, gymnasiums, rooftop cinemas, private dining rooms, concierges and even wine storage and cellars. They may feature high-end retail shops on the ground floor plus signature restaurants, as destinations that draw patrons from all around the city to experience the new dining precinct and entertainment quarter that the developers are creating.



To give you a feel for the types of apartments I am referring to, have a look at the award-winning apartments built by these developers:

- Aria Property in Brisbane – ariaproperty.com.au.
- Gurner in Melbourne – gurner.com.au.
- Geocon in Canberra – geocon.com.au.

More cautious buyers may want the security that a finished property offers. They like to see and feel the finished building and experience the apartment, not just imagine it. The difference between the buyer who can see an off-the- plan apartment through the developer's concept plans and the buyer who needs to experience it, is often a tidy profit in a rising market. But as we know, markets move up and down so there is risk involved.

Some investors consider buying off the plan too risky. While there are many variables to consider, the final product is a brand-new apartment in a brand-new building, which provides tax deductions for depreciation (if you're renting the property rather than living in it) and also comes with some form of builders warranty. A second-hand property has no warranty at all.

When you buy off the plan, however, you are buying into the developer's reputation. Some are good and some not so good, so do your homework. The Sydney and Melbourne newspapers have been full of stories about poor construction at the time of writing. If a deal seems too good to be true, perhaps it is.

My preference is to add value to an older unit, but I have also bought apartments off the plan and also bought newly renovated property. However, if you just want to get a foot in the property market door, then buying a new apartment may be the best option for you as you will have no further expenses, willing tenants and solid depreciation.

Take some time to think through whether flipping is the right thing for you, and ask yourself the questions listed in the panel (right). *M*

WIN ONE OF 10 COPIES

This is an edited extract from *Flip for Cash: Maximise your profit when you renovate the right apartment* by Geoff Grist (Major Street, $29.95), available now.

For your chance to win one of 10 copies, tell us in 25 words or less what your best tip is for sticking to a flipping budget. Enter online at moneymag.com.au/win or send your entry to Money magazine, Level 7, 55 Clarence Street, Sydney, NSW 2000. Entries open March 30, 2020 and close on April 29, 2020.

The test: Is renovating to flip for you?

- If you have a partner, are they on board with flipping?
- Do you have renovation-related skills? If not, are you comfortable outsourcing?
- Do you have the emotional resilience to deal with the ups and downs of renovating?
- How much time can you spare? Will you need to employ a project manager?
- Are you confident you can get up to speed on regulatory requirements?
- Do you have enough cash to fund a purchase and renovation, or can you get finance?
- Are you better suited to flip new properties at this stage rather than renovating – buying off the plan and selling post-construction?

WHAT IF? Annette Sampson

You had to pay tax on vacant property

It's often promoted as a way to cut housing costs, but there are question marks over its effectiveness

WHY SHOULD YOU DO THAT?

A vacant property tax is often seen as a way to address housing availability and affordability. By taxing the inefficient use of property – that is, simply stockpiling it for future capital gains – these taxes are meant to encourage owners to make housing available for people to live in. This adds to the overall supply of housing, taking pressure off both rents and property prices.

With housing affordability an ongoing issue in Australia, there are regular calls for governments to do more to ensure our housing stock is used more efficiently, which could involve taxing vacant properties.

THE STORY SO FAR

Australia already has a couple of these taxes. In December 2017, the federal government introduced a vacancy fee for foreign owners of residential dwellings. This fee applies in any year where the property is unoccupied or not genuinely available for rent for more than 183 days.

Victoria and the ACT also have vacancy taxes. In Victoria, the tax is 1% of the property's capital improved value and applies to properties in specified council areas in Melbourne. Owners are liable for the tax if the property is considered vacant for more than six months in the preceding calendar year. Exemptions apply, however, for things such as holiday homes that are occupied for at least four weeks by owners, properties that have seen ownership changes, and properties occupied by the owner for at least 140 days for the purpose of attending their workplace.

In 2017, the ACT extended land tax to all homes that are not the owner's principal place of residence, whether they are rented out or not.

Vacancy taxes have also been used overseas in parts of Canada, and the Hong Kong government has proposed introducing one on developers who have unsold apartments 12 months after completion. Last year, Canadian Prime Minister Justin Trudeau also announced a proposal for a nationwide tax on homes owned by non-resident, non-Canadian buyers.

PAST PROPOSALS

In 2019, NSW Labor proposed a vacancy tax along similar lines to the Victorian model. In 2017, the Queensland Greens proposed a 5% vacancy tax on homes deliberately left vacant for six months in the Brisbane City Council area. Federal Labor also backed an empty homes tax in 2017.

While none of these policies got off the ground, this is another one of those issues that keeps rearing its head.

THE CHALLENGE Darren Snyder

Get your rental bond back

Come clean about any damage or wear

You're moving out of a rental property and you want your entire bond back. Generally the bond is four weeks' worth of rent, so it makes good financial sense to secure all or as much of this as you can. Other than making sure the property is neatly kept and that you pay rent and bills on time, an important tip is to have a good relationship with your landlord or real estate agent. This doesn't mean you

WOULD IT MAKE HOUSING MORE AFFORDABLE?

The evidence is mixed. In its analysis of the Canadian tax last year, *The American Prospect* magazine found the number of Vancouver Properties declared vacant in 2018 was down 15% from 2017 levels, with the majority of those empty homes being returned to the rental market. It also noted price falls of 15%-30% in high-end areas of the market, though noted other factors would have contributed to this.

In 2017, Cameron Murray, a real estate economics expert at the University of Queensland, estimated that if a national tax were to entirely eliminate speculative unoccupied housing, prices might moderate by 1%-2%. In its 2018 analysis, the Grattan Institute concluded that while vacancy taxes sound nice, they wouldn't help much when it comes to improving housing affordability.

While deterring speculative hoarding of housing, it is clear a vacancy tax would not, by itself, make a major difference to affordability.

Other measures that have been canvassed include addressing the speculative land banks owned by developers and reforming stamp duty, which is often cited as a barrier to people moving to more appropriate accommodation.

DID YOU KNOW?

The 2016 census reported that 11.2% of housing in Australia was unoccupied on census night – around one million properties. However, later analysis revealed many valid reasons: the resident was away, the property was a holiday home or being offered for rent, it was a newly completed building or it was up for sale.

BEST-CASE SCENARIO

The Victorian tax is self-reporting and has a number of exemptions to ensure most ordinary property owners do not have to pay it. Based on this (and overseas) experience, it is unlikely any further vacancy taxes would have a major impact on local home buyers and investors. Because most investors want to claim the benefits of negative gearing, they are also more likely to rent out their properties than investors in jurisdictions where such tax breaks are not available.

WORST-CASE SCENARIO

A poorly designed and/or administered tax could see homeowners unwittingly caught in the net. This happened in the ACT when off-the-plan buyers were hit with bills as an unintended consequence of the introduction of its vacancy tax.

THE WILD CARD

Some analysts have argued the number of empty bedrooms in occupied housing is also contributing to the problem.

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

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have to be best friends, but communicate often, especially if there's property damage or concerns over wear and tear. It saves any nasty surprises when it comes to that final inspection.

It's also a good idea to keep a personal record of all property condition reports during your tenancy. While the property's initial condition report is most important, it's best to keep track of what's been repaired or replaced on an annual basis as it can help avoid a dispute at a later date.

There's little chance of recovering the entire bond if you or other tenants still owe rent when ending the lease, or if you've lost a key, or left the property damaged or unclean. Be reasonable about your expectations.

If you and the landlord/agent disagree about the bond amount to be returned, then there's an administrative process you must follow. Every state and territory has slightly different rules when it comes to claiming your bond, so it's important to check with the respective authority about the process.

Two top tips for claiming your bond:

- Pay for/do the cleaning yourself. Some landlords/real estate agents will offer to deduct a fee from your bond for a final clean and use their preferred contractor. This can often be more expensive and sometimes is unnecessary. If it's in your tenancy agreement that a professional clean must occur (usually carpet), then get quotes and be clear with your landlord/agent on what the work will involve.
- Ask your landlord/agent if there are renovations or maintenance to be completed once you vacate. This can spare you unnecessarily cleaning or fixing something that's going to be repaired or replaced due to wear and tear. I've been in a situation where the agent insisted carpets be professionally cleaned, only to find out a week after I vacated that the carpets would be replaced before the next tenant moved in.

DARREN SNYDER

STORY DAVID THORNTON

In the 'real-return' world

When markets are volatile, diversification and flexibility help reduce the risks and calm the nerves

Pouring your wealth into riskier assets such as equities can seem like a no-brainer when markets are riding high. But markets will eventually turn down, taking the value of these riskier assets down with them. "This presents a Catch 22 for conservative investors like retirees," says Michael O'Dea, head of multi-asset at Perpetual Investments.

Either they invest in defensive assets, generating little income, or they allocate more toward equities, which are both volatile and expensive.

O'Dea, who manages the Perpetual Wholesale Conservative Growth Fund (third in *Money* magazine's 2020 Best of the Best Multi-Sector Funds), says it is tempting for investors to increase their risk in an attempt to reach a return target, and more retirees are doing so.

But investing in riskier assets just before or during retirement exposes investors to drawdown and sequencing risks. Drawdown risk is the length of time an investment would take to recoup its losses after a fall in the market. Closely related, sequencing risk refers to the danger of offloading assets at the wrong time.

"Volatile markets can be very detrimental as one might be forced to sell at the bottom – [because of] poor health, changing family circumstances, needing to fund living expenses in retirement or by being caught between jobs – and this turns a paper loss into a permanent loss," says O'Dea. "This is the real measure of risk and it is much more nuanced and complicated than most people realise."

Low interest rates are creating an enormous challenge for conservative investors, and the solution to balancing risk is no longer as simple as increasing your allocation to bonds.

Multi-asset funds provide a potential remedy. Born in the 1980s, they gained traction after the GFC as demand rose for products that were more transparent about the risk they were taking. But they come in many shapes and sizes, so it's even more important to know what you're getting.

As the name suggests, multi-asset funds invest across multiple asset classes – equities, bonds and cash, as well as more exotic alternatives such as solar, real estate and private equity. Diversification reduces risk, meaning these funds generally have lower returns when markets peak but minimise losses during the bad times.

"You will probably make more money in a bull market from a balanced, equity-heavy fund," says Simon Doyle, head of multi-asset at Schroders. "But on the other hand, if you want to generate returns come rain, hail or shine, objectives-based portfolios have delivered lower returns but in a much more consistent way."

Doyle oversees the Schroder Strategic Growth Fund, formerly known as the Schroder Balanced Fund (seventh in *Money's* 2020 Best of the Best Multi-Sector Funds).

Multi-asset funds have traditionally been defined by pre-set risk weightings. These are usually categorised as conservative, balanced and growth, with 20/80, 60/40, and 80/20 splits respectively between riskier and defensive assets.

Best places to invest

In the traditionally labelled funds, investors can align their risk appetite to the fund. They benefit from diversification and an easy-to-understand view of where their money is invested. By offering investors these relatively static risk profiles, however, the funds' opportunities to actively allocate assets are somewhat limited. For instance, a conservative multi-asset fund will be overweight on defensive assets even when the market's doing well. By the same token, a growth-oriented multi-asset fund will retain its weighting to growth stocks even when the market is in trouble.

Here's where "real-return" multi-asset funds come in. They aim to consistently achieve a set return, often around 5% plus inflation. This frees them to adjust their risk weightings depending on market conditions. So when the market is up they may have a greater portion of equities. Conversely, during bear markets they can reduce exposure to equities and increase exposure to cash or bonds.

"The most important work by real-return funds occurs in bear markets," says O'Dea.

To illustrate the point, O'Dea points to the December 2018 quarter. Equity markets in the US, Europe and Asia were down between 15% and 25%, yet Perpetual's Diversified Real Return Fund fell only 1.6%, which it recovered over the next three months. The current investment landscape is the bread and butter of multi-asset funds, especially real-return funds.

The response to the 2008 GFC saw central banks slash rates and pump huge amounts of liquidity into markets, driving up asset prices and debt.

Historically, the US Federal Reserve has responded to recessions by cutting rates by about 5%. This time around, with rates much lower than that, it simply won't be able to respond with the same firepower. Throw in events such as Brexit, the US-China trade war and more recently the coronavirus outbreak and you have a brittle situation that can come undone at any time.

"The most important work by real-return funds occurs in bear markets"

When this happens, investors with equities funds will be left holding the bag.

"Over the past 10 years, most asset classes delivered positive returns, with investors generally less concerned with which asset class they were invested in," says Gary Ding, portfolio manager at Macquarie. "However, with interest rates at historic lows in many countries, the decision of where to invest is now much more important. This is where multi-asset strategy managers come in as they perform the analysis to select the best places to invest across different asset classes depending on market conditions."

The best place to invest changes as the market does. Unlike multi-asset funds with set risk profiles, real-return funds match their risk profiles to the market.

"The split between growth and defensive assets is not strictly set, and so in addition to the diversification benefit there is additional scope to enhance returns and manage risk through active asset allocation," says Ding. "Due to the changing nature of markets, the asset allocation today may not necessarily be the best allocation next quarter or even next week."

Heavy lifting

O'Dea likens real-return funds to having a designated driver behind the wheel "navigating you home safely, enabling you to make the most of tomorrow's opportunities".

At the beginning of the market cycle, valuations of equities are cheap and corporate bonds are offering attractive yields, he says. "At this time, the fund looks more like a balanced fund which is tilted towards growth assets. This is the stage where the heavy lifting of generating returns takes place. Then, toward the end of the market cycle, there is little reward for the risk. The fund takes a much more defensive position to protect clients' wealth."

This flexibility is a function of the increased investing freedom provided to a multi-asset manager.

"A manager of a multi-asset portfolio has a number of levers at his or her disposal to navigate these swings;

whether growth assets such as equities, both domestic and international, or defensive assets, such as cash or fixed income," says Nick Morton, Resonant Asset Management director. "These levers are blended carefully with long-term, medium-term and short-term perspectives in mind, and can incorporate views on macro-economic, rate, valuation, sentiment and financial leverage of different instruments."

Multi-asset funds can also invest in property, solar and infrastructure, which provide further ways to diversify and generate income. But they can also be illiquid, making them hard to offload in a hurry. Equities, bonds and credit, on the other hand, can be easily sold.

"A bull market with a lot of liquidity can hide some sins," says Schroders' Doyle. "But if you want liquidity, you won't get that with a lot of these alternative strategies."

Building block for retirees

In a further testament to their flexibility, multi-asset funds also sometimes feature derivatives such as put and call options.

Put options are contracts that allow a fund to sell a security at a specific price within an agreed time frame, thereby providing hedging the portfolio against impacts from unforeseen sell-offs, known in the industry as tail risk events.

Call options are essentially inverted put options, where funds can buy a security at a set price and agreed time frame. So if the value of the stock increases, the fund can get it for the cheaper agreed price.

Of course, derivatives contracts aren't free. They're paid for with premiums, and these eat away at returns. But it's the price you pay for safeguarding against risk.

Multi-asset funds are generally made with retirees in mind, but other investors can benefit from them too.

"While primarily designed to manage sequencing and longevity risks for retirees, one of the advantages of a real-return fund is that it is a versatile building block," says Doyle. "In the accumulation phase, real-return funds can be used to improve the portfolio efficiency

by replacing higher cost and more complex alternatives, or as a saving vehicle for people who have a short- to medium-term savings goal, such as building up a deposit for a house."

There are also other options to gain exposure to multi-asset classes. Multi-manager funds, or funds of funds, pull together a number of single-asset funds into one product. These funds are overseen by a manager, who decides the weighting of the various funds in the subset.

These funds tout the expertise that each of the individual funds brings to bear. Bond funds are run by managers with expertise in bonds, while equities funds are run by managers with expertise in equities, and so on.

There are some drawbacks to multi-manager funds. Their fees are usually high because they need to cover multiple levels of management. Fees compound over years to the point where the added performance gained from the increased asset expertise found in multi-manager funds may not be worthwhile.

However, Doyle questions the need for the single-asset expertise found in multi-manager funds, suggesting instead that asset allocation is shown to be the most important factor driving returns. *M*

BEST MULTI-SECTOR FUNDS

				Performance			Management fees		
	Product	APIR/ASX code	Start date	1 Year	3 Year	5 Year	MER	Performance fee	Minimum investment
1	IOOF MultiMix Balanced Growth Trust	IOF0093AU	2008	17.13%pa	10.62%pa	8.38%pa	1.12%	NA	$25,000
2	Allan Gray Australia Stable Fund	ETL0273AU	2011	5.72%pa	4.98%pa	6.23%pa	0.25%	20%	$10,000
3	Perpetual Wholesale Conservative Growth Fund	PER0077AU	2003	8.96%pa	5.79%pa	4.64%pa	0.92%	NA	$25,000
4	BlackRock Scientific Diversified Stable	BAR0811AU	1997	12.14%pa	7.10%pa	5.32%pa	0.77%	NA	$50,000
5	SSGA Passive Balanced Trust	SST0016AU	1999	19.35%pa	11.02%pa	8.43%pa	0.26%	NA	$25,000
6	Perpetual Wholesale Balanced Growth Fund	PER0063AU	1997	12.63%pa	7.79%pa	6.31%pa	1.05%	NA	$25,000
7	Schroder Strategic Growth Fund*	SCH0102AU	2002	13.65%pa	7.50%pa	6.67%pa	0.90%	NA	$20,000
8	BlackRock Scientific Diversified Growth	BAR0813AU	1996	19.65%pa	11.04%pa	8.00%pa	0.87%	NA	$50,000
9	OnePath Wholesale Balanced Trust	AJF0802AU	1993	13.42%pa	6.53%pa	5.64%pa	1.33%	NA	$50,000
10	Perpetual Diversified Real Return Fund – Class W	PER0556AU	2010	6.69%pa	5.16%pa	4.37%pa	0.89%	NA	$25,000

Source: Rainmaker Information as at January 31, 2020. Best multi-sector unit trusts where products were ranked across short-, medium- and long-run performance and investment risk factors for *Money's* Best of the Best Awards 2020. *Formerly the Schroder Balanced Fund. MER: management expense ratio

Avoid the pension pitfalls

Careful planning is the key to getting the income you need from your nest egg

The process of moving into pension phase is full of complexities and pitfalls. For a start, super fund members are often surprised to discover there is no regulated default retirement product they can roll into seamlessly. And while switching providers in accumulation phase isn't a big deal, it is for a pension.

Key decisions need to be made before you set up a pension. With that in mind, we asked Mark Berry, a director of Berry Actuarial Planning, for some pointers. While this is by no means a comprehensive list, it provides a springboard for further research.

Think first, then act

When you move into pension phase you must sign up for a new "choice" product. There is no specific default product. The closest option is a balanced fund.

"The first thing to look at is how the money is invested in the product, and being comfortable with what's sitting inside the investment," says Berry. "It might be in a balanced fund, but a balanced fund means different things to different people."

Traditionally balanced funds had 50% growth assets like equities and property, which can be volatile, and 50% income assets like term deposits. "With some balanced funds it's now more like an 80%-85% growth component and 20%-15% income. With others it's a 70%-30% split," says Berry.

It means you need to look beyond labels when choosing a product and be comfortable with its level of risk. You should be satisfied your existing provider is a good performer before moving into pension mode because it can be a hassle switching to another provider later.

Changing providers

"The system should allow you to remain in pension phase and roll from one fund to the other," says Berry. "But that's not the way it works. You have to go back into accumulation and then roll over and re-establish a new pension account at the new fund.

"Things have to be liquidated, then sold and repurchased and re-established, so there are transactions processes involved. It's certainly a factor [to consider]."

Drawdown strategies

Unexpected life events and market downturns can cause havoc when you are in retirement. However, there are ways to deal with it.

"You might decide you're going to put 80% into the balanced fund and 20% into the cash fund. If the market drops 15% or 20% you're not selling assets in a down market to pay for your pension," says Berry. "You're just drawing against the cash balance. Cash may not be exciting, but at least you know you've got your pension payments covered. Then periodically you might switch some of the balanced fund over to the cash fund to keep things running along."

Case for advice

Super funds vary in the amount of support they offer members. They are hardly going to encourage you to switch to another provider, and dud funds still abound. Even at a basic level, funds may let members down despite having databases full of member information.

Mark Berry says he has had people in their 70s turn up for advice when they are still in accumulation phase.

Getting independent, professional help ensures you will be properly set up for a better outcome. "It's worth getting a financial plan done when you move into retirement to ensure whatever is being set up is robust and durable," he says.

For a straightforward arrangement, the cost is in the order of $2500 to $3000. The more complex the case, the higher the cost.

Berry's firm charges on a fee-for-service basis at $385 an hour. "We look under every stone and tick every box and do a fairly thorough analysis. Then ongoing, there may not be much to do at all. You're not locking into an ongoing service."

Death taxes

While your spouse and dependent children receive your super tax free when you die, adult children are taxed. If you have funded your entire super from concessional contributions there'll be a 15% tax on the balance.

"It's a fact to be aware of," says Berry. "If you're diagnosed with a terminal illness you may want to terminate your super account and move it all to your bank account."

"If you take the money out while you are in the land of the living there's no tax. But if the beneficiaries are left doing it there's a 15% tax. If you've got $300,000 left in super, that's $45,000 that's being paid in tax."

Centrelink benefits

If you're in pension mode and want to switch to a new provider, first check whether you stand to lose any grandfathered Centrelink benefits.

"It could be that you are getting Centrelink benefits at the moment, but when you roll over to a new fund, you might find that you lose your benefits. That's a major factor when you're moving funds," warns Berry.

"You have all this administrative complexity and you could come to the end of the process only to find you've lost your Centrelink pension." Unfortunately, he says this is not uncommon.

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

THE EXPERTS

Eugene Ardino, chief executive, Lifespan Financial Planning

Nikki Graham, general manager product and risk, Commonwealth Bank

On borrowed time

Gearing is a powerful tool that can increase your investment gains – but also your losses

10 MOST-ASKED QUESTIONS

Q What is margin lending?
It is a loan facility used to borrow money to invest where the collateral for the loan is generally other investments such as shares, managed funds or cash. Using margin loans to invest can magnify returns but can also magnify losses.
EUGENE ARDINO

Q Who should take out a margin loan?
A margin loan is not something all investors should consider. To properly harness the benefits of margin lending, you need to understand the principles of gearing and you need a plan for servicing interest charges regularly and for avoiding/managing margin calls if they occur. If you have all of these covered, then a margin loan can be a powerful tool for an investor.

Building a large, well-diversified portfolio can take a significant amount of time. Spotting an investment opportunity is one thing, but having access to enough cash at the right time can also be a challenge. Similar to a home loan, a margin loan gives investors access to funds they can use to invest in equities assets, and the loan is secured against cash or the investor's existing shares.
NIKKI GRAHAM

Q How much can you borrow?
Generally up to about 70% of the total investments being taken as security, including the investments that you are borrowing to invest in. This percentage is referred to as the loan to value ratio (LVR). However, generally speaking, we would never recommend a LVR of more than 50% because if the market falls and your LVR is too high, it may trigger a margin call. This will result in you having to reduce the LVR, which can result in having to sell investments at depressed prices.
EUGENE ARDINO

Q Do margin loans have special features I should know about?
Yes, many. Unlike many other loans, you generally do not have to make capital repayments during the term of the loan, you can pay interest only or have the interest capitalised onto the loan. However, the catch is that the LVR must remain under the level that triggers a margin call.
EUGENE ARDINO

Q When do I start paying interest on my loan?
There's no obligation to draw down on a margin loan – if you don't use it, you won't need to make repayments or pay interest charges. In this way, it's almost like a line of credit rather than a loan. If you do use the loan, you'll be charged interest. However, there's some flexibility in the way you pay interest. You can choose to fix your interest rate or leave the loan on a variable rate. On a fixed rate, you have the option to pay your interest in advance, otherwise you can pay it monthly in arrears.
NIKKI GRAHAM

Q What's a margin call?
A margin call is a process to reduce your loan's LVR, if it exceeds the maximum limits for your portfolio. If your loan to portfolio ratio increases too much, because the shares you're using as loan collateral have decreased in value, a margin call will be triggered. If you trigger a margin call, the lender will ask you to reduce your LVR within a specified time frame (usually 24 hours), which you can do by reducing your loan balance through topping up your loan with extra cash or by selling some of your investments. Alternatively, if you have additional shares or managed funds not already on the margin loan, you can increase your portfolio value by adding them.

Margin loan accounts generally have a "buffer" of around 5%-10%. The buffer is an additional LVR by the lender to allow for small market movements. It acts as a warning that a margin call is close to being triggered and generally gives you some extra time to take action before your loan reaches a margin call.
NIKKI GRAHAM

Q Can I avoid a margin call?
The only way to avoid a margin call is to keep the LVR at an acceptably low level, which is why we say that you should have a cash flow surplus to enable you to make margin calls and keep the LVR at a maximum of 50%. However, even then, under extreme circumstances you could get a margin call.
EUGENE ARDINO

Q How can you reduce risk with margin lending?
There are things you can do to reduce the potential risks that come with a margin loan. Setting a strategy for how you'll use the loan can go a long way towards reducing your chance of losses or margin calls. For example, every investor has a different appetite for risk and some investors may be prepared to risk losing a lot on their investments in order to make a gain, whereas others may only be willing to lose a little. Consider your investment goals and what kind of risks you are prepared to take to get there. Understanding the risks, and identifying where you are prepared to sell your investments to limit further losses, will help you decide on the best way to manage them.
NIKKI GRAHAM

Q Are there tax implications when using a margin loan?
For some investors margin lending may have tax benefits. For example, you may be able to claim the interest on your loan as a tax deduction. You may also be able to prepay interest before the end of the financial year to bring the tax deductions from the next financial year forward. You should always speak to your accountant or tax adviser to confirm how the taxation treatment of a margin loan will impact you.
NIKKI GRAHAM

Q What are the main pros and cons of margin lending?
Margin loans can magnify returns but also losses. You don't have to make capital repayments but you must keep the LVR under the maximum level. The interest rates are generally higher than those for investment loans on property and with property loans you also don't get margin loans so long as you make repayments.
EUGENE ARDINO

Cash in on the big trends

These investments are well placed to capture the value that technology brings to a wide range of companies over the coming decade

All sensible investors ask themselves the fundamental question – "What does the future hold?" – when positioning their portfolio. Invariably good and structurally sound business models will prevail through all market conditions.

Profitable investment themes over past decades include the gold and silver trade in the 1970s, Nikkei 225 and Japanese banks in the 1980s, Nasdaq 100 in the 1990s, iron ore in the 2000s and the FAANG tech stocks in the 2010s. Put another way, if you had invested in one of these themes at the start of the decade, done nothing during the period and come back at the end, you would have done very well.

If you feel that you have missed out on capturing the full benefits of these past trends in your investment portfolio, then the good news is that there are myriad new themes and opportunities emerging that will drive the next decade of investment returns, including in the technology sector.

To capture the latest emerging trends, investors must not be distracted by markets suffering from myopia and hypersensitivity to the news of the day.

Rethink the tech sector

Traditionally investors and fund managers have viewed technology as a separate category of companies. They view the market comprising individual sectors such as financials, materials, real estate, consumer staples, etc, and among these there is usually a mention of the information technology sector, which constitutes about 3% of the S&P/ASX200 Australian index and about 24% of the S&P500 index in the US. This is a limited and vertical view by which to capture technology trends. Investors need to view technology as an application of capability by companies in all sectors that's integrated into the business strategy to create overall value for customers.

Missing out on good returns

Looking at technology through the prism of sector allocation (being overweight or underweight) could limit investors from achieving attractive returns over the coming decades. In the case of fund managers, arguing against holding technology stocks based solely on traditional valuation metrics could mean their strategy significantly lags market returns. However, we are not making a case for a portfolio consisting of just technology stocks.

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

3 FUNDS TO WATCH

1 Magellan Global Fund

Magellan has paved the way for trend investing in Australia over the past decade. With a prescient sense of timing and investment positions built on deep research and high convictions, combined with the past decade of stellar investment performance, we see Magellan continuing with its form and substance over the next decade.

One of the strengths of the Magellan team is the ability to change when the facts change. The fund has consistently delivered alpha (the return above a benchmark or index) despite the strategy of holding 25 to 27 stocks. Another important aspect of Magellan has been the fact that the growth in funds under management (FUM) has been predominantly driven by market movements and not fund inflows.

2 Lazard Global Small Cap Fund

Backed by a global research and investment management platform, Lazard is focused on investing in companies that are financially sound today while also positioned to generate considerable value through market cycles. The Lazard strategy targets companies with market capitalisation typically between $US300 million $US10 billion, which means it is looking at a different opportunity set from large-cap global managers like Magellan. In line with our thinking, Lazard also believes technology is ubiquitous today, with impacts across all industries. The manager is focused on companies and not sectors, which allows it to identify companies that benefit from technological innovation and still maintain diversification across its portfolio.

3 Man GLG Alpha Select Fund

The Man GLG Alpha Select Alternative Fund is likely to be little known among Australian investors. In our view, investors with a long-term horizon should consider investment opportunities in the UK, as market valuations start to signal good relative value amid global growth concerns, coronavirus impact and Brexit. The Man GLG fund can use this opportunity (both on the long and short side) as asset prices move away from true underlying fundamentals. Equally important, the ability to be long and short allows it to maintain a balanced exposure to macroeconomic risks it cannot control.

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^ La Trobe Financial's 12 Month Term Account was judged the Best Credit Fund - Mortgages for 2020 by *Money* magazine.

Looking out for ***you***®

STORY ALEXANDRA CAIN

Use these expert tips to build a portfolio that can survive the sharemarket's wild swings

7 stockbroking secrets

There are investors who would love to have their own stockbroker on speed dial. Imagine being able to ring up and pick your broker's brain about the latest initial public offer (IPO) or gossip about the management teams of the biggest listed businesses.

Imagine no more. We've talked to some of Australia's most experienced and respected sharemarket experts to uncover their secrets, insider tips and advice you can put to use in your own portfolio.

Secret 1

You can invest in more than shares

There's a lot more to stockmarkets than just shares, says Gemma Dale, NAB's director of self-managed super funds and investor behaviour. "You can now build a really diversified, liquid portfolio on the ASX in a way you couldn't have done 20 years ago," she says.

"Back then, you had to invest in managed funds to get access to things like international shares. You had to pay upfront and ongoing management fees. And you'd only get a statement about the fund once every six months. Now you can buy managed funds on the ASX. You can also see your whole portfolio at a glance so you know what's doing well and what's doing poorly."

She says NAB's data shows SMSFs are thoroughly underweight in asset classes such as international equities. This means they've missed out on gains they could have enjoyed by investing in global tech giants like Amazon, Apple, Facebook and Google. You can get access to these shares by investing in a range of different exchange traded funds (ETFs) that are exposed to all the big tech stocks. ETFs come in many flavours. They cover fixed interest, commodities and currencies and new ones are released all the time. As their name suggests, you can buy and sell ETFs easily on the ASX. They're an effective way to diversify your portfolio and express your investment views.

You can get international exposure by buying an emerging market ETF or by buying stocks that are exposed to emerging markets, and this includes China. But before you invest, also consider risks to global markets such as the coronavirus and currency movements. NAB's Dale recommends thinking about your portfolio as more than just a bunch of Australian companies.

Secret 2

Ignore currency risk at your peril

It's important to remember you're investing in two things – shares and currencies – when you're investing in international equities, says Adam Smith, chief executive of Saxo Capital Markets, Australia.

"Let's say you own US shares and the US dollar weakens against the Australian dollar by 5%. Your US share portfolio's value will also fall by 5% when you convert it back to Aussie dollars," he says.

Of course, the reverse is also true. It means currency fluctuations will work in your favour if the Aussie dollar falls relative to the currency of the shares in which you are investing.

There are a few ways to manage currency risk if you don't want your shares exposed to foreign exchange markets. You can invest in ETFs that hedge away currency risk. You can also buy derivatives – but this is tricky for retail investors and probably best left to the experts.

Secret 3

Don't respond to volatile markets

Investing in shares can be a wild ride, which is easy to forget when markets seem to be always rising. When a correction happens and you "get your fingers burnt", investors can make the mistake of getting out of the market. But this is the worst time to sell.

"It's tempting to react to market volatility and regularly reposition your portfolio in response to events like Brexit," says Tim Sparks, Bell Direct's head of distribution and marketing.

"The ability to look past negative announcements in the 24/7 news cycle is an important skill to develop in your investment journey," he adds.

If you construct a sound portfolio with a combination of asset classes, you should be able to ride out short-term market volatility and still achieve your investment objectives.

"Time in the market, not timing the market, is key. Reviewing your portfolio in the context of your investment goals and deciding not to make changes is still an investment decision," says Sparks.

Secret 4

Reinvest your dividends to create wealth

Established companies making good profits pay their investors dividends on a biannual or quarterly basis. The dividends automatically appear in your bank account as income. But you don't have to take them as income, says Sparks.

"Think about building wealth by investing in companies that offer a dividend reinvestment plan. So instead of them appearing in your bank account, the dividends will be automatically reinvested in the company's shares. This can compound your returns. Plus shares offered via a DRP can often be bought at a discount to the market price," he says.

Sparks also recommends keeping an eye on reporting season. "This is like Christmas for financial analysts. The market gets to unwrap a company's financials to see how healthy it is. Brokers also issue research notes on companies after they publish their financials and it's a good idea to read these to increase your knowledge."

If a company issues bad news during reporting season, which for most companies is February and August, it will be downgraded by the market. This means its share price will fall. Downgrades happen for a number of reasons. The company might not have achieved the profits or sales the market was expecting. Or maybe it has slashed its dividend.

Make sure you understand why the share price has fallen in the context of why you invested in the company in the first place, considering the long-term outlook. Says Sparks: "If the reasons are no longer relevant or stand up to scrutiny it may be time to sell."

Secret 5

Don't be afraid to buy on bad news

The market can be savage when a company misses its profit guidance or announces bad news, often disproportionately slashing the share price. This can be an opportunity to buy the stock at a discount. But ensure you understand the reasons why the company

> "Reviewing your portfolio and deciding not to make changes is still an investment decision"

is underperforming. You want companies that are just suffering a short-term blip. Make sure the reason for the downgrade isn't related to systemic issues in the sector or evidence of emerging issues that could lead to the stock or its sector's long-term decline.

Secret 6

ASX has lots of great resources

The ASX has lots of free educational tools retail investors can use to improve their skills. Its website is brimming with online courses, research and seminars. You can also access regular webinars hosted by experienced investors and other experts.

It's worth taking advantage of these resources to hone your share-trading skills, says Bill Bishop, private client adviser with Reynolds Securities. "Go to seminars and visit the ASX website to increase your understanding of markets," he says.

You need to be across financial markets to successfully invest in shares.

"Read the paper every day to get a feel for the market. Investing is a bit like gardening. You need to prepare your garden bed properly before you plant something. It's the same with investing. You can't just do a bit one day and forget about it for the next five weeks. You need to be constantly learning so you start to see patterns in the market," he says.

Recognising good management teams is an example. "Understand the CEO, CFO and COO's background when assessing a company – because most people who run listed companies have a history. Some of them have a very good history and some of them have a less stellar history. So educate yourself about the track record of the people running the companies you own," says Bishop

Chances are if the management team has run successful companies before, it will make a success of the company it is running at the moment.

Secret 7

Constantly getting in and out of shares only makes your broker rich

One secret stockbrokers don't tell their clients is that frequent trades enrich the broker, not the client, says Jeremy Britton from 24 Hour Wealth Coach.

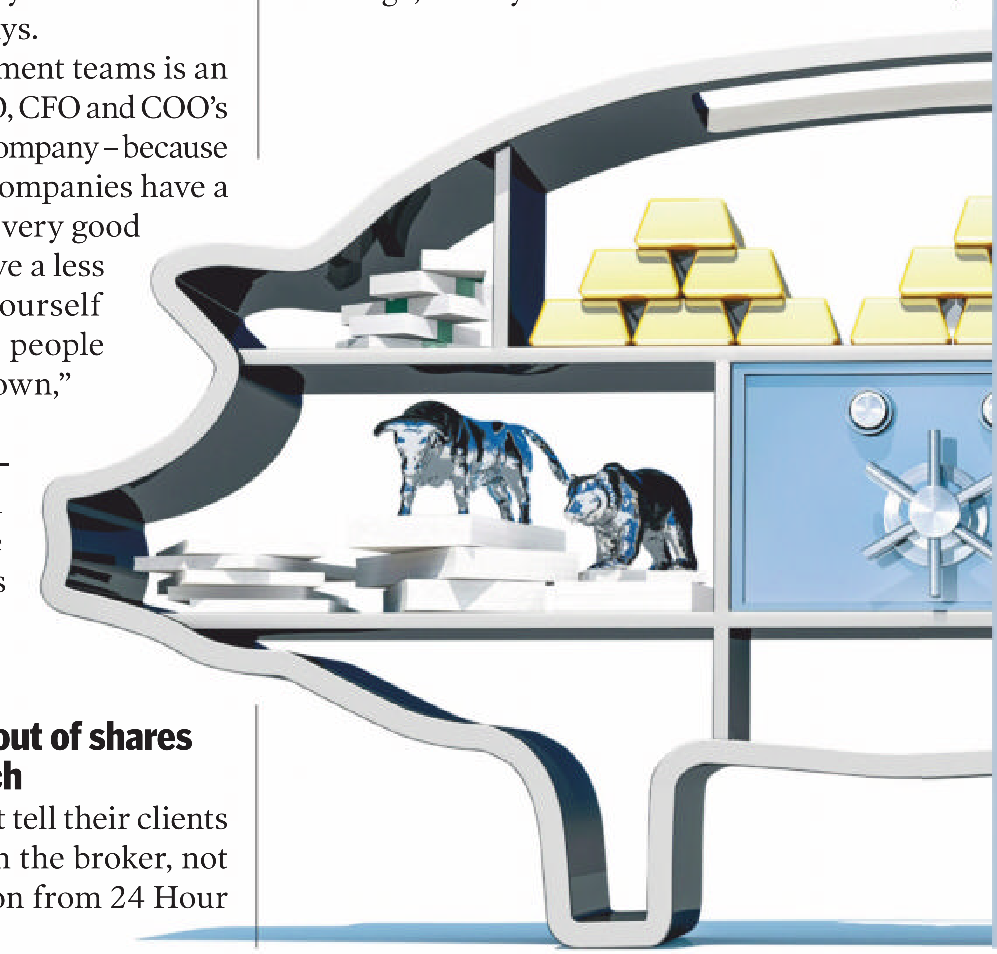
"If you are a day trader you can claim the transaction costs or broking fees as a tax deduction. This is a benefit if you are one of those people who spend four to five hours a day staring at charts," says Britton.

"But it is unwise to change lanes too often if you are a more typical investor who just wants your wealth to grow over time. For instance, if you jettisoned your airline or insurance stocks in the week after the Twin Towers attacks of 9/11, you would have missed out on a 30% rise in these stocks in the following months."

Britton's advice when you buy a share is to pretend the stockmarket will be closed for the next 12 months.

"Hold the stock no matter what transpires. If you are not feeling confident enough to make a commitment to hold for 12 months' minimum, then don't buy that stock. Seek value elsewhere," he says.

He also recommends investing where you spend. "If you always go to the same place to buy your groceries, fuel, insurance and clothes, consider investing in these companies. Then every time you shop or pay your bills, you will be inadvertently checking on your investments. If you notice their service drops off, you will have inside market knowledge well before the financial data is advised to the media and stock exchange," he says. *M*



How to choose the right broker

There are two types of stockbroker: full service and online.

Under the full-service model, you outsource most of the responsibilities for buying and selling shares to the broker.

The broker will execute all your share trades for you and make recommendations about when to buy and sell. They will also tell you about opportunities to participate in share buybacks or capital raisings. You'll also be sent analyst research on the shares you own or in which you are interested. The broker will also update you about what's happening in the market.

Online brokers are much cheaper than full-service brokers. You pay a brokerage fee every time you buy and sell a share. This fee will be much lower than the one you pay a full-service broker. With an online broker, you'll get access to an online share-trading facility, where you can also access educational materials. But it's up to you to buy and sell your own shares.

The model you should choose will depend on your knowledge of and interest in financial markets, how confident you are trading shares and also how much time you have on your hands.

A full-service broker may be the right choice if you've got limited time and knowledge and you don't mind giving away a portion of your returns in fees to the broker. But if you have time and good market knowledge, an online broker may be for you.

Central banks lose the plot

The latest interest rate cuts are doing more harm than good

Paul Volcker was the US Federal Reserve chairman before Alan Greenspan. He was appointed by President Jimmy Carter in 1979 and served as the US central bank's chairman until 1987.

Volcker was the man who, in an inflation-obsessed era (the 1980s), worked out that reacting to a rise in inflation didn't work, and that central banks had to get ahead of the inflation curve and start setting policy (raising interest rates) before inflation became an issue, not after.

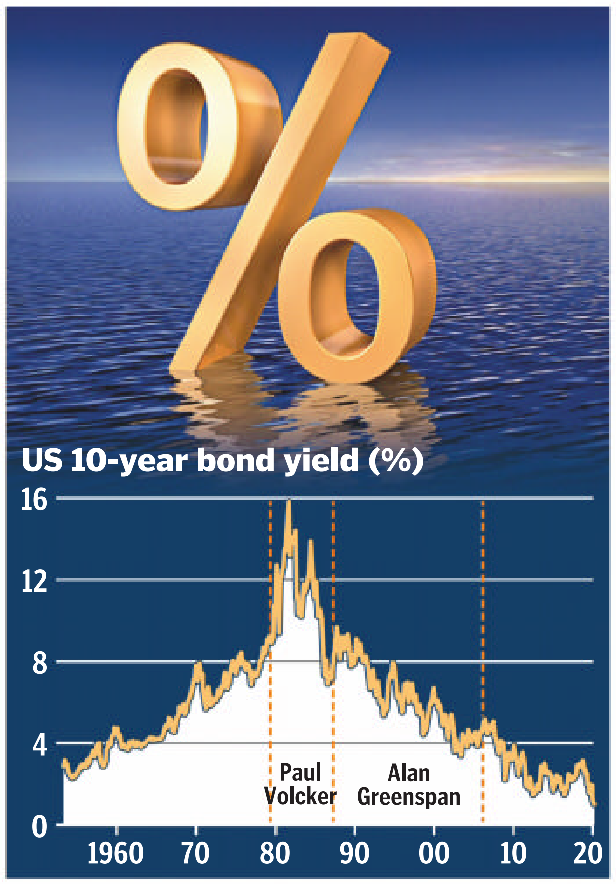
To effect that theory, Volcker raised the federal funds rate, which had averaged 11.2% in 1979, to a peak of 20% in June 1981. The markets were gobsmacked. Recession set in (1980-1982) and inflation collapsed. US inflation, which peaked at 14.8% in March 1980, fell below 3% by 1983. It worked.

This is a chart of the US 10-year bond yield since 1950 with the Volcker era marked on it. You can see the consequences of a 40-year war on inflation that started in 1980. Inflation and interest rates are at record lows in the US and Australia.

In the Volcker-Greenspan period, the central banks did truly lead the financial markets: they set policy, they decided the future course of interest rates and their statements and regular commentary was a window on their "greater knowledge". So, of course, the financial markets hung on every adjective, dissected every word and interpreted every syllable – because the knowledge, that insight, that edge, was there somewhere in the deep recesses of the Federal Reserve's brain, hidden from view but hinted at in words, and there were billions to be made from guessing their true intention for the future of official interest rates.

Forty years later we continue to revere them, devote our column inches to them and hang on their syllables. But should we? I think not. Not in Australia, anyway.

When I did a masters in applied finance we had a professor from Macquarie University's banking and finance department



lecture us on economics. He told us that for almost a decade he, and a host of other economics PhDs, had worked for the Reserve Bank of Australia (RBA) on a project, a government-funded mission, to develop a predictive model for the Australian economy that would contain the key to economic management and stand for all time.

A decade later, faced with its futility, they threw it in the bin. There is no predictive model and his contention, openly offered to his students, was that the RBA knows little more about what's going to happen next than me or you or the man on the Clapham omnibus. In which case, why do we listen?

And even if they do hold an edge, an information advantage, with interest rates now so low their insight really doesn't matter because there are no levers to pull. No one cares if interest rates drop from 0.75% to 0.5%, because – and I hate to tell the RBA – it really doesn't matter.

With the RBA cutting rates again and the Fed following suit, we have arguably reached an inflexion point at which interest rate cuts have started to do more damage than good.

Interest rates are supposed to stimulate confidence, but these recent cuts have left consumers and businesses wondering just how serious the economic problem is going to get and where it is all going to end. We all know that negative interest rates will bring destruction, not solution, and we fear it, but the RBA is taking us there.

In the end the RBA and the Fed interest rate cuts have done more damage than good and, rather than benefit borrowers and stimulate lending, they have raised a deeper economic suspicion as they quietly and relentlessly gut the risk-free return, term deposit rates, hybrid yields, bond yields and bank sector margins (risking dividend cuts) as they force the capital-rich, income-poor retiree into an over-priced squall in the equity market. It's dangerous.

The bottom line is that the central banks have lost their value. They are out of policy weapons and will squander what little relevance they have left, pursuing a formula that doesn't work anymore (cutting rates to stimulate economic confidence) and is the legacy of a now-gone era.

Interest rates have ceased to matter and the "greater knowledge" the central banks once possessed has been replaced by a lack of imagination that will doom us to negative interest rates, a zero risk-free return, deflation and economic stagnation.

Without their tools and without a deep rethink of the Volcker formula, the central banks have lost the means to deliver our financial salvation. Instead they are making it worse.

There is no safety net any more. We are on our own now.

Marcus Padley is a stockbroker with MTIS Pty Ltd and the author of the daily sharemarket newsletter Marcus Today. *For a free trial go to marcustoday.com.au.*

Crisis of confidence

Increased government spending is the answer to our economic woes

Face mask, check. Hand sanitiser, check. Toilet paper, check. Food supply for at least two weeks, check. I must admit the news about the spread of the coronavirus got to me. So much so that every sneeze, cough or runny nose I experience makes me wonder if I've contracted the disease.

I've even cancelled my planned visit to a country on my bucket list for fear of actually kicking the bucket during my visit. There won't be much to see and experience anyway with many governments closing tourist attractions and events and heavily monitoring travel to their countries altogether. Such is the scale of the hysteria and sense of panic created by one microscopic organism, the coronavirus named COVID-19.

Hysteria or irrational panic it may be, but the point is this fear has prompted a crisis of confidence that's inducing economic activity to stall in most places around the world.

In its interim economic assessment ("Coronavirus: the World Economy at Risk"), the OECD cut its 2020 world economic growth outlook by 0.5% to 2.4% and, at worst, by 1.5% to 1.4% in the case of a "broader contagion scenario".

That is a big cut to expected growth in the global economy and explains the massive sell-off in equity markets everywhere.

The coronavirus outbreak has brought upon us the day you and I lost sleep over years before. You know, the day when we worried about the potency of future central bank policy actions, given their sharply reduced firepower, or when the next threat to the global economy was to come.

As I write this in early March, central banks (and government authorities) are now engaged in a concerted/coordinated scrambling to mitigate the negative impact of the spreading disease on their respective economies and the world at large.

This is underscored by the statement of G7 finance ministers and central bank governors issued on March 3:

"We, G7 finance ministers and central bank governors, are closely monitoring the spread of the coronavirus disease 2019 (COVID-19) and its impact on markets and economic conditions," they said.

"Given the potential impacts of COVID-19 on global growth, we reaffirm our commitment to use all appropriate policy tools to achieve strong, sustainable growth and safeguard against downside risks. Alongside strengthening efforts to expand health services, G7 finance ministers are ready to take actions, including fiscal measures where appropriate, to aid in the response to the virus and support the economy during this phase.

"G7 central banks will continue to fulfil their mandates, thus supporting price stability and economic growth while maintaining the resilience of the financial system."

The G7's reassurance was nice. Then again, aside from "monitoring", reaffirmation of commitment and standing ready, the communique fell short of assertive concrete actions that markets hoped the "magnificent seven" would undertake.

However, the decision by the Reserve Bank of Australia and the US Federal Reserve to cut interest rates on the same day suggests that a coordinated response was under way. The RBA cut the cash rate by 0.25% to a record low of 0.5% at its March 3 meeting "to support the economy as it responds to the global coronavirus outbreak".

The Fed's action was more telling. It lowered interest rates by 0.5% to 1% to 1.25% – the first inter-meeting cut since 2008 (when Lehman Brothers collapsed) – because of the "evolving risks to economic activity" posed by the coronavirus.

Wall Street's reaction to the Fed's decision – the Dow down 3%, S&P 500 down 2.8%, Nasdaq down 3%, Russell 2000 down 2.1% – may give other central banks (especially those that have already run out of interest rate ammo like the Bank of Japan and the European Central Bank) expecting to "coordinate" policy responses pause for thought.

For as Fed chairman Jerome Powell explained at his press conference: "We do recognise that a rate cut won't reduce the rate of infection ... It won't fix a broken supply chain. We get that. We don't think we have all the answers."

The answer, my friend Jerome, is not blowing in the wind. The answer is increased government spending.

Benjamin Ong is chief economist at Rainmaker Information.

Four dimensions of investing

The sharemarket offers endless opportunities. But how do you translate those into a portfolio that can weather any storm?

STORY GREG HOFFMAN

The first shares I ever bought were in what I call a "letterbox" investment. I was eight years old and a local trucking company was offering shares in itself at 25¢ apiece. I went thirds with my father and grandmother in a parcel of shares, putting my entire $250 of savings on the line.

A letterbox investment is one that comes to you, rather than you seeking it out. My typical reaction for the past 20 or so years has been to immediately put such flyers (or emails nowadays) in the bin.

In truth, any letterbox investment is unlikely to be a great deal. Some may work out well but, on balance, the risks and rewards will be out of whack. That's because there are plenty of sophisticated investors out there looking for good deals. So if an opportunity is simply slipping, unsolicited, through your letterbox or into your email account, what are the chances that the odds will be stacked in your favour? Slim to none.

That first letterbox investment turned out, unsurprisingly, to be a disappointment. In the next 10 years, I bought a few other stocks based on either recommendations from my grandmother or from "charting" (using hand-drawn charts, mind you). The results were mixed.

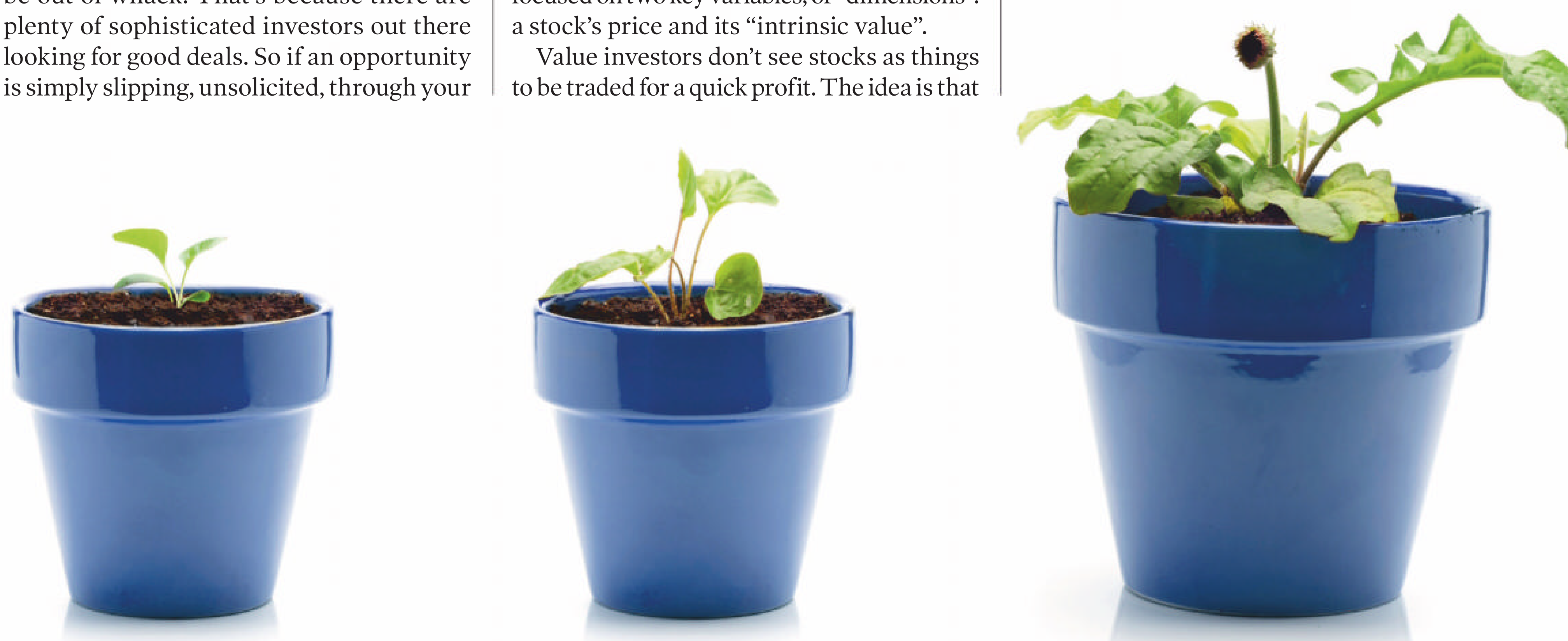
FIRST TWO DIMENSIONS

Then, just before my 19th birthday, I read *Buffett: The Making of an American Capitalist* by Roger Lowenstein and set out on the path to becoming a "value investor". I became laser-focused on two key variables, or "dimensions": a stock's price and its "intrinsic value".

Value investors don't see stocks as things to be traded for a quick profit. The idea is that each stock represents an underlying business. A value investor sits down and researches each business in a level-headed manner. If, after that process, the investor feels confident to do so, they make some assumptions about the business's future profits and cash flows.

Using some high school mathematics, projected future cash flows can be "discounted" back into today's dollars to arrive at the estimated intrinsic value. If a stock price is below your estimate of value, it provides a "margin of safety" and can be considered a candidate for purchase.

Whether or not a stock price has been running hot doesn't matter. The only dimensions that count are today's price and your estimate of value. Whether or not the company is



involved in the latest technology or is in an age-old industry only matters to the extent that those factors impact the likely future cash flows and, therefore, your estimate of value.

I spent years earning an accounting degree and reading about various industries, companies, investors and business people. As a young investor, I would often analyse a bunch of stocks and rank them by their potential return (or margin of safety). And I knew from studying Buffett and his investment partner, Charlie Munger, that concentrating your portfolio in your best ideas gave you the best shot at outstanding returns.

The stakes were high by this time. I was overseeing my parents' retirement account (something I would not recommend anyone let their 20-year-old child do). As the old proverb says, "there's many a slip 'twixt the cup and the lip" and I was to endure a lot of slipping 'twixt the theory of value investing and success in practice.

PAINFUL LESSON

One painful fiasco was a recklessly large investment in a company called Reinsurance Australia Corporation (ReAC). It looked cheap on its published numbers and was my "best idea" at the time, no doubt influenced by associations in my head with the billions of dollars Buffett had made from the reinsurance industry. The team at ReAC were not Warren Buffett and my actions inflicted a painful blow on my parents' retirement balance and I learned a powerful lesson in truly appreciating the full range of risks any business faces. Which brings us to my "third dimension" of investing.

Price and value are the essential first two dimensions, but an appreciation of risk is a crucial third. Portfolio concentration in your best ideas is important, but what if your top three ideas are all in the same industry (which can often be the case when an entire industry falls out of favour)? Or what if your analysis is wrong or, simply, the world pans out in a way you thought possible but unlikely?

Even stocks in different industries can be correlated. For instance, in early March the oil price took a remarkable tumble. Stocks like Woodside Petroleum, BHP Billiton and Santos went with it, not to mention global giants like Exxon Mobil and Royal Dutch Shell. Yet so did banks and financial institutions that have an exposure to high-cost shale oil producers which might come under existential threat if low oil prices persist for too long.

> Illiquid stocks can become "lobster pots": you can get in but you can't get out

Macquarie Group took a hit and US banking giant JPMorgan copped a pasting as well. So when investing with the third dimension in mind, it's important to have an appreciation of the many ways even seemingly disparate companies can be interconnected.

The goal is to have a portfolio that isn't overly exposed to one source of risk, even if that costs you some potential returns. It's the age-old trade-off but looked at through a more complex lens.

THE FOURTH DIMENSION

The GFC taught me an object lesson in the fourth dimension of investing: liquidity. This is the term used to describe how easy it is to trade an investment. A stock like Commonwealth Bank is highly liquid, with hundreds of millions of dollars changing hands every day. By contrast, an illiquid small stock may trade only a few thousand dollars on any given day. Or even nothing at all.

I went into the GFC with the portfolios I was managing too heavily exposed to smaller, illiquid stocks. Before the crash, they were the investments that, in an otherwise expensive market, I deemed were most attractive based on the first three dimensions of my approach.

Yet when markets went into freefall, I found buyers were only prepared to buy tiny amounts and at rapidly diminishing prices. Several stocks had literally no buyers at all on some days. In such situations, illiquid stocks become "lobster pots", financial slang for an investment you've managed to get yourself into but can't get yourself out of.

The importance of this fourth dimension saw me focusing on larger, liquid stocks more than ever as markets tumbled in early March. Stocks like Tabcorp (ASX: TAH), Platinum Asset Management (PTM) and Scentre Group (SCG) score highly on the fourth dimension. And, as a group, I think they work well in the third dimension. They also shape up nicely on the first two dimensions in my view.

Disclosure: Private portfolios managed by Greg Hoffman own shares in Macquarie Group, Tabcorp and Platinum Asset Management at the time of writing.

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).

Wait for better value to emerge

STORY NATHAN BELL

Even though share prices have tumbled, Australia's big banks still look far too expensive

It started with Bank of America after the GFC. In 2013, I bought in when the share price had fallen 80% from its pre-GFC highs for the second time, believing bad debts would fall, the US housing market would recover, the balance sheet would improve and dividends would increase.

Things went well until February 2016, when the stock dropped on fears that low interest rates would squash profit margins, profits and dividends. Still, I managed to bank a decent profit before selling out. The bank's share price now remains almost 50% below its pre-GFC high.

I then purchased Lloyds Bank, the Commonwealth Bank of the UK. It was very profitable. I expected it to refund mortgagees who had unnecessarily purchased payment protection insurance and return its bailout money to taxpayers while remaining in the black.

That's how it played out, but low credit growth, Brexit-related interest rate cuts and intense competition didn't deliver the returns I hoped for. Undeterred, I headed for warmer shores.

The valuations of Italian banks were plumbing record lows despite a sensible plan to vanquish their bad debts. Things started well enough, but the political landscape turned poisonous and I got out with what I'd paid.

After that, I thought about investing in European bank ING Group. It was trading at a low multiple of book value and an underlying return on equity of around 11% when official European interest rates were sub-zero – this would be a cinch.

ING was clean, paying increasing dividends and serving the wealthy Benelux countries. It made no difference. The share price rose 40% but now sits 35% under my purchase price. Currently on a PE ratio of seven and a dividend yield of 8%, ING looks cheap.

This is why the previous decade probably isn't an accurate guide to how the major banks will fare over the next decade. The reasons can be found among my unsuccessful European and US purchases.

In comparison with banks like Lloyds and ING, Australian banks look expensive, although they are arguably better and more profitable businesses, for now. Nevertheless, the environment is becoming more challenging.

While we prefer the big banks to the riskier regionals, and favour Commonwealth, Westpac and Macquarie Group over ANZ and NAB, the impact of pygmy interest rates and low credit growth on profit margins cannot be overestimated.

This is the lesson I learnt in Europe and the US, where I continually underestimated their impact. Every time expectations rise, they're dashed by more disappointment.

Australia's big four banks deserve their premium valuations compared with foreign banks, provided the property market holds up. That's an "if", if not a big one. Speculating on Australian property at today's prices is to invite a lousy return, which is why credit growth remains weak. Many would-be property investors can't get loans either.

But where some of the overseas banks mentioned potentially offer good value, particularly as they've already survived major property busts, Australia's banks do not.

With Australian interest rates still falling we've no interest in buying the banks despite recent share price tumbles.

The advantages of a regulatory sanctioned oligopoly are not to be underestimated, and there will be a time and price to buy the banks. But that will likely be during a proper downturn, which we are not in – yet.

Nathan Bell is research director at Intelligent Investor.

HOW THE BANKS COMPARE

Bank	Price-to-book (x)	Dividend yield	Return on equity	Recommended portfolio weight
Commonwealth Bank (ASX: CBA)	1.9	5.4%	12.0%	8%
Westpac Bank (WBC)	1.2	7.0%	10.4%	8%
ANZ Bank (ANZ)	1.1	6.7%	10.5%	8%
National Australia Bank (NAB)	1.2	6.9%	9.4%	8%
ING Group	0.6	8.4%	9.3%	NA
Bank of America	1.0	2.5%	10.3%	NA
Lloyds	0.7	7.0%	10.5%	NA

Source: Intelligent Investor

SECTOR RESOURCES

Dig down to discover quality

When companies are price takers, the big names are the ones to back

When it comes to choosing Best in Breed candidates, we're looking for the attributes that put a company (hopefully) head and shoulders above the rest. Rarely is that a question of valuation, but almost always one of quality.

Given the fluctuations in share prices over weeks, days or even hours, the "best value" opportunity might change, but if you have a sense of what makes for a quality business, it will help put price into perspective.

That's a preamble I could add to every sector in our Best in Breed series, but it applies doubly to resources companies. The reason? Almost all companies in this sector are price takers.

Yes, every company has restrictions on how much it can charge for its product – you're not going to pay $10 for a can of Coke or $10,000 for an iPhone – but it's possible to differentiate those products and convince consumers to pay some premium. For resources companies, there is no Coca-Cola or Pepsi, just cola, and no one is going to pay more for the feeling that "Coke is better".

Additionally, pricing can be extraordinarily volatile. Take the first few months of 2020. The gold price spiked on the back of the unfolding coronavirus pandemic – an event no one could have predicted just a few months earlier. And the OPEC oil cartel faced its first real challenge, from Russia, with both sides refusing to do a deal on restricting output, leading to enormous price falls.

Both events, unsurprisingly, led to huge swings in share prices for the miners and drillers involved. So if you're going to invest in this area and no one can control the price of the commodity, what can you control? The answer, which I gave away at the beginning, is quality.

In this case, you want to look at the fundamentals of the businesses in question. There's no simple formula, of course, but some things to consider include the track record, ability and candour of management, the size and quality of the company's resource reserves and its past success (or otherwise) in managing the controllable parts of its operation (costs, injuries, debt and capital allocation, for example).

Speaking of costs, you also want to look at the company's cost structure relative to both its industry and the price of the commodity. If your all-in cost per tonne of iron ore is $50, and someone else can do the same job for $20, only one of you makes money when the red dirt in question sells for $35 per tonne. If price stays there for too long – and who knows how long it will – the survival of the first company is at stake.

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

Foolish takeaway

In a cruel twist of maths, it's also the highest-cost company that has the most share price potential when prices swing from low to high (basically because it's almost worthless at low prices, so there's nothing other than upside from there). But it's no way to invest for someone with a long-term perspective. Speculate, sure. Gamble, yes. But not invest.

In the short term, commodity prices will trump everything when it comes to returns for investors. But over the long term, it'll be quality that rules the roost.

It's no surprise, then, that the big, established names make the short list – BHP and Rio Tinto in iron ore, for example. But not always. Evolution Mining has turned itself into a quality gold mining operation, showing up some of the big boys in its industry.

When choosing a single company in this sector, diversification helps too. And that hands the win to the Big Australian, BHP.

DISRUPTIONS

We've been there before

Market volatility throws up opportunities, as it did during the tech wreck and GFC

As I write this in early March, coronavirus is at the top of everyone's concerns. But let me reassure you that we have seen this before.

In the tech wreck of 2000 and during the GFC of 2008 and 2009, many of us here at Montgomery experienced, and invested through, the kind of volatility you have experienced recently.

While a virus was not the black swan event we anticipated would roil markets, we were aware of, and warned investors about, extended index valuations, declining consensus earnings estimates, the poor performances of unicorn IPOs and a bubble in private equity. Stretched market valuations are always vulnerable to unexpected disruptions to growth, and the coronavirus has the market reappraising its expectations.

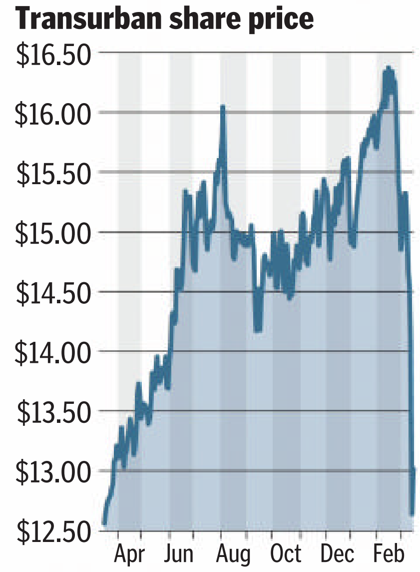
We believe a country worried about its health is much less likely to respond to financial stimulus than a country only worried about its economy. We therefore also believe investors may not respond positively to forthcoming central bank rate cuts and government fiscal stimulus. It could take some time before it is safe to be optimistic again. But the fact remains that we won't be talking about COVID-19 in five years. If you can remember that, then the worse the market gets, the more excited you should become.

It then makes sense to divide the market into two categories of opportunity. There are those companies adversely impacted by the outbreak with share prices that are even more adversely impacted. Then there are those relatively unaffected by a mild outbreak. This column looks at one company in the first category and two in the latter.

Roger Montgomery is the founder and CIO at the Montgomery Fund. For his book, Value.able, *see rogermontgomery.com.*

Sydney Airport share price

Transurban share price



Atlas Arteria share price

❶ Sydney Airport

ASX code SYD
Price $5.81
52wk ▲ $9.30
52wk ▼ $4.99
Mkt cap $13.72bn
Dividend 39¢
Dividend yield 6.4%
PE ratio 34

HOLD

Sydney Airport is Australia's busiest airport and after a 27% price decline the entity is trading where it was four years ago. The price is also back to where it was in early 2019 when fear of an adverse Productivity Commission finding about the exercise of monopoly power was high. Since then 10-year government bond yields – one of the biggest drivers of valuation – have plunged from 2% to 0.65%. Coronavirus makes near-term forecasting impossible, but the information vacuum also potentially presents an opportunity.

❷ Transurban

ASX code TCL
Price $13.02
52wk ▲ $16.44
52wk ▼ $10.78
Mkt cap $34.57bn
Dividend 61¢
Dividend yield 4.8%
PE ratio 156

BUY

Transurban owns the rights to charge a fee on every commercial and private vehicle that travels on Australia's busiest roads. When Warren Buffett was a child watching the passing traffic from his friend Bob Russell's veranda, he is reported to have said to his friend's mother, Evelyn: "All that traffic, what a shame you aren't making money from all the people going by." With Transurban it doesn't matter whether cars are electric, hybrid, hydrogen or internally combusted, investors are insulated with growth that comes from tariff increases.

❸ Atlas Arteria

ASX code ALX
Price $6.10
52wk ▲ $8.54
52wk ▼ $5.62
Mkt cap $5.36bn
Dividend 30¢
Dividend yield 4.9%
PE ratio -

HOLD

Atlas owns a stake in France's Autoroutes Paris-Rhin-Rhône (APRR), a 2300km network of toll roads in the east of the country that acts as a freight route to Germany, Switzerland and Italy and links Paris and Lyon with the French Alps. Atlas also has ownership in three other toll roads in Europe and the US. Coronavirus may dramatically reduce kilometres travelled – I note some transport in China declined more than 70% during that country's lockdown – but this too will pass and should the share price overreact aggressively investors might be mistaken if they ignore the opportunity.

Prices as at close of ASX business, 13-March-20.

Called to account

Investors, as well as auditors, need to ensure that companies are doing the right thing

STORY TOM RAVLIC

As a shareholder, you can't look over the day-to-day work of managers in the companies you're investing in. This is where auditors come into the picture. Their role is to make sure managers are not misbehaving, which is why it's sound advice to take company audits into account before making your next investment decision.

So what does an auditor do and how exactly can an audit help you in deciding which companies you should invest in and which you should steer clear of?

How an auditor can help you

Auditors fulfil a critical role in determining whether a company's financial statements comply with accounting rules and other relevant laws. They will also look at the riskier parts of a business and look at a sample of transactions.

This boils down to auditors making sure the company is representing its financial state to you, as an owner, fairly. As a shareholder you're entitled to a clear explanation of what the company is saying about itself and what the auditor (that you've effectively paid for) has found.

And if you're reading an audit and find yourself caught among "audit speak" or jargon, there are two ways to clear this up.

Your first port of call should be the company's investor relations department as they're paid to handle these types of queries. A further option for shareholders who have concerns about a financial statement is to ask the auditors themselves at an AGM – last year Westpac's auditor was grilled at a 20-hour AGM last year.

What to look for

If you're reading an audit report that's accompanying a company's full financial year results – accessed either through the ASX or your stockbroker – there are a few tips about where to look for the most relevant information.

The audit report usually has the auditor's main finding or opinion at the top. But read beyond this to the "key audit matters", which cover areas the auditor has looked at more closely.

Keep a look-out for the disclaimer, too, as it can be easily missed. Auditors often declare their work is done in accordance with audit rules but, as they are not able to look at all records, it is not a complete protection against inaccuracies in accounts that may result from fraud or error.

Finally it's important to remember that an audit will only be as good as the information that management passed on to the auditor.

Measures for transparency

There is a parliamentary inquiry that is looking at the way in which auditors do their work and whether new or revised laws are required. It was sparked by regulatory concerns about audit quality, overseas inquiries into global accounting firms and allegations of conflicts of interest reported in the media.

What the inquiry's trying to achieve is more transparency for you as a shareholder.

An interim report released in February says that more detail should be published about the services an audit firm has provided a company and the length of time a firm and a specific partner has worked on a company audit. It also recommends that regulators make it clearer to people whether auditors have made significant or minor errors in an audit. Companies (and shareholders) can also expect to pay more for audit services if some of the inquiry's recommendations become law. ***M***

Tom Ravlic is a journalist, author and academic with more than 23 years' experience in reporting on politics and regulatory affairs. He has been published in The Daily Telegraph, The Sunday Mail, Crikey, The Saturday Paper *and professional journals. He is a fellow of the Institute of Public Accountants and FINSIA.*

YOUR GUIDE TO SUPER DATA

The table on this page contains data and information to help you compare superannuation funds. It showcases MySuper investment options offered by some of Australia's biggest super funds.

MySuper options are default superannuation products that employees choose or are allocated by their employers.

The performance results displayed are the annualised investment returns each MySuper option has delivered after taking account of all taxes and fees. Past performance is no indicator of future performance.

The table also lists each fund's SelectingSuper Fund Quality Rating. Funds that achieve these quality standards are designated AAA. Research was prepared by Rainmaker Information, which publishes *Money* magazine. For more info, see **www.selectingsuper.com.au**.

Best Super Funds: Top 20 MySuper – January 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
smartMonday PRIME – smartMonday – Age 40	Retail	LC	19.7%	2	11.6%	1	8.8%	5	Not Yet Rated
TASPLAN – OnTrack Build	Industry	LC	19.5%	3	11.3%	2			AAA
Virgin Money SED – LifeStage Tracker 1974-1978	Retail	LC	19.8%	1	11.0%	3			AAA
AustralianSuper – Balanced	Industry	S	16.6%	12	10.9%	4	9.3%	2	AAA
UniSuper – Balanced	Industry	S	17.2%	7	10.9%	5	8.8%	6	AAA
LGS Accumulation Scheme – High Growth	Industry	LC	16.2%	14	10.5%	6	9.0%	3	AAA
HOSTPLUS – Balanced	Industry	S	14.5%	27	10.4%	7	9.5%	1	AAA
Mercy Super – MySuper Balanced	Corporate	S	15.9%	15	10.3%	8	8.7%	7	AAA
Mine Super – Aggressive	Industry	LC	17.2%	8	10.2%	9	8.2%	15	AAA
Telstra Super Corporate Plus – MySuper Growth	Corporate	LC	16.8%	11	10.1%	10	8.3%	13	AAA
BT Business Super – MySuper 1970s LifeStage Fund	Retail	LC	17.5%	5	10.1%	11	7.4%	39	Not Yet Rated
First State Super Employer – Growth	Industry	LC	14.8%	26	10.1%	12	8.1%	16	AAA
BT LS Employer – BT MySuper Lifestage 1970s	Retail	LC	17.5%	6	10.0%	13	7.3%	42	Not Yet Rated
Australian Ethical Super Employer – Balanced (accumulation)	Retail	S	17.9%	4	10.0%	14	8.1%	18	Not Yet Rated
Qantas Super Gateway – Glidepath Take-Off	Corporate	LC	7.9%	67	10.0%	15			Not Yet Rated
Sunsuper Super Savings – Lifecycle Balanced Pool	Industry	LC	14.2%	35	9.9%	16	8.6%	8	AAA
Media Super – Balanced	Industry	S	14.3%	30	9.9%	17	8.5%	11	AAA
Mercer CS – Mercer SmartPath 1974-1978	Retail	LC	16.8%	10	9.9%	18	7.7%	32	AAA
ANZ SCSE – ANZ Smart Choice 1970s	Retail	LC	16.9%	9	9.9%	19	7.7%	30	AAA
QSuper Accumulation – Lifetime Aspire 1	Government	LC	14.3%	31	9.9%	20	8.5%	10	AAA
SelectingSuper MySuper/Default Option Index			13.7%		9.2%		7%		

Rankings are made on returns to multiple decimal points.

SelectingSuper Benchmark Indices – Workplace Super

INDEX NAME	Performance to January 31, 2020		
	1 year	3 years (%pa)	5 years (%pa)
SelectingSuper Australian Equities	23%	11%	9%
SelectingSuper International Equities	18%	12%	9%
SelectingSuper Property	15%	10%	9%
SelectingSuper Australian Fixed Interest	8%	4%	3%
SelectingSuper International Fixed Interest	7%	3%	3%
SelectingSuper Cash	1%	1%	1%

Source: www.selectingsuper.com.au and Rainmaker Information

DATABANK

WHAT THEY MEAN

Performance after fees: When calculating fees, Rainmaker assumes a member has $50,000 in their account.

Strategy: Some MySuper products invest your superannuation based on age and are known as lifecycle funds (marked LC). The table includes the LC option for 40-year-old members. Non lifecycle funds are known as single strategy (S).

Rank: Funds are ranked against all MySuper investment options available in Australia.

Indices and averages: To produce these indices, Rainmaker analyses the results of more than 3300 investment options.

SELECTING SUPER AAA QUALITY
INDEPENDENT RESEARCH CONDUCTED BY RAINMAKER INFORMATION

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	$4785m	19.0%	15	8.3%	14
QIC Growth Fund	QIC0002AU	0.50%	6/03/2002	$4605m	12.3%	49	6.4%	34
Vanguard Balanced Index Fund	VAN0108AU	0.29%	20/11/2002	$4223m	15.9%	31	7.1%	26
Vanguard High Growth Index Fund	VAN0111AU	0.29%	20/11/2002	$2545m	22.1%	4	9.5%	6
Vanguard Conservative Index Fund	VAN0109AU	0.29%	20/11/2002	$1914m	12.2%	50	5.7%	44
AVERAGE*		0.74%		$558m	13.9%	81	6.5%	71

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	$11,906m	24.8%	47	9.4%	53
Fidelity Australian Equities Fund	FID0008AU	0.85%	30/06/2003	$6084m	22.8%	63	9.7%	48
Investors Mutual Australian Share Fund	IML0002AU	0.99%	30/06/1998	$2936m	15.1%	107	7.4%	87
Dimensional Australian Core Equity	DFA0003AU	0.31%	3/07/2006	$2724m	21.7%	73	10.4%	40
Bennelong ex-20 Australian Equities Fund	BFL0004AU	0.95%	2/11/2009	$2653m	28.3%	13	15.4%	5
AVERAGE*		0.79%		$582m	22.7%	117	9.9%	102

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	$14,767m	28.4%	43	12.7%	33
Magellan Global Fund	MGE0001AU	1.35%	1/07/2007	$11,180m	33.1%	13	14.8%	9
MFS Global Equity Trust	MIA0001AU	0.77%	24/04/1997	$6306m	30.2%	23	13.4%	22
Antipodes Global Fund	IOF0045AU	1.20%	31/07/1994	$4129m	9.4%	129	12.1%	45
iShares Wholesale International Equity Index Fund	BGL0104AU	0.20%	31/10/1999	$4006m	28.5%	41	12.9%	30
AVERAGE*		0.92%		$723m	24.3%	132	11.9%	90

Top 5 Multi Sector funds by 5-year return %pa

Name	APIR code	Mngmnt fee (%pa)	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Fiducian Ultra Growth Fund	FPS0014AU	1.45%	1/09/2008	$185m	22.2%	3	10.8%	1
Perpetual Split Growth Fund	PER0066AU	1.16%	31/03/1999	$48m	19.9%	11	9.7%	2
IOOF MultiMix Growth Trust	IOF0097AU	0.96%	29/04/2008	$657m	20.7%	8	9.6%	3
Fiducian Growth Fund	FPS0004AU	0.99%	1/02/1997	$127m	21.8%	5	9.6%	4
MLC Wholesale Horizon 6 Share Portfolio	MLC0397AU	0.95%	1/07/2001	$240m	22.3%	1	9.5%	5
AVERAGE*		0.74%		$558m	13.9%	81	6.5%	71

Source: Rainmaker Information. Data sourced as at January 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
Bennelong Concentrated Aust Equities	BFL0002AU	0.85%	30/01/2009	$831m	31.4%	3	18.4%	1
Fidelity Future Leaders Fund	FID0026AU	1.20%	22/07/2013	$327m	27.8%	16	17.1%	2
Macquarie Australian Shares Fund	MAQ0443AU	0.60%	28/11/2005	$124m	25.1%	35	16.0%	3
Bennelong ex-20 Australian Equities Fund	BFL0004AU	0.95%	2/11/2009	$2653m	28.3%	11	15.4%	4
Australian Unity Platypus Aust Equities	AUS0030AU	0.76%	28/04/2006	$128m	33.2%	1	15.4%	5
AVERAGE*		0.79%		$618m	22.5%	110	9.7%	98

Top 5 International Equities funds by 5-year return %pa

Name	APIR code	Mngmnt fee (%pa)	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Hyperion Global Growth Companies Fund	WHT8435AU	0.70%	1/06/2014	$155m	33.2%	10	21.1%	1
Evans and Partners International Fund	ETL0390AU	1.25%	18/02/2014	$54m	41.8%	2	16.8%	2
Franklin Global Growth Fund	FRT0009AU	1.13%	1/10/2008	$216m	37.0%	3	16.5%	3
T. Rowe Price Global Equity Fund	ETL0071AU	1.18%	15/09/2006	$2948m	30.1%	24	16.1%	4
Walter Scott Global Equity Fund	MAQ0410AU	1.28%	28/02/2005	$3565m	28.0%	46	15.3%	5
AVERAGE*		0.92%		$733m	24.2%	130	11.8%	89

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
Evans and Partners International Fund	ETL0390AU	1.25%	18/02/2014	$54m	41.8%	1	16.8%	5
Franklin Global Growth Fund	FRT0009AU	1.13%	1/10/2008	$216m	37.0%	2	16.5%	6
Apostle Dundas Global Equity Fund	ETL0344AU	0.50%	31/08/2012	$844m	35.6%	3	13.7%	25
C WorldWide Global Equity Trust	ARO0006AU	0.99%	31/05/1997	$283m	35.5%	4	14.4%	19
Zurich Unhedged Global Growth Share Fund	ZUR0581AU	0.98%	31/08/2009	$383m	34.5%	5	14.5%	16
AVERAGE*		0.82%		$673m	21.0%	309	9.6%	255

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
MLC Inflation Plus - Conservative Portfolio	MLC0921AU	0.75%	1/10/2013	$277m	4.8%	324	3.2%	262
Allan Gray Australia Stable Fund	ETL0273AU	0.25%	30/06/2011	$347m	5.7%	323	6.2%	221
INVESCO Global Targeted Returns Fund	GTU0109AU	0.95%	28/02/2015	$1727m	5.7%	322		
Janus Henderson Global Natural Resources Fund	ETL0331AU	1.10%	1/07/2012	$71m	6.4%	321	6.3%	220
Schroder Real Return CPI Plus 3.5%	SCH0096AU	0.60%	31/05/2015	$39m	6.5%	320		
AVERAGE*		0.82%		$642m	21.1%	324	9.6%	262

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.

"The worst investment decision I've made is my children"

Claire Hooper

Over the past decade, comedian Claire Hooper has brought the house down at comedy clubs and festivals across the country. She's gone from being nominated for the Melbourne Comedy Festival's Best Newcomer Award to hosting the festival's 2019 Great Debate. A born storyteller with a sharp wit, Claire has co-hosted Foxtel's *The Great Australian Bake Off* since 2015 and is the former host of ABC's personal finance program *The Pineapple Project*.

What was your first job?

I worked at my parents' garden centre from age 13. They started me on weeding and I worked my way up to the cash register and running kids' gardening classes. I did that job on and off till I was 28 because the first few years of comedy can be lean.

What's the best money advice you've received?

I will always be grateful to the mortgage broker who explained offset accounts to me for the first time.

What's the best investment decision you've made?

Buying my first house at 26. I only bought a house because my 19-year-old brother did and I thought I'd better catch up. It was in Perth before the boom and what I made on that place in the two years I owned it was more than I earned by working.

What's the worst investment decision you've made?

My children.

What's your favourite thing to splurge on?

Taking my kids out. I take them to the theatre, circus and fairs, and live vicariously off their enjoyment. I am absolutely ruining their adult lives – it's going to be such a letdown to grow up.

If you had $10,000 where would you invest it?

I reckon it's time to cover my enormous roof in solar panels. The investment will pay off in the apocalypse.

What would you do if you had only $50 left in the bank?

I'd call around friends who run rooms and beg for gigs. The comedy world doesn't get too hung up about begging for work. We all go through cash flow problems at some point in our careers.

Do you intend to leave an inheritance?

Absolutely. But only because I'm budgeting my super to last till I'm 120 years old and there's a good chance I won't last that long.

What's one of life's luxuries you couldn't live without?

Coffee. When I was hosting ABC's *The Pineapple Project*, the one question that kept getting asked was, "Do you know how much your daily coffee adds up to over a year?" And I was like, great question, but maybe daily happiness is more important than an overseas holiday.

Finish this sentence: money makes ...

... me work hard. And vice versa.