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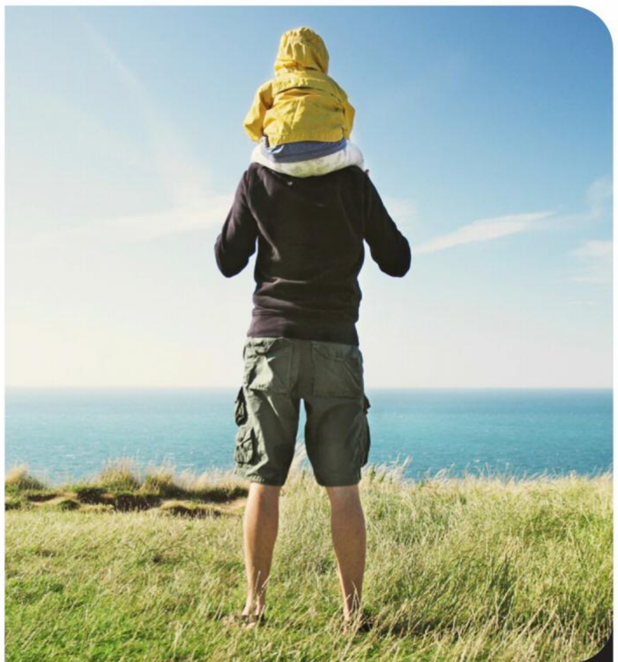

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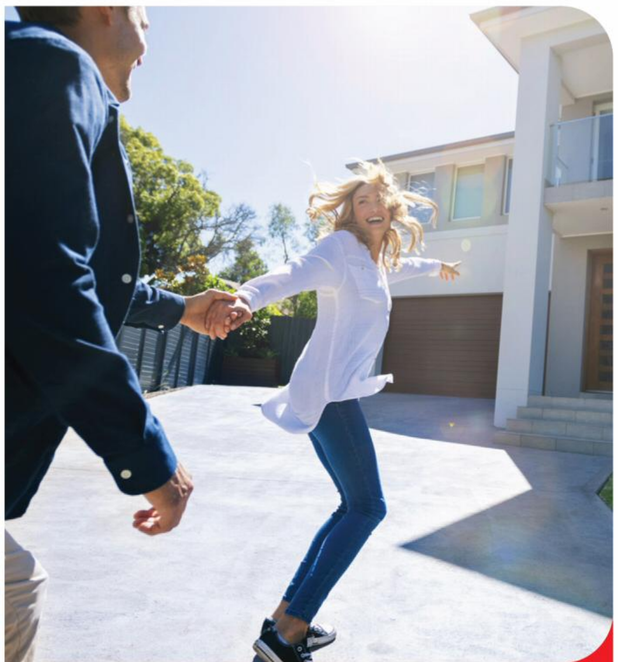

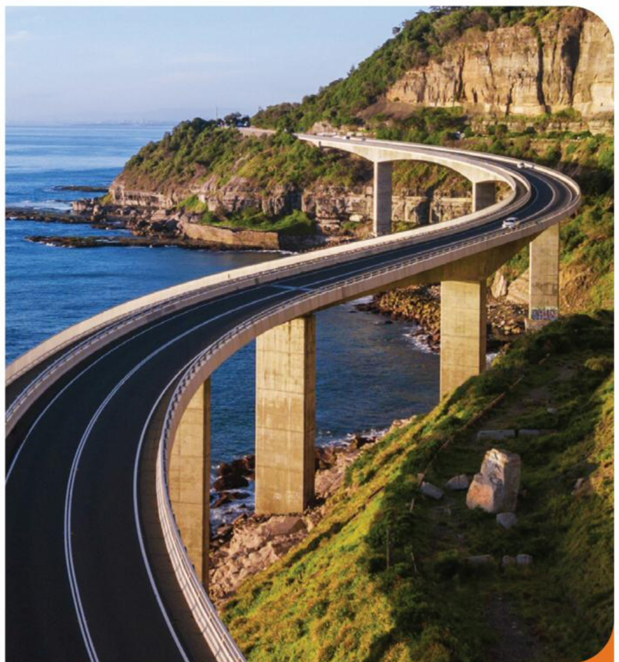

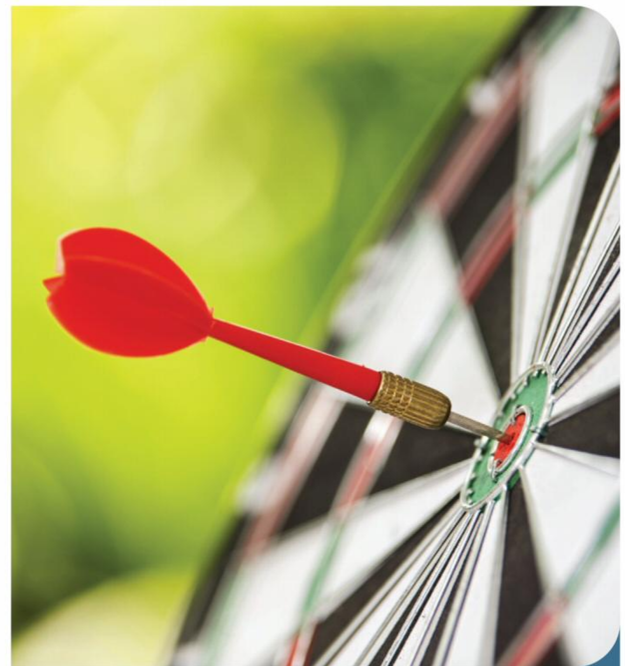

SUBSCRIBE TO *MONEY* $74.99 FOR 13 ISSUES PAGE 15

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EDITOR'S DESK

Don't give up the big dreams

Should you ditch your plans to start a new business, change jobs or buy a house because of the recession? Put your big projects on review, sure, but keep your eyes open for opportunities that wouldn't have come up if not for Covid-19 – and there are plenty of them out there.

Just last month, one of the big banks decided to reduce its lenders mortgage insurance (LMI) cost to just $1 for eligible first-time home buyers. That's even cheaper than buying a chocolate bar these days and I bet it wouldn't have happened if we didn't have a crisis that forced us to re-evaluate the way home loans are structured and what would work for consumers.

It's not so much that LMI costs a buck but it sends a strong signal to the banking sector that radical changes are possible to keep businesses buoyant and the economy afloat. It's a win for banking customers and you can find out more about how LMIs work in this issue (page 54).

The tax office has also relaxed its rules on what qualifies as home office tax deductions. I use the term "relaxed" very loosely here as there's nothing relaxing about dealing with your taxes, but considering the ATO now counts "a laptop on the couch" as meeting the guidelines of a dedicated workspace then it's definitely worth reading our work-from-home article (page 58).

In every issue, we try to come up with a mix of stories that are low-touch and high-touch in terms of the level of effort you need to put in to take advantage of the finance tips and money-saving ideas. Our cover story (page 34) explores what you can do for your family to help them avoid the financial rut that could set in when money is tight. But when blood ties are involved, it pays to define the boundaries and expectations well beforehand. Turn to page 51 to avoid any drama at your next family gathering.

We hope this issue helps you get those big projects back on track.

Michelle

Michelle Baltazar,
Editor-in-chief

Feedback

Letter of the month

Good decisions, rather than gender, are the key

I've been an avid reader of *Money* for the past three years. I have the app on my phone and I don't miss an issue. Even while I was travelling solo around Europe for three months last year, I still read the mag.

Susan Hely's article "Secrets that end in tears" (July, page 69) struck a strong chord with me. Her article revealed her own personal story about money, family and lies, which was very hard to read.

I'm 37 and I find we are constantly told by the media that women are worse off than men financially and that especially when it comes to retirement we need to make sure we are not old and poor by topping up our super.

What I love about Susan's article is the emphasis on taking personal responsibility for our finances. Because if we get to retirement and we don't have any money or the amount of money we believe we need to fund our lifestyle in retirement, it's because we have made poor decisions along the way, not necessarily because of our gender.

Michelle

A place for humility

I've enjoyed Marcus Padley's rollicking June and July columns very much. The generosity of his advice-giving seems to know no bounds. Far be it from me to accuse him of hubris, but there was precious little in his July column to suggest that he sees any place for humility when it all works out okay. I do wonder, though, what wise nostrums he will have to pass on when he and his team inevitably find themselves guilty of a misstep in the current financial circumstances.

Patrick

Cashless society? No thanks

Interesting ideas in Darren Snyder's Buzz column in June (page 12) suggesting that we are all moving towards a cashless society and that this movement has been hastened by the banks and by restrictions implemented to combat the spread of the coronavirus.

I am one of the older members of society and

I am firmly entrenched in my long-established routine whereby I take my passbook to the bank fortnightly and withdraw money for my bills and my living expenses for the next two weeks.

I do not consider this to be a problem and will resist any attempts to make me change my routine. To date, my bank (CBA) has not contacted me about getting one of those 500,000 free debit cards. I am obviously not one in a half million.

I don't mind staying at home and the single most satisfying aspect of my daily practices is accessing the internet. I have three online share accounts including one for my SMSF, which I watch and attend to as necessary. The administrators of my SMSF are also dependent on two-way email communication to keep things up to date.

My Australian Shareholders' Association membership has provided many online opportunities to increase my knowledge in so many fields of finance and share trading and access to *Money* magazine newsletters enrich my email intake considerably.

The trader who tells me that I cannot use cash to pay for my shopping will be told that someone else will find that my money is worth having. I have been dumbfounded at the checkout when a cashless shopper waits until everything is finalised then begins a search for the magic piece of plastic that will pay for the purchase. If this is typical of the cashless ones then count me out!

Denis

CORRECTION

Our article, "Make the most of it", in the June issue (page 62) may have given the impression that pre-tax contributions of $25,000 can be made to your super in addition to the super guarantee. The total cap for all pre-tax contributions is $25,000 a year .

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Have you made any changes to your investment plans since COVID hit?

SUSAN HELY

Susan is a senior writer at *Money*. "The whipsawing of the market amidst Covid-19 is a reminder of why buy and hold can be easier than timing the market. But I was pessimistic early on in the crisis. My tolerance to risk is on the low side at my age and as journalism shrinks, so I sold out of growth assets way before the bottom and have been surprised by the bounce."

PAM WALKLEY

Pam, founding editor of *Money* and a real estate expert, says: "I'm a bit of a risk taker when it comes to investing so I don't hold much cash. As Covid-19 hit the markets I took some share profits to build cash reserves to take advantage of buying opportunities. So far, I've not seen many apart from some shares in the NAB offer to shareholders in June at $14.15 a share. So far it's been a good move."

BOB CHRISTENSEN

Bob is a senior sub-editor at *Money*. "As an amateur I've followed the advice of many of our experts and am riding the rollercoaster. Occasionally I check that no one has hacked into my accounts, but otherwise I try to block out the noise and expect that my investments will recover over time."

DARREN SNYDER

Darren is the managing editor of *Money*. "No changes here, nor any panic. My superannuation balance took a hit, sure, but I much rather super being left in the hands of investment professionals. Mortgage repayments have been maintained and there's been no need to dip into the offset. Business as usual."

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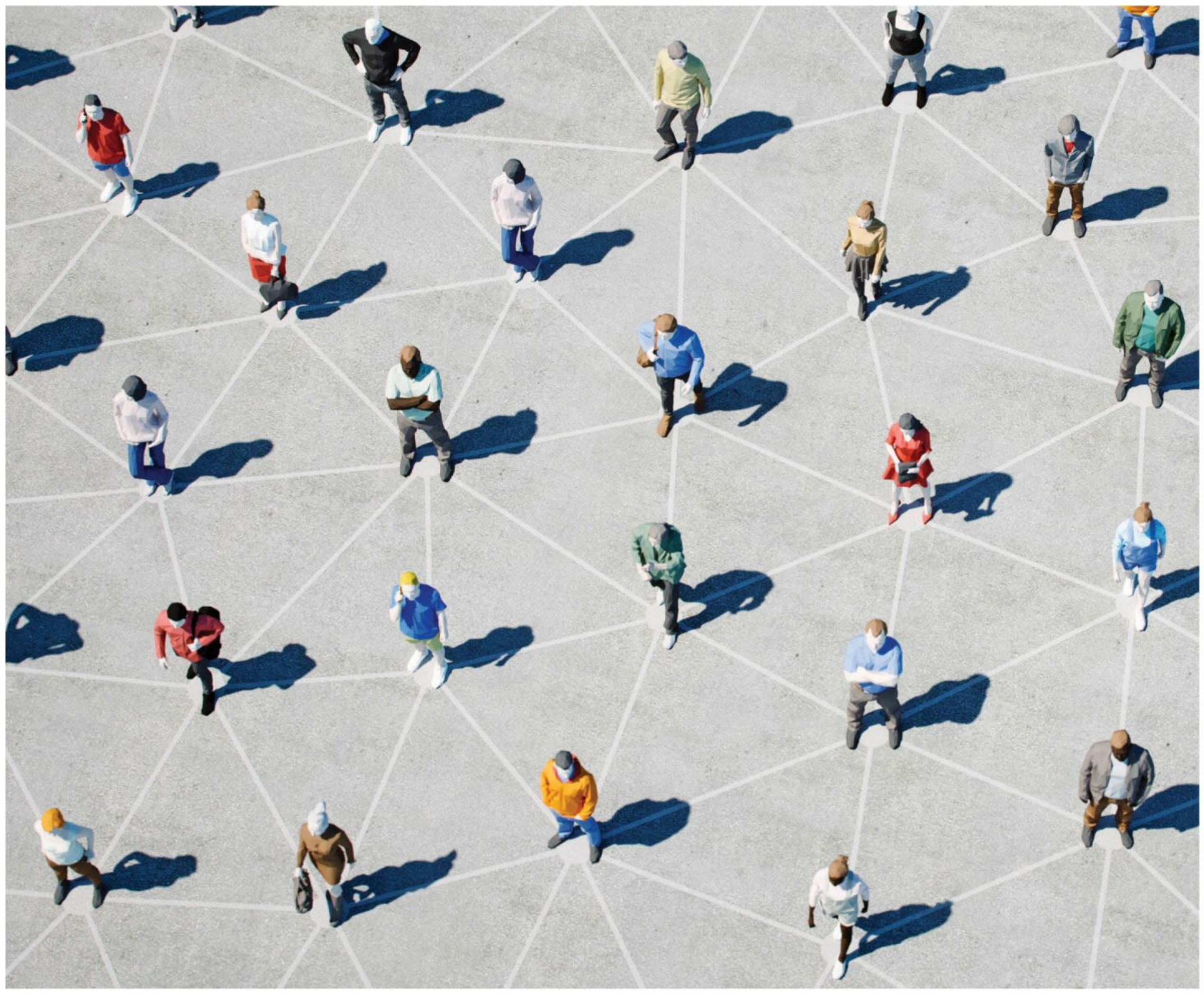
Focus on what we can control

It's time to accept the "new normal" and decide how we want to live our lives



As I write this, Victoria is experiencing lockdown once again. It's a sobering reminder of how Covid-19 continues to control so much of our lives – and the Australian economy is bracing for the repercussions.

This takes me back to when the whole country was in lockdown in March and I decided I'd keep a diary, to remember what we did and how we felt. It can be tricky to remember exactly how you felt about a past event. It was an interesting exercise.

In the early days of lockdown, I was stressed, in particular about the prospect of losing a large percentage of my super and the many years of work it would take to make it up, if at all. I also started making big plans: working on a budget; decluttering my house; selling things I no longer needed; writing another book; and keeping in touch with all my friends.

After a month or so, super had recovered a little and things were becoming more routine. But I never did write another book, declutter or keep in touch with friends as much as I'd planned.

Learning how the government stimulus worked and what was happening on the share, property and job markets stopped me spending too much time worrying about the things I couldn't control.

And now that we're back in the office and life is heading to some sort of normal, in many parts of the country at least, I have learned that many others shared my early lockdown experience: the heightened stress, making big plans and then acceptance of the "new normal".

More change is in the air as we anticipate stimulus measures coming to an end. JobKeeper is due to expire at the end of September and how this will play out is still largely unknown. While it's uncertainty that causes volatility in the sharemarkets, the impact hasn't been as great as expected in the past month.

In early July, banks announced they will offer an extension of the deferral period for those unable to restart loan payments; there were already around 770,000 loans on deferral.

> Many people seem ready to resurrect their plans: investing in property and shares or retiring

We've been fortunate to have a better than expected economic outlook, with manufacturing data showing Australian manufacturing returned to growth, job numbers stronger than anticipated, and our tech stocks performing strongly.

Meanwhile, I've been closely following social media, particularly money groups, listening to webinars, podcasts and the like, to gauge sentiment. Many people seem ready to resurrect their pre-lockdown plans: buying and selling property and shares, retiring, perhaps with less than expected.

Then there are FIRE (financial independence, retire early) devotees who focus on disciplined investing and have no intention of being swayed from their path.

For all of us, it's a time to think deeply about the lives we live now. What can we do that will benefit us most in the long term? With the recent developments in Victoria, Covid-19 has reminded us that while certainty is rare, we have to manage with the knowledge we have to hand.

What I do know is that now is the time to focus on what we can control, and investing in our long-term financial freedom is a good place to start.

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

Introducing ATEM Mini

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

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

Create Training and Educational Videos

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

Use Professional Video Effects

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

Live Stream Training and Conferences

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

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

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NEWS & VIEWS

THE BUZZ

Students bear the brunt of widespread wage theft

More than 75% of international students studying in Australia are experiencing serious wage theft, according to a recent report. Of the 5000 international students surveyed, 77% were paid below the minimum casual hourly wage. More than a quarter (26%) earned half the minimum casual hourly wage or less. This hasn't changed since a 2016 survey was conducted.

It's a damaging assessment of our nation's employers and the financial future of these students and temporary migrant workers, many of whom may choose to permanently call Australia home.

Alarmingly, of the 3850 students experiencing wage theft, 62% suffered in silence. They didn't speak out for fear of losing their job or visa.

International students aren't the only ones susceptible to wage theft. In the past year we've seen several reputable businesses admit to underpaying staff. Industry Super Australia has reported in the past that one-third of eligible workers (2.4 million) are underpaid super each year, totalling $3.6 billion.

Some employees are aware they should be receiving higher wages (and paid super), but stay quiet for fear they're complicit in breaking the law.

The student survey shows 86% who were underpaid knew the minimum wage (currently $19.84), but 62% believed they were at fault. Three in four lacked an understanding of their rights in terms of casual loadings, penalty rates and other entitlements. More than half (56%) didn't understand their eligibility to claim the tax-free threshold (56%).

The study authors, associate professors Laurie Berg (UTS) and Bassina Farbenblum (UNSW), say Covid-19 has seen many international students lose their casual jobs. Excluded from JobKeeper and JobSeeker, many are left with no income to cover basic living expenses. "The Covid-19 shutdown has created a humanitarian crisis among international students and other migrant workers in Australia," says Farbenblum. "Many have been unable to pay their rent and joined foodbank queues."

The researchers say that the easing of restrictions will mean international students are in danger of becoming even more vulnerable to exploitation because of their desperation for work. This applies to wider Australia too.

If you're not being paid properly, are not being paid relevant penalty rates or are not being paid for entitlements such as annual leave, sick leave, long service leave or redundancy, contact the Fair Work Ombudsman on 13 13 94 or a Legal Aid office.

Darren Snyder

CALENDAR OF EVENTS

Tuesday, August 4
RBA interest rate decision

Thursday, August 6
Balance of trade

Thursday, August 13
Westpac consumer confidence

Saturday, August 15
Unemployment rate

ON MY MIND

Coping with redundancy

For people facing redundancy, it can be hard to see the opportunity amid the chaos and uncertainty. I recently reminisced with some longstanding clients, a couple who retired 10 years ago, just after the husband received a forced redundancy.

I asked what they remembered from our conversations at that time. It was not the details of our conversation they remembered but rather the feeling of relief once they got in the car after our second meeting.

But not everyone will be able to retire the way my clients did.

If you're facing redundancy, here are my top tips:

- Write out pros and cons in two distinct categories: financial and personal. Being human, we tend to overemphasise the negative aspects of change. Don't dwell on the worst that can happen.
- Make the most of your financial planner by discussing your situation as early as possible. Let the planner handle the technical stuff and help with the paperwork. Be prepared to talk openly about your goals and fears.
- Find a way to be physically and emotionally healthy. It's not all about the money.

Lachlan Harvey, director and financial adviser at Goldsborough Financial Services

NEWS BITES

The Metrics Direct Income Fund, a new unlisted fund that invests in corporate debt, aims to provide investors with returns of 3.25% a year above the Reserve Bank cash rate (currently 0.25%). Income is expected be paid to investors monthly and the minimum investment is $1000.

ETF Securities recently launched two exchange traded funds that allow investors to trade with leveraged exposure to the Nasdaq 100 index. The ETFS Ultra Short Nasdaq 100 Hedge Fund (ASX: SNAS) and ETFS Ultra Long Nasdaq 100 Hedge Fund (LNAS) are currency hedged and invest primarily in a portfolio of short E-mini Nasdaq 100 Futures contracts listed on the Chicago Mercantile Exchange.

Morgan Stanley Investment Management now offers two global equities funds in Australia through its partnership with fund manager SG Hiscock & Co. The Global Quality Fund invests in high-quality companies while the Global Sustain Fund uses a similar methodology but emphasises a low carbon footprint and excludes tobacco, gaming, adult entertainment, weapons, bulk commodities, fossil fuels, and gas/electrical utilities. Both funds come in hedged and unhedged versions.

Why the office will survive

Since mid-March, we have been plagued with the repeated doomsday mantra that office occupation has a terminal outlook and that working from your spare room or garage is now the norm. Here are five reasons why I have faith that most of us want to, and will, return to the office:

- Since social distancing became mandatory, Australian Bureau of Statistics research shows office-based industries are among the lowest affected and have a greater ability to resume business as usual.
- To follow the rules, offices will require a larger space between employees.
- Video conferencing should be used as a supplementary tool, not a staple. Why? Conversations are stilted due to inevitable over-speaking and interruptions as well as a reluctance to talk more freely.
- Business doesn't necessarily get done in a meeting room. Office osmosis is the crux of a healthy business.
- As a business grows, then so does the headcount. I don't believe you can effectively transfer company knowledge, train, integrate and build staff rapport and culture solely through screen time and phone calls.

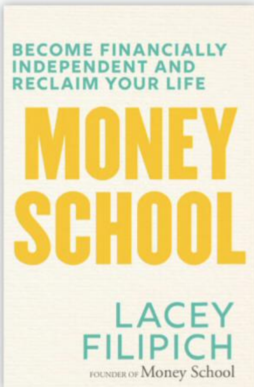
John McBain, co-chief executive, Centuria Capital

34%

of Australians want to live somewhere less populated, according to Westpac's most recent research. Another third (31%) want to live closer to parks or shops, and one in five (20%) are seeking suburbs with larger properties. Backyards and entertaining areas were also on the priority list.

NEWS&VIEWS

BOOK OF THE MONTH



MONEY SCHOOL
By Lacey Filipich
Penguin Life, $29.99

Lacey Filipich, a chemical engineer turned money guru and author, has penned *Money School* as a self-help guide to achieving financial independence.

An early tip in the book – what you keep matters more than what you make – is central to Filipich's message that those on an average income can still become financially independent and time rich.

The book meanders through ways to save and how to buy assets, with case studies and practical examples. It then progresses "down the river" to explain the different paths you can take to create a financially independent or retirement fund.

Five readers can win a copy.

In 25 words or less tell us what you would want to learn at a money school. Enter online at moneymag.com.au/win or send entries to Money, Level 7, 55 Clarence Street, Sydney, 2000. Entries open on July 27, 2020 and close on August 31, 2020.

APP OF THE MONTH

FINANCIAL DICTIONARY BY FARLEX
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Brush up on your financial vocabulary with this free and easy-to-use app.

The dictionary provides you with access to more than 26,000 definitions related to investing, banking, tax and insurance, among other topics. A great feature is that you can access about 20,000 terms without an internet connection.

Other features of the app include the ability to add or delete bookmarked definitions as you please; and recent searches remain visible. You can also share definitions across social networks.

Be mindful that most definitions are American, so an Australian definition might differ slightly. For example, when you search for superannuation you are taken to the definition of pension.

If you want to turn off the in-app ads you'll have to pay a small fee. The app is created by the Farlex group, which publishes several online reference products. DARREN SNYDER

TAX TIP

Super withdrawals are in the spotlight

Were you among the estimated 2.5 million people to withdraw money from your super due to Covid-19?

In order to speed up payments the tax office did not screen applications – some people who were not eligible have obtained payment. Now the ATO is tracking those people down.

You can still request an early release of your super up to September 30, but you need to meet one of the following criteria to qualify:

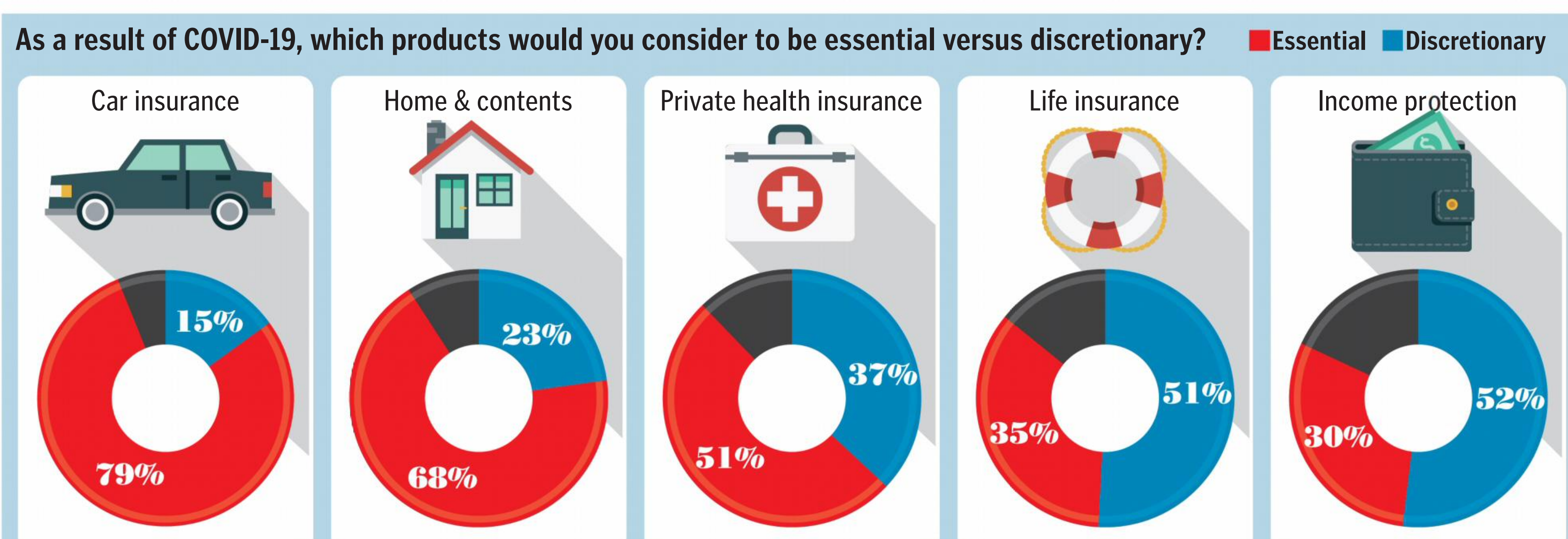
- You are unemployed.
- You are eligible for JobSeeker or other benefits.
- On or after January 1, 2020, either: you were made redundant; your working hours were reduced by 20% or more; or if you were a sole trader your business was suspended or there was a reduction in your turnover of 20% or more.

The ATO is now checking applications. If it identifies you weren't eligible (for instance, by matching payroll information from your employer with your application), it will revoke your permission to withdraw. You won't need to repay it – in fact, the ATO won't let you – but you will be taxed on the amount. You'll need to include the amount in your tax return and pay tax on it at your marginal rate.

Guidance issued by the ATO suggests it will pursue everyone who withdrew money without being eligible. As well as taxing the withdrawals, it will also apply penalties where someone has made a false or misleading statement to access their super.

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

SNAPSHOT What Aussies are doing about insurance



Source: KPMG, July 2020. The survey was conducted between May and June and included more than 2500 Australians.

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▶ MORE MONEY STORIES ON P44-53

ECOMMERCE

Big swing to digital payments

Research and analytics company GlobalData says that as Australia lifts out of lockdown, its ecommerce market will grow at an annual rate of 17.4% in 2020.

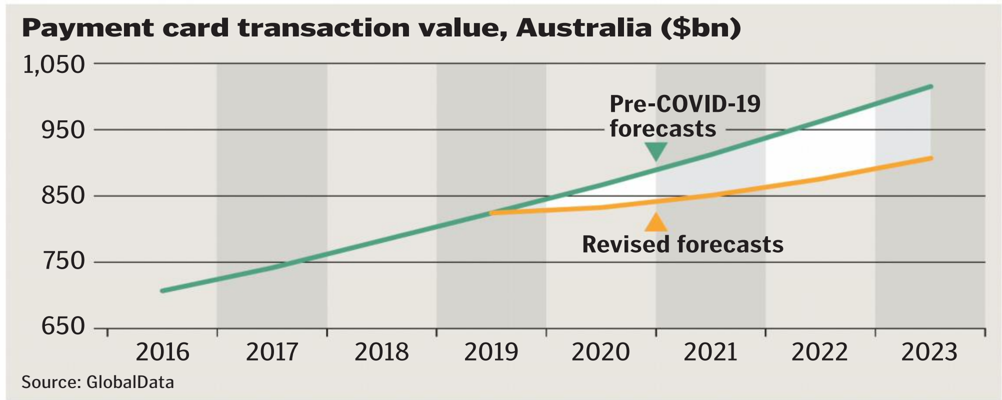
While we'll be making more transactions with debit or credit cards and mobile wallets, our overall "cashless" spending will be subdued for at least another four years (see graph).

"The gradual resumption of domestic travel and the gradual lifting of lockdown in Australia will give a much-needed boost to Australia's essential tourism sector, and consequently the payments industry, which includes card transactions, will pick up," says GlobalData.

However, the researcher expects a slower increase in the amount we spend electronically. It's predicting spending growth of 1% in 2020, compared with 5.3% in its pre-pandemic forecasts. By the time we reach 2023, the growth rate of transactions values will be 3.6% – previously predicted to be 5.2%.

Ravi Sharma, banking and payments lead analyst at GlobalData, says consumers will continue their shift from cash to digital payments, in particular non-contact tools.

"Use of contactless cards, as well as mobile wallets like Apple Pay, Google Pay and Samsung Pay, are expected to rise further in 2020. Contactless wearables, such as Fitbit Pay and Garmin Pay, will also increase in the year. "This is as consumers are moving away from in-store purchases due to the virus."



How we handle financial problems

While our money worries have heightened during the pandemic, we can find some comfort that we're also making sensible choices with our personal finances.

In fund manager Fidelity's recent Pulse Survey, 45.7% of Aussies reported their money worries had increased since the crisis. More than 63.4% say they will reduce their discretionary spending over the next six months.

Alva Devoy, managing director at Fidelity International Australia, says the pandemic has changed the way many of us live and work.

"For the more fortunate, this might provide opportunities to save or spend in a more considered way. However, for many it is causing significant worries from job security to the impact of market volatility on savings," he says.

"While we cannot predict how this current crisis will develop, there are steps individuals can take to mitigate the impact on their own finances, reduce their worries and improve their overall wellbeing. Taking a long-term view will be key."

More than half (54%) said they would reduce spending on essential items like food and clothing during the next one to six months, and this is on top of other actions such as selling shares, property or other assets. However, 26.1% said they plan to access their superannuation early in the next 12 months.

Almost one in three (29.4%) of those currently employed were worried about job security, far more than the pre-pandemic level of less than one in five (18%). This skyrockets to 45.4% among those in casual employment.

More than half of people (55.4%) said they could only last three months or less if they were suddenly made unemployed, including 16.9% who would not be covered at all.

COMPILED BY DARREN SNYDER

REPAYMENT RELIEF

Loan pause could be costly

In response to the coronavirus pandemic, Australian banks will allow you to extend the six-month pause on your mortgage repayments for another four months – provided you genuinely need the time.

However, you should keep in mind that extending any home loan will cost you in the long run.

RateCity research shows a mortgage holder who has a loan balance of $400,000 and is five years into a 30-year loan could end up paying close to an extra $10,000 over the life of the loan if they extend the deferral out to 10 months. The comparison site says this would mean an increase of $102 in your monthly repayments.

Instead of pausing mortgage repayments, RateCity suggests looking at using money in your offset or redraw, if available. You could also request a rate cut or switch to a lower fixed rate. Then there's the option of switching to interest-only repayments or reduced repayments for a time.

Sally Tindall, research director at RateCity, says the banks were doing the right thing by customers in need, but it is important for people to understand the long-term implications of a repayment pause.

"The reality is that thousands of families will have no choice but to keep their home loan on hold," says Tindall. "If that's you, try to come up with a plan to pay the money back after the pause to get your mortgage back on track. Repayment pauses should only be used when other avenues have been exhausted. "Talk to your bank about what other options you might have, including a rate reduction or reduced repayments for a limited time. When it comes to paying off your mortgage, every dollar makes a difference."

Sentiment sags in Melbourne

Victoria's return to lockdown in early July has raised more questions about its real estate markets. Tim Lawless, research director for Asia Pacific at CoreLogic, says the implication was that the renewed measures included a ban on on-site auctions and open home inspections.

"Over the previous lockdown period, which was in place between late March and mid-May, housing market activity was significantly disrupted," he says. "The previous lockdown period saw real estate agent activity across Victoria slump by almost 70% before gradually improving post-Easter, with a sharp rise in activity once lockdown policies were eased around mid-May."

Home values in Melbourne started to trend lower in April, recording a 2.3% drop during the June quarter. This was the largest decline to date across the capital cities through the Covid-19 period, says Lawless. Consumer sentiment, which is highly correlated with housing activity, was already lower in July due to the acceleration in Victoria's virus curve, and "will likely fall further as consumers react negatively to the economic and social implications of the lockdown along with increased uncertainty".

Lawless says the Melbourne downturn has been mild to date, and values continued to fall after restrictions were first lifted amid rising market activity. "A return to a shortage of advertised supply should help to insulate home values from material declines, as will persistently low interest rates, ongoing government stimulus and forbearance measures for distressed borrowers which will help to keep urgent sales off the market," he says.

"Once the restrictions are lifted in six weeks' time there is likely to be a level of pent-up demand which will see housing activity improve, as it did previously when social distancing measures were relaxed or lifted."

▶ MORE PROPERTY STORIES ON P54-59

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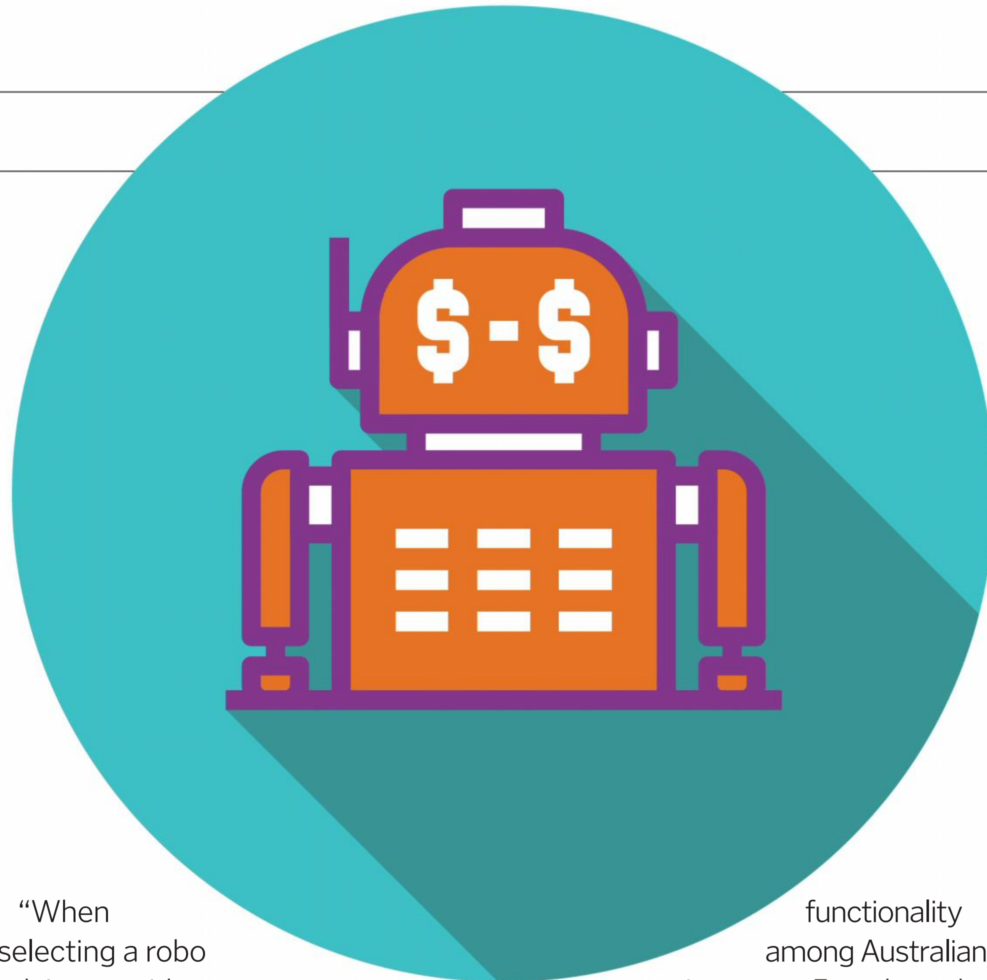
INVESTING

ONLINE TRADING

Robo advisers win over more women



Robo advice is seeing greater popularity and engagement with women online investors across the world, according to a recent Investment Trends study.

Surveying more than 20,000 online investors across Australia, the US, the UK, Spain, Germany, France, Singapore and Hong Kong, the researcher found 29% of women in the US use robo advisers compared with 22% of men. In Australia, women online investors are more likely to consider using robo advisers than men (40% versus 36%).

Recep Peker, research director at Investment Trends, says robo advisers that intend to satisfy the strong demand from women will do well.

"When selecting a robo advice provider, women online investors are more likely than men to prioritise the user interface (55% versus 49%) and education initiatives (40% versus 34%), but are less likely to focus on fees (41% versus 53%)," says Peker.

While Australia remains behind established markets like the US when it comes to the adoption of robo advice, providers like Raiz, a micro-saving and investing app, have gained significant traction with more than 200,000 active customers nationwide.

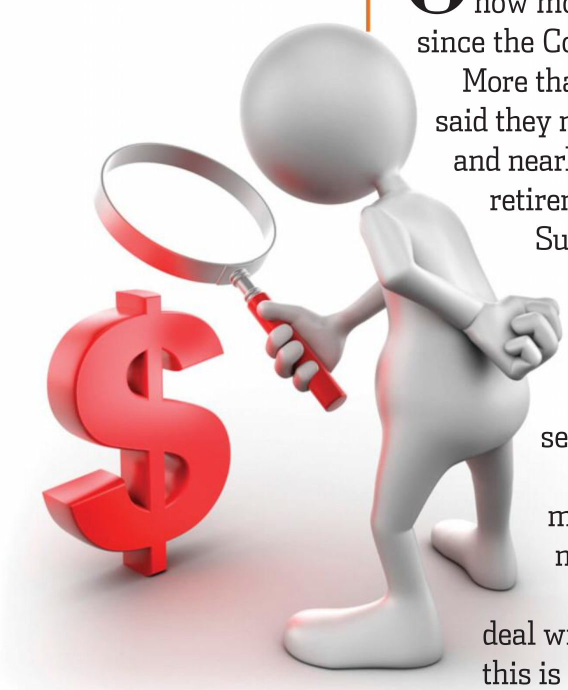
"Raiz's popularity highlights the appeal of micro-savings functionality among Australian investors. For other robo advice providers, brand awareness appears to be an issue, with less than 12% of Australian online investors saying they are aware of providers like Stockspot, Spaceship Voyager, Clover or Six Park," says Peker.

"Nonetheless, there is significant scope for growth, with 38% of Australian online investors considering using robo advice in the future.

"The recent launch of solutions like CommSec Pocket and Vanguard Personal Investor gives Australians greater access to low-cost, diversified portfolios."

▶MORE INVESTING STORIES ON P60-71

Pandemic puts the focus on super



One in two Aussies surveyed by KPMG say they are now more aware of their superannuation balances since the Covid-19 crisis began.

More than half (57%) of the 2500 people surveyed said they needed to review their investments in super, and nearly half said they had had their savings and retirement plans interrupted by the pandemic.

Super members are also demanding more from their funds in term of offerings.

More than 70% said they expected greater flexibility in products and services on offer while a majority wanted better service and value for money.

Linda Elkins, head of asset and wealth management at KPMG, says super funds do need to increase engagement with members.

"Nearly two-thirds expected to be able to deal with their super provider wholly digitally and this is an area which many funds are addressing, but they need to focus on operational improvements even more to meet expectations," she says.

"A majority said financial advice from their super provider was important, but only a third were willing to pay for it, so this leaves funds in a difficult position at a time when there are liquidity challenges, falling investment returns and early access withdrawals.

"These pressures, combined with heavier regulatory demands, will increase the likelihood of more fund mergers to achieve greater scale."

Tim Thomas, partner at KPMG financial services strategy, says a community focus on improving the affordability and accessibility of financial advice presents a big opportunity for advice organisations. He says these organisations must respond to customers' shift in mindset to engage financial planners through a hybrid of face-to-face and digital interactions, and this "should go some part to reducing the cost of advice delivery without compromising on its quality".

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SHARES

▶MORE SHARES STORIES ON P72-85

GLOBAL OUTLOOK

US is out, Europe is in

BlackRock, the largest fund manager in the world, downgraded its position in US shares to neutral in early July. This means it doesn't see any major increase or decrease in US shares for the next six to 12 months, and some of its investment portfolios will be adjusted to suit.

A research paper filed by the BlackRock Investment Institute on July 6 says US shares have had a strong run, but this is likely to slow amid surging Covid-19 cases and risks of financial stimulus fading.

"The resurgence of Covid-19 cases in the US threatens the restart of [economic] activity, and has prompted us to downgrade US equities to neutral over our six- to 12-month tactical horizon," it says.

BlackRock, which manages more than $US7 trillion ($10 trillion) globally, says the general quality of companies in US sharemarkets meant it wasn't prepared to downgrade its investment position to negative.

"US stocks have outperformed in 2020, with a sharper recovery from the troughs of late March. This follows a multi-year stretch of outperformance of US equities, driven by strong earnings growth as well as investor preference for tech and quality stocks," it says.

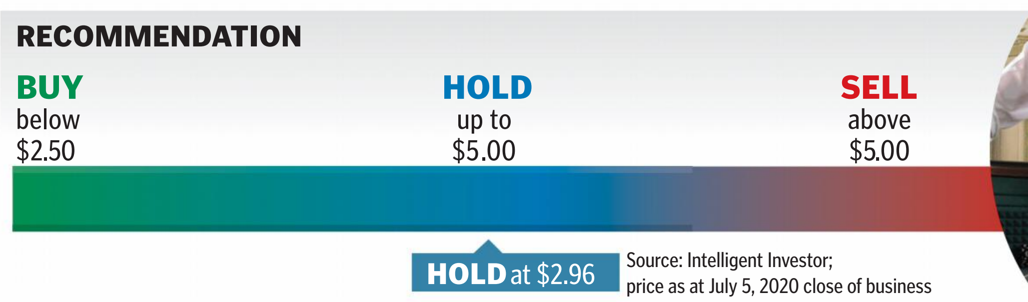
"We now see a risk of more muted performance in line with global equities. New Covid-19 cases in the US have been surging. This is potentially setting the US on a very different activity restart path than most western countries and much of Asia."

Whether or not US state governments reimpose lockdowns, individuals may respond by reducing their mobility. BlackRock views mobility as an indicator of activity as economies restart, and a failure to contain the virus will threaten the US restart.

"We prefer European equities, which we have upgraded to a tactical overweight. The region offers more attractive cyclical exposure than emerging markets due to its public health measures and ramped-up policy response, in our view."

HOLD Star Entertainment (SGR)

The Intelligent Investor Graham Witcomb



Source: Intelligent Investor; price as at July 5, 2020 close of business

Star's casinos have re-opened and regulatory clarification provides extra security. Sydney reopened on July 1 and Queensland casinos on July 3. Sydney has been operating since early June but was restricted to fewer than 900 by-invitation-only guests.

Since the reopening, the Star Sydney, which accounts for nearly two-thirds of the company's revenue, is allowed a maximum of 5000 patrons. The casino has 1490 poker machines and 140 table games, so the new limit will mean there is space for every seat to be filled.

Nonetheless, we don't expect it to get back to its pre-Covid level of 30,000 guests a day anytime soon. Management has said that based on historical visitation patterns, "spatial distancing measures and capacity limits are expected to constrain visitation and revenue during peak periods". With a loss of VIP revenue and foreign visitors, we think it's reasonable to assume a 20%-plus drop in revenue this year.

On a brighter note, Star and its joint venture partners secured $1.6 billion in project funding for Queen's Wharf Brisbane, ensuring it can go ahead as planned. It also recently received clarification from the NSW government that if Crown Sydney installs poker machines at any time before The Star's exclusivity agreement ends in 2041, it would receive financial compensation.

Star trades on a forward price-earnings ratio of around 35 based on consensus estimates for 2020 earnings, but less than half that if we look a couple of years out when border restrictions may have been lifted in time for the new Brisbane casino to open. The stock is up 35% since we upgraded it to a buy in March. With its formidable competitive advantages and long-dated licences, we recommend you HOLD.

Graham Witcomb is a senior analyst at Intelligent Investor.

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EAMON GALLAGHER

STORY JULIA NEWBOULD

Power of paper profits

There was a time in our not too distant past, before we collectively became bakers of sourdough bread, when toilet paper was the most sought-after commodity in the nation. And as we write this story in late June, toilet paper sales are again on the rise.

During the first wave of Covid-19, subscription toilet paper company Who Gives A Crap found its website overwhelmed with requests from new customers as it struggled to meet the increase in demand. The socially conscious company has now been around for eight years, with the founders still hands-on and driving the now global business.

The Who Gives A Crap story began when the three founders – Simon Griffiths, Danny Alexander and Jehan Ratnatunga – realised that 2.5 billion people didn't have access to a toilet.

There are health benefits in, first of all, having a toilet and then making sure waste that should go into the sewer is not polluting clean water.

"Globally, unclean water is the second largest killer of kids under five," says Griffiths.

The founders ensured their business plan was underpinned by the social impact of the company – and that commitment turned into donating 50% of profits to building toilets for those in need. The business model also included all products being made in an environmentally friendly way.

Money versus happiness

Griffiths figured out early in his career that he was most miserable working in his highest paid job.

"I was 21 and had enough experience to figure out that money and happiness were not correlated, so the focus became, 'Why am I less happy in this job than other jobs?' And it was because I was not able to unlock my full potential – I wasn't really passionate about what I was working on. If I'm going to optimise work for happiness, it's to work on problems that I care about," he says.

That's how the focus on social business came about. No one was thinking about social businesses in the way Griffiths thought they should. This meant there was no ability to join another company – and that's when the founders realised they had to create their own business.

Not having a wealthy family to support him, Griffiths looked at how he could best support himself while starting up Who Gives A Crap. The highest hourly rate he could earn with his current skill set was tutoring. He tutored nights so that he could have a 40-hour work week for his own business.

"While not from a wealthy family, I acknowledge that as a white male growing up in Australia, I do come from a privileged background, which has made it easier for me to take risks," says Griffiths.

He was lucky and was street-cast in a Tourism Victoria ad, and then when the business started he was able to do public speaking, which had

Fact file

Simon Griffiths

Simon Griffiths, chief executive, Who Gives A Crap; age 37; married with two children under five; lives on Victoria's Mornington Peninsula.

Studied engineering and economics. Traded in a secure job to start a social venture that took off after he sat on a toilet for 50 hours. Who Gives A Crap was Simon's third foray into a social venture. Kenya, where a lot of innovation in sanitisation is occurring, has special meaning to Simon: three of his beneficiaries are based there. If he has spare time he likes to surf, mountain-bike and garden.

an even higher hourly rate, so he could put his time and energy into the business.

Griffiths has always been the chief executive but his role has changed a lot over the course of the business. In the beginning he was the only one working in a full-time capacity.

Marketing the product

Who Gives A Crap started with a crowdfunding campaign in 2012.

"There were six crowdfunding campaigns on the day we launched ours. We realised we were selling one of the most boring products in the entire world," says Griffiths. "One of the guys had the idea of filming our crowdfunding video of me sitting on the toilet in our warehouse apartment until we pre-sold $50,000 worth of product. Fifty hours after that we went viral with 2.5 million media impressions and we sold product to the first 1000 customers."

At the time, the company was just selling to Australia and the US, and was trying to gauge which would be the better market. The campaign was shared twice as often in Australia as in the US, and it was leading to three times the sales rate in Australia than in the US.

"Not only were we more likely to be shared in Australia, but we also had a higher conversion rate," says Griffiths.

This was a surprise. "We thought ecommerce was much stronger in the US and buying toilet paper on Amazon was not unfamiliar, while in Australia it was totally abnormal."

After the results, Griffiths says the business decided to focus on Australia as its first market and then launch in the US after it had built up a stronger and better business.

Two markets at once

In 2017, Who Gives A Crap was launched in the UK and again in the US.

"We still believe it is one of the best things we ever did. If we launched one market then we'd think that the other would be better," says Griffiths.

"We learnt a big lesson – that you need to reach critical mass before business picks up momentum and naturally gets bigger, which is easier to do in smaller markets – 1000 people is a larger proportion in a smaller market. That happened in the UK, but it took longer to reach that point in the US."

Australia remains the biggest market. Most of the revenue now comes from overseas, but Australia accounts for 40% of sales now and the UK and US are each 30%. Australia now has a slower growth rate as it's a more mature market, says Griffiths

Currently, Who Gives A Crap is manufactured in five regions in China to ship globally to all markets. There are also warehouses in Australia to reduce shipping.

"One of the big things we've learned is that relationships are really important, especially in China, and they take an incredibly long time to build up. The production partner today is the same one I first met almost 10 years ago. We've had a big influence in their business and they've grown with us," says Griffiths.

When it comes to distribution, the UK and Australia are quite similar in parcel freight (Australia Post and Royal Mail). The US is different, though, with USPS, FedEx, UPS, and regional offerings. It's also regulated differently state by state, so the way to do business there is different from what they've experienced in Australia and the UK.

The Covid-19 crisis

Selling out of toilet paper, seeing huge volume spikes and having more than half a million people on waiting lists put enormous stress on the business.

"During March, 5% of all Australians [all age groups] visited our website and when we look at what happened when we sold out – we had a back-in-stock email that more than 600,000 customers had signed up for. We had challenges working with volumes that big," he says.

"We have a lot of data that we look at, and we saw in the press that Hong Kong was running out of toilet paper, then Singapore and Japan. We thought there was no way that could happen in Australia and yet it did.

"In the space of three days the demand grew exponentially. On March 2 orders increased 300% and on March 3, 1100%, then 20 times and 30 times and 40 times as much as a regular sales day. Our systems couldn't cope with that level of fluctuation."

They had enough inventory for clients in Australia and for hotels. In the US and the UK, demand was a little above normal, but not hugely.

But when the news about panic buying in Australia hit, the UK daily demand rose three to four times before supplies ran out.

Griffiths had to remind the team that they are in "the business of delight".

"When we sold out of toilet paper, if we were just a toilet paper company we would have had no toilet paper to sell. We took a step back and said we're in the business of delight so what would we do? We took out a full-page ad that read, 'Have you run out of toilet paper? We have too. We have printed this page for you to use.' This created delight."

His other big lesson from Covid-19 is that honesty is always the best policy.

"When doing something no one has ever done before you'll always make mistakes and you have to be open and honest with them. So, with customers, you have to let them in on the truth. We're actually a bunch of humans trying to run a business. Things don't always go perfectly so customers will forgive us for lumps and bumps," he says.

"It meant that we had to come back to our purpose. When our business is good, we're all sailing to the same star and when the going gets tough we are anchored through this."

Who Gives A Crap was back online in early May in the UK and mid-May in Australia and the US.

"I think we probably saw a 40% increase in sales globally from February to March and that's been sustained through April and this will be a step-change going ahead," says Griffiths.

Figures for May 2020 were double those for December 2019 figures and three times more than those for May 2019.

A silver lining

For Who Gives A Crap, to have that sort of an increase month on month and be sustained

over time allows it to make a better donation to its partners.

In June, it made its biggest donation so far – $5.85 million for the financial year, which brings the total donations to date to about $8.38 million. The company had already donated $100,000 in March to four of its partners to run Covid-19 specific programs.

Part of the success is attributed to investing in growth in addition to some strong sales months with very little marketing, says Griffiths.

He believes the company would be successful without the social impact, but it would not have achieved the scale it has without the "special sauce".

"When we look at what happened in March, there were thousands and thousands of media mentions, and pretty much all of them said, if you're looking for toilet paper look at these guys, they donate 50% of their profits," he says.

EAMON GALLAGHER

In the business of creating delight ... Simon Griffiths

He credits the power of purpose as one of the reasons for the tightness of the team. "As a business, purpose is at our core, part of our DNA and we would not be as successful without that," he says.

The working-from-home environment was nothing new for Griffiths' team. "In a way it was like we've been training for this moment for six years and now's our time to shine."

While the team value face-to-face interaction, they realised they didn't have to be in the office together 40 hours a week.

"We looked at what else was important to us. Benefits are a big deal in the US so we look after that for all team members. In the Philippines, remote work was really powerful in cities like Manila, where traffic is such a problem. It meant the team could have a higher quality of life."

What's next?

For the year ahead Griffiths says the business will be doing a few different things: new markets, (European and non-English-speaking), a new product and a new category as well.

"Where we've landed is that if we're trying to have the most impact possible we need to show that business models like ours can be replicated in other businesses and categories and that's how we'll solve the most problems," says Griffiths.

"We can achieve social impact at scale and financial returns at scale and treat our teams well. We're no longer at the bottom of the salary bands for staff."

Even the founders who were underpaid in the early years are now earning market salaries because, as Griffiths says, "We need to build a business we could step out of and someone else could take over".

"The model we have is that products need to look good, feel good to use, and to do good too.

"They need to be price competitive, great quality and make you feel great when using them."

In the past 24 months more competitors have emerged, but Griffiths sees imitation as the sincerest form of flattery. *M*

"We really believe the best model for philanthropy is to give unrestricted funding."

Who Gives A Crap partners with four charities: WaterAid US, WaterAid Australia, Lwala (an organisation bringing healthcare to Kenyan communities), and SHOFCO (Shining Hope for Communities) in Africa. Lwala sent 350 community health workers to deal specifically with the pandemic, SHOFCO educated communities about the virus and distributed soap and sanitisers and installed handwashing stations.

"We really believe the best model for philanthropy is to give unrestricted funding. We could say here's $100,000 to build a toilet in that location or say here's the money to do what you think is best with it. We choose to allocate the capital and let it happen," says Griffiths.

The work continues, as 2.3 billion people still don't have access to a toilet or clean water.

The business has grown at the same pace as the revenue, tripling in size over the past seven years. It's gone from one full-time staff member to 80.

"We have an incredibly high retention rate. A lot of our staff members have been with us for many years and we've all been through a lot together," says Griffiths.

Q&A

Retiree Mathew is looking for an ....

Alternative to an SMSF

Q I'm a self-funded retiree always on the lookout for ways in which to invest my assets. I currently operate an SMSF with assets mainly spread across Australian equities but also in some managed funds. I also have money in a "balanced" option industry super fund.

I've recently been made aware of managed discretionary accounts (MDAs), which may provide an investment alternative as my wife and I age and become less interested in, or capable of, managing a portfolio that requires ongoing, regular attention. I'd appreciate your thoughts on MDAs in terms of pros and cons and whether you think they're an investment vehicle to consider for ageing retirees.

I know many readers will be interested in this issue, Mathew, but I have a personal interest as well. Having turned 65 last month and, like you, having a fair chunk of our super in an SMSF, Vicki and I have been pondering how to handle this as the years go by and our capability declines.

An MDA is, as you say, an interesting vehicle for those who want less day-to-day involvement but control over the broad strategy. While it may be a great option for you – and I encourage you to do more research – it is not the way we will go.

I agree that an SMSF needs time and expertise. Moving to an MDA could be an ideal middle step for you, but our view is to firstly simplify the assets inside our SMSF, then if and when we lose our capacity to run it we suspect we will either go for very low-cost indexed funds or consider a rollover to a large, low-cost super fund and shut down our SMSF.

Hopefully, we are both some time away from this, but having a plan will leave us both in a much better position.

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*.

Bank of the Year,
after year, after year.

Quyen and her husband have been stood down, but …

Leave your super alone

Q My husband and I are nearly 50 and were recently stood down from our jobs. We have income from two rental properties ($3200 a month) and have $200,000 in savings. My super is about $100,000 and my husband's is about $50,000. Should we withdraw $20,000 each from super from the early release scheme this time around? And then should we buy another house for rental income?

I am very sorry to hear that you and your husband have been stood down, Quyen. I hope that this situation resolves itself as the economy starts to recover. That it will recover is, in my opinion, quite certain. But the timing is very uncertain. Based on all the uncertainty around us, I feel economic growth will take longer than we all hope.

What does cheer me up, though, is that you don't have to take money out of super to survive. If so, that would be fair enough, but you are looking to use the money to buy another property, so the debate we need to have is property versus super.

Here I am going to argue firmly that you should leave your money in super. This is for a few reasons. First, I suspect that as well as your two rental properties you own a home, so you have most of your wealth tied up in property. Second, super gives you exposure to a great mix of assets, all over the planet. Finally, just look at super returns over the decades. A typical balanced fund has returned over 8%pa. And these returns are generated in a very low-tax environment

It is your money, so your choice. But I feel that super spreads your risk away from property. Property may well outperform super or super may outperform property. That, however, is not the point. I have no problem with quality property in a growth location as a long-term investment, but diversification is a key investment concept and I really would prefer you to spread your risk.

As a first-time property investor, Azar should …

Buy close to the city centre

Q I'm a 24-year-old trying to get into the property market for the first time. My salary is $85,000pa, plus I run a growing tutoring side business that is generating about $5000pa. I hope to grow this further, with more students and responsibilities over the coming months. I have saved around $70,000 in a low-interest savings account.

My other assets include superannuation ($21,000) and a small ETF portfolio ($5000). I use the CommBank Pocket app for trading, where I deposit around $1000 every month to invest in ETFs. With the current climate, my expenses are minimal, plus the fact that I am still living at home. What is the best way to crack the property market as a first-time investor?

I'm trying to utilise the government benefits, including stamp duty exemptions and the first home buyer grant of $10,000. What areas and/or suburbs do you recommend for investing in and around the wider Sydney area? I'm not sure whether I should purchase land and build a home, and then put it up for rent, or purchase an already built home.

Azar, I am most impressed with your savings, use of super and how you're running your own small business. Clearly, you have a very good grasp of money, tax and government incentives.

An advantage of living for a fair few decades and working in the money field for some 40 years is that you do benefit from simply being alive. One thing I have learnt when it comes to property is demand and supply. The problem with buying land as an investor is that this is usually in areas that are opening up. This can be fantastic for young families: the ability to build and own a home is very special. But in your case it is about investment and one of the money multipliers when it comes to property is the scarcity of land.

So, in Sydney or any capital city, I would prefer to buy close to the city. This generally means buying an existing property. A city also means a major centre – places such as Parramatta are cities in their own right. My view is to buy in high-growth areas, with major public transport hubs, medical facilities, entertainment, access to jobs, entertainment and, of course, a decent cup of coffee.

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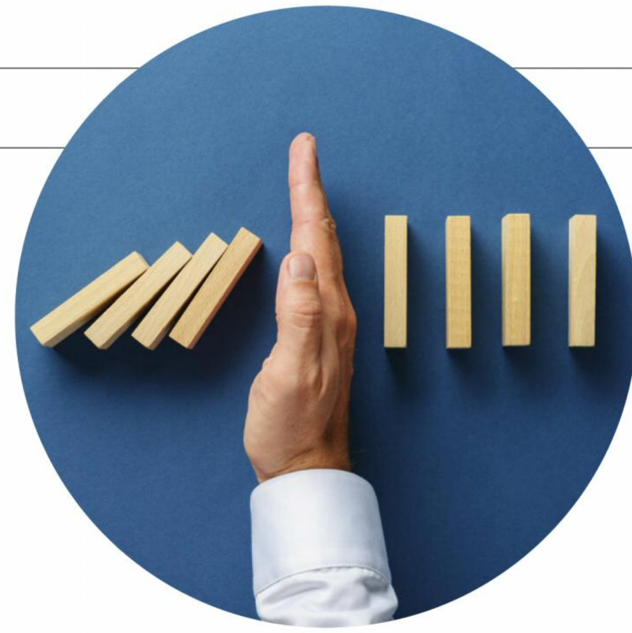


Q&A

Martin is concerned about his savings, but …

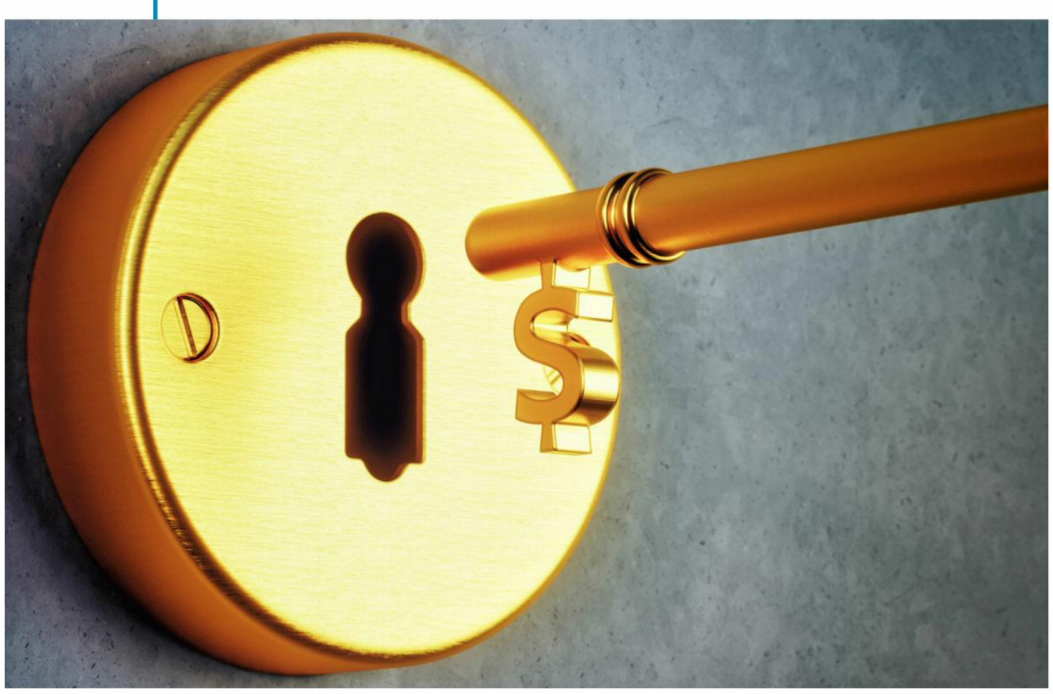
Deposit guarantee covers a long list

Q Through reading and learning from *Money* over the years, I've minimised interest costs by having our mortgage with a non-bank at competitive rates and an offset account. In these uncertain times we are in, I'm worried that a non-bank is not covered by the government's deposit protection scheme. So I've moved some of the offset account money (effectively our rainy day fund) into a day-to-day account with a mainstream bank. Am I right to worry and take this approach, or is the risk of losing access to money in an offset account with a non-bank negligible?

The key here, Martin, is "ADI". Banks, non-banks, building societies, credit unions and friendly societies can all be covered by the words "authorised deposit taking institutions". If your non-bank or other institution is an ADI, you are covered by the Australian government financial claims scheme, meaning a guarantee over deposits of up to $250,000.

Just go to the APRA or Reserve Bank website to get a list of ADIs. It won't apply to a pawnbroker, but its cover is extensive. As a consequence, people with large amounts of money have established accounts with many ADI institutions and put $250,000 in each. I have to chuckle a bit at this. My view is that if our accounts with our major banks have no value, then things are really crook.

However, if a tiny credit union, building society or non-bank lender with ADI status is offering us a better rate, then investing up to the $250,000 guarantee with them makes a lot of sense. In effect, any institution with ADI status has a government guarantee over deposits up to the set limit.



Before switching super options, Karen should …

Be guided by attitude to risk

Q I am 61. My super is currently in a high-risk category, so should I switch it to a lower-risk category because of the pandemic? My balance has already dropped from $170,000 to $158,000.

The perfect outcome, Karen, would be to have switched before the pandemic and then switched back in March when the market hit quite dramatic lows. Hindsight is a wonderful thing!

The truth, of course, is that as usual none of us had the first clue about the pandemic we find ourselves in. The question is what you do now. My crystal ball has been flawed for decades, but we can apply some long-standing logic.

Over the long term, a high-risk fund should outperform a balanced fund, which should outperform a conservative fund. The most conservative asset of all, cash, is historically the worst-performing asset over time.

But we also need to add to this mix our attitude towards risk. I believe our age is an important factor. This is very personal, but we held high-growth super until we were in our late 50s. At this stage we moved to balanced. Some of our similarly aged friends moved to conservative; others held onto higher-risk funds.

Given we all hope to live for a couple of decades more, historically this is plenty of time for risk and return to play out, with higher-risk funds likely to produce better returns. So this is a matter of our own attitude to risk. A simple way to assess this is the "sleep at night" test. We don't mind missing out on high returns, but don't want our super falling dramatically in tough times. So balanced works for us. We get some of the upside in good years and less of the downside in bad years.

My suggestion to you is to think about your time frame for investment and your attitude to risk, and not about our current situation. Statistically you are likely to see at least a couple of decades, meaning a higher-risk fund is likely to do well in your lifetime, though it will be more volatile. I believe a decision to change your strategy should be based on your attitude to risk and how you sleep at night.

After 30 years Sharon has only $68k in super, so ....

Check the fund's performance and fees

Q Hi Paul, my query is should I change my super fund? I have been with an industry fund for 30 years and have worked full time and part time. I've worked 20 years in retail and seven in aged care. I contribute $20 weekly and my aged care workplace does too. My balance is only $68,000 and the fund's fees are about $1800pa. Now they have changed their life insurance from $4 a week to $22 a week. I am only a part-time/casual employee now and maybe work 20 hours a week if I am lucky.

I am concerned about the level of your fees, Sharon, and also wondering about the performance of your fund. $68,000 is great to have put aside for your future, but after nearly 30 years of work I would hope your balance would be higher. I appreciate that many of these years may have been part time, but I would encourage you to check out your fund's performance over the three decades.

The leap in your insurance costs from $4 a week to $22 has me scratching my head. Sadly, for all of us insurance costs increase as we get older, but why it would jump so dramatically is beyond me. Has your fund increased your cover, or included income protection insurance?

Your starting point is to talk to your fund about its performance over time, investment fees, insurance cover and the cost. Once you have made some notes on those issues, you then have the facts to have a chat with other industry funds. It is very important you get that combination of low fees, good performance and the insurance cover you need.

With $100k to invest, Nick's challenge is to ...

Buy decent assets at a good price

Q I'm 28 and my partner is 27. We have a one-year-old child. I work full time and my partner part time. Our combined income is about $180,000pa; the mortgage on our house is $320,000 with $100,000 of savings in an offset account. I have $130,000 in super and my partner has next to no super.

At this point we are unsure about whether we should take the money from the offset to purchase an investment property or invest in shares. Or possibly something else?

The right answer here, Nick, depends on your and your partner's attitude to risk. First up, in the middle of a pandemic there's the issue of job security. If you are both securely employed, we can tick that box and move to investment options. If your work is not secure, I'd be hanging onto your cash.

One of the very few benefits of a crisis is weaker values on assets such as shares and property. Your $100,000 of savings should be earning you the rate of interest on your mortgage – I'd guess two and a bit per cent. So if you invest that in property or shares, will you do better than that rate? History says that over the long term you should do quite a lot better in either property or shares. But both are riskier than cash and property in particular is an illiquid asset if things get worse.

You need to put all of this into a conversation with your partner. If your conclusion is that your jobs are secure and you can take a long-term view (I reckon this should be seven-plus years), then the odds of you earning a decent return buying shares or property at today's prices over the long term are very sound.

About the only time you can buy decent assets more cheaply is in a crisis. This one may get worse, so I would be in no hurry. Depending on JobKeeper and JobSeeker after September, the pressure on homeowners and hence property prices could well get pretty nasty.

In the long run, though, I believe the economy will recover. So if you buy decent assets like well-located property or shares at a good price, history indicates that over time you will benefit from that. You would, however, have to be prepared for a potentially bumpy ride. One advantage of shares is the ability to "dollar cost average", meaning you could gradually build your portfolio over time. But the choice between property and shares is a personal one.

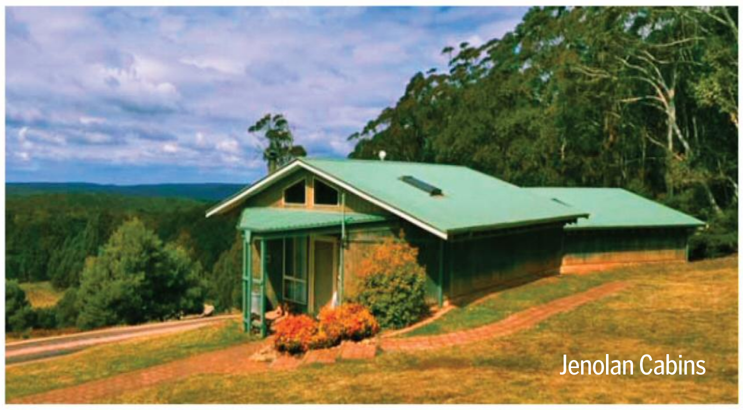
SMART SPENDING

Destination Go local

What can you do with $500 and a full tank? Spend a weekend exploring beautiful surrounds, and escape the hustle and bustle of your daily routine.

Five things to do

1. Enjoy: The drive. The small town of Oberon is the destination but it's what you do along the way that makes the trip especially memorable. Set off early in the day to allow time for a detour to Lincoln's Rock lookout in Wentworth Falls. Soak up the view and admire the Aboriginal shelters and engravings in the area. Better still, catch the sunset then dine at one of the local restaurants in nearby Leura.



Jenolan Cabins

2. Stay: Jenolan Cabins offer basic room amenities so if you want to add a bit of glam to your itinerary, bring your own artisan tea or coffee grind and throw your plush pillows and blankets in the boot. Perched on a hill, the cabins offer stunning views that are sure to make you forget about the thread count. As at July, the Jenolan Caves are still closed but the walking tracks are open. You can also spend the day horse-riding, trail-bike riding or gathering mushrooms in the pine forest near the cabins.

3. Wander: You don't have to be a garden enthusiast to appreciate the natural beauty of Mayfield Garden. Spend a day meandering through the magnificent oak, maple, birch and beech trees. Feast your eyes on the expansive water-lily-covered pond, which is reminiscent of a Monet painting. If you time your visit right, you can also take a peek at Hawkins'

Mayfield Garden

DESTINATION NSW

Oberon

DESTINATION NSW

Family Garden where the impressive Mayfield Maze is straight out of a Hollywood period movie.

4. Drink: Coffee. Forget chai latte, beetroot latte has made its way to Cafe Aliment, a cafe and burger joint just across from Wentworth Falls train station. Housed in the former post office building, Café Aliment promises delicious gourmet burgers including one called 'The Lamb Before Time'. For coffee, the beans are sourced from Penrith-based Underground Coffee Roasters. Choice of blend: oozing with chocolate and rich caramel flavour.

5. Photograph: How many of us have fancy cameras or already own mobile phones that have photography features we never use? This is your chance to boldly go where very few have gone before: the manual aperture and depth of field settings of your lens of choice.

MICHELLE BALTAZAR

Kanangra-Boyd National Park, near Oberon

DRIVING PASSION

Don't miss out when claiming car expenses

Whether you're issued a company car as part of your salary package or you intend to use your own car for work-related duties, doing your homework will ensure a better financial outcome.

The most important task when driving a company car or your own is to distinguish between business and private use. At tax time you can only claim work-related travel, excluding to and from your workplace.

Will Davies, chief executive at peer-to-peer car sharing platform Car Next Door, says if you're driving a company car or one purchased on a novated lease you should be careful not to "double dip" on your expenses.

"You can't claim expenses that have already been paid for by your employer, including salary sacrificing arrangements," he says.

However, if you receive an allowance from your employer for car expenses, it is regarded as assessable income and the allowance must be included on your tax return, says the Australian Taxation Office (ATO). "The amount of the allowance is usually shown on your income statement or payment summary," says the ATO.

Even though car expenses account for 40% of all work-related deductions, people continue to trip up at tax time. Surprisingly, some car owners may be claiming too little rather than claiming too much, says Davies.

"One of the most common mistakes is claiming car costs using the ATO's cents-per-kilometre method, without the records to back them up," he says. "You can claim up to 5000km a year at 68¢ per kilometre in the 2020 tax year, but this is not a 'free pass' – you must be able to provide documentation."

Many taxpayers also forget to claim depreciation. If you use your car for work or rent it out, ask your accountant how you should calculate depreciation as it may add thousands to your allowable deductions.

Davies says any money you earn from renting out your car is considered taxable income and must be declared on your return. However, you can claim expenses for the portion of your car costs that relate to the rental activity, or the 68¢ for every kilometre your car is driven by borrowers.

Car-share platforms should be able to provide you with a summary of all of the kilometres driven during bookings, to make it easy to claim.

Another area that often catches people when claiming car expenses is the carrying of tools. While you're entitled to claim for carrying tools or other equipment needed for your job, you have to prove you're required to do so by your employer, says Davies.

And the ATO has different rules for claiming deductions if you rent out a panel van, ute or other small cargo vehicle rather than a car.

DARREN SNYDER

EXTRAVAGANCE

Creature comforts

Now that we're holidaying closer to home, a camping trip might be on the agenda. For those who don't fancy roughing it, the heavy duty Sandstone Star Bell Tent is stylish and spacious enough to accommodate life's little luxuries.

How much: $1369
Where from: boutiquecamping.com.au

WINE SPOTLIGHT

2017 Majella 'The Musician' Cabernet Shiraz $18

A gold-medal-winning red blend from Coonawarra is always welcome, especially when it has the pedigree for quality and reliability that this has. It's bursting with bright, intense, mulberry and black cherry aromatics while the palate is medium-bodied, supple and fleshy and attractively pure, with a soft, gentle finish.

SPLURGE

2017 Kaesler 'Old Bastard' Shiraz $250

This is one of three ultra-premium shiraz from the Barossa's Kaesler: a special occasion red from 125-year-old vines. It has gently brooding, briary, blackberry aromas, restrained oak handling and satiny smooth texture. What gives greatest delight is its harmony, impeccable balance and gentle rather than bold feel. Memorable.

PETER FORRESTAL

SMART SPENDING

SMART TECH

Upgrade the home office to make work easier

This has been the year in which more Australians than ever have been obliged to work from home.

While many of us are now back in the office and returning to our workplace routines, the experience has been a definite eye-opener, with lots of people realising their home set-ups aren't particularly optimised for getting work done as easily and efficiently as we might like.

With that in mind, it's not a bad idea to have a think about what kind of equipment might upgrade your working-from-home experience. Everybody's situation is different, of course, and there's no one-size-fits-all solution, but if your job calls for spending lots of time at the PC, you might want to think about an ergonomic chair, a proper monitor or a better mouse or keyboard.

There's also wi-fi networking to think about, headsets for virtual meetings, noise-cancelling headphones ... the list goes on. Basically, if working from home doesn't really work for you, why doesn't it? Can it be easily fixed?

PETER DOCKRILL

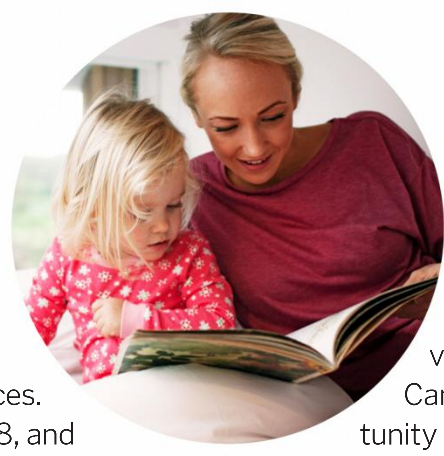
What is it? VAVA 8-in-1 USB C Hub
How much? $75.99
Pros: If you're working from home on a tiny notebook PC with only a couple of USB-C ports, you really ought to think about expanding your connectivity options. Good-quality USB-C hubs give you additional ports to plug things into, memory card slots, an ethernet connector, and HDMI-out ports so you can connect to an external monitor.
Cons: None, but shop around for the best device to suit your particular connectivity needs.
vava.com

What is it? Logitech Combo Touch
How much? $299.95
Pros: Just as notebooks can be significantly upgraded in terms of functionality, so too can tablets. Logitech's Combo Touch gives latest-model iPads, iPad Airs, and iPad Pros (10.5-inch) a detachable backlit keyboard with a trackpad, making full computer-style control of iPads a real thing (finally).
Cons: Much cheaper than Apple's own Magic Keyboard, but still expensive for what you get. If you don't need trackpad support, consider cost-effective Bluetooth keyboards.
logitech.com/en-au

What is it? Bose Noise Cancelling Over-Ear Headphones 700
How much? $495
Pros: At home you may have control over your working environment, but not necessarily control over who gets to be in it. Family members (including noisy kids) and flatmates aren't always conducive to concentration, so if you need to block out distractions, noise-cancelling headphones can enable productivity bliss.
Cons: Excellent audio and features, but pricey. If all you need is noise-cancelling, you can go a lot cheaper.
bose.com.au

GIVE IT UP

MS Readathon



What is it? MS Readathon encourages children to read as many books as they can during August while raising funds for multiple sclerosis support services.

The fundraiser started in 1978, and as at June 30 this year more than 30,300 participants were registered for the event.

Children (and adults) can register with their school or individually. Once an account is created, children can review books online as well as earn several rewards as they read and raise funds. There are also plenty of resources online to help you fundraise or promote your reading achievements.

Where your money goes: Donations go towards multiple sclerosis support services, in particular MS Family Camps. The camps are an opportunity for children who have a parent living with multiple sclerosis to spend quality time with their family. They also learn more about multiple sclerosis and bond with other kids who are sharing their journey.

How to donate: Head to msreadathon.org.au and register. Alternatively you can donate to the parent organisation, Multiple Sclerosis, by phoning 1800 287 367.

DARREN SNYDER

WEBFIND

GEOCACHING.COM.AU

Known as a treasure hunt crossed with hide and seek, geocaching gives people of all ages and abilities another reason to explore their local neighbourhood or head off the beaten track. This website helps you find where "geocaches" (containers) are located near you, but often you'll have to think outside the square to discover them. DARREN SNYDER

CASE STUDY

Sharon Boyd

A tough decision to make in an uncertain climate

I'm 53, single and buying my first home with the first home owners grant (FHOG) – the townhouse is being built now. There will be $3000 for lenders mortgage insurance (LMI) owing.

However, the townhouse is small and I would want to purchase a larger and older property (not keen on volume builds but due to FHOG it has to be this way) as soon as possible.

Due to the unstable global financial environment, it is even harder to read the crystal ball, and I may have to stay in this townhouse longer than hoped and would then refinance. My bank's interest rate is 2.9% – this bank is on the FHOG-approved list.

My question is, should I pay the $3000 upfront?

If I sell within two years, would I have been better putting this $3000 into an emergency fund? There is no refund on LMI.

If I don't pay it upfront and build it into the loan, I think it makes refinancing (to a better rate) more difficult later on. Hard to make the best decision when I have no idea of the financial state the world will be in a few years from now.

Sharon

You have very nicely summed up the current situation and while everyone's money concerns are different, it is fair to say that interpreting where our economy will be in the future is a bit of a mystery. My crystal ball is as cloudy as yours, but let me peer through the mist of this pandemic and look forward.

I think we have some reasonably based facts that indicate the world will not come to an end. The death rate from Covid-19, while devastating for so many families, is not likely to impact on the size of our population but it will certainly impact hugely on our economy.

Where we can realistically take some hope about our economy recovering comes from the huge advances in medical science. With human trials happening now and hundreds of laboratories working on a vaccine, immunologists say we are very likely to get a partially effective vaccine.

So through the flaws in my crystal ball, I can see how our economy will be able to recover over time. But I suspect this will be far slower than we all would like.

In a few years, I do not think it is "pie in the sky" to expect our economy to have recovered, or at least be well on the way to recovering. While my outlook may well be wrong and sure to partially wrong, at least it is based on a realistic set of facts.

So, in your situation, I think you have drawn a good conclusion in that you may need to stay longer than you expected before moving to buy an older and larger property.

When it comes to the $3000 for your LMI, I don't think it will make a particularly big difference whether it is built into your loan or paid off upfront. In regard to refinancing in the future, $3000 will not be a "make or break" amount in your overall mortgage. My preference would be for you to always have a little emergency money. In the middle of a very unpredictable situation, I would argue that keeping a few thousand dollars safely tucked away is a good plan. You could keep this is an offset account to your mortgage.

Paul's verdict:
Leave the money in an offset account

But always have a little emergency money

This in my view is the best solution, you have the money working for you in the offset account, but available to you in a crisis. A future lender will be pleased to see some cash reserves and I really don't see this strategy impacting your ability to refinance.

Like you I have no certainty, but a complete collapse of the financial state of the world is low in my view, but a quick and complete recovery is even lower.

I think we are going to struggle along, but we'll get there. Do remember that for over 7000 years the world has recovered from plague, pestilence, starvation, devastating depressions and appalling world wars. So while things are pretty ugly at the moment, the world, our brilliant scientists and health system are better equipped than ever to deal with this rapidly spreading virus.

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.

SHARE YOUR WEALTH

HOW TO GIVE YOUR KIDS A FINANCIAL LEG-UP

• A GIFT VERSUS A LOAN • AN EARLY INHERITANCE • TOP UP THEIR SUPER • HELP WITH THE MORTGAGE • SET UP A FAMILY TRUST • BENEFIT OF AN INVESTMENT BOND

OVERVIEW
DARREN SNYDER

Over the next two decades, an estimated $3.5 trillion will be transferred between generations in Australia, according to McCrindle research. The figure, first published in 2016, has led many commentators to question how up-and-coming generations will handle this massive wealth opportunity.

The pool of money will unquestionably be a welcome addition, helping people experience greater financial independence, whether it is now or in their retirement. What must also be considered though, is the kind of lifestyle we want to pass on.

In our feature "Baby steps for new parents" (page 44) we point out that, at a minimum, it takes $300,000 for two parents to raise two children up to the age of 17. Now in our cover story we look at what financial habits we should create for our kids, and warn that mum and dad will need some cash in reserve when they become the bank of choice for their children – the fifth largest lender in the country and growing, according to comparison website Mozo.

When you listen to the experts and governments you can imagine our super system growing to more than $9 trillion, or triple the size it is today, in the next 20 years. Research also tells us that Australia will have more than two million millionaires by 2024. On the surface it paints a rosy picture of our future wealth. However, if Covid-19 has taught us anything, it's that nothing is certain. It's an uncertainty that understandably has us worried about our futures and whether we'll be financially secure. Even before the pandemic hit our shores, countless studies tell us that money worries were common.

There's the Perpetual research from December 2019, which says more than two-thirds of Aussies (76%) don't have a will and 53% of parents have not discussed their will and legacy with their children. Yet about 60% of parents in the same survey hoped their children would use their inheritance wisely.

It also estimates that 70% of families will lose their wealth by the second generation and 90% will lose it by the third. It's no wonder that we're worried about our financial futures.

Scrolling through the hundreds of money questions we receive every month confirms to us that these fears are genuine. One common theme to these questions is how and where to distribute wealth for future generations. Of course, the question is never expressed in those exact words. It can be about where to invest your inheritance or how to best save for a child's future.

Here we give comprehensive responses to some of these wealth distribution questions.

COVER STORY
DAVID THORNTON

Sharing your wealth with your children or grandchildren is one way of leaving a great legacy. But it can also be squandered. Worse still, it can tear apart families when some members feel they've been hard done by.

To distribute your wealth in a responsible way requires more than simply transferring a lump sum, although this is still possible. It helps to understand the benefits and risks associated with different structures, what you want your financial legacy to be and when you want the transfer of wealth to begin.

While many wealth transfer decisions depend on your personal values, understanding and reconciling them with the different strategies available will help you make a more informed decision – one that can help rather than destroy a family.

Set a good example

Much of parenting is about leading by example, and that includes your financial habits.

"The best way to raise great kids is to give them financially secure parents," says Tristan Scifo, financial adviser at Purpose Advisory. "The single biggest gift you can give them is to have your own finances in order."

Children should understand from the outset that money is a finite resource, not something that's housed on rectangular plastic and of limitless supply.

Scifo warns that many families fail to totally get on top of their budget. They then get stress-tested through various trials and tribulations and their plans fall apart. "Start saving for your kids from the day they're born, or even earlier," he says. "Beyond that, it's worth setting aside something, even down to a dollar a day."

This flows onto what you might consider the most important aspect of financial support – mentorship. Contributing to your children's wealth isn't just a direct, tangible transfer of wealth itself. Rather, it should start early, and it should start with education.

Research from the Organisation for Economic Co-operation and Development (OECD) shows one in four students are unable to make even simple decisions when it comes to everyday spending.

It follows that it is incumbent on parents to do what they can to educate children on sound financial habits and, if possible, investment concepts learned through shared experience.

"You want to generate accountability and knowledge of the financial world we live in," says Scifo.

It helps if the education is an interactive exercise, where you guide without providing a crutch by taking away the child's decision making. This could involve providing your children with an internal household currency, or credit, before providing real money for them to spend in the real world.

Scifo is quick to point out that although internal currency replicates the real world, there is much less scope for children to exploit it.

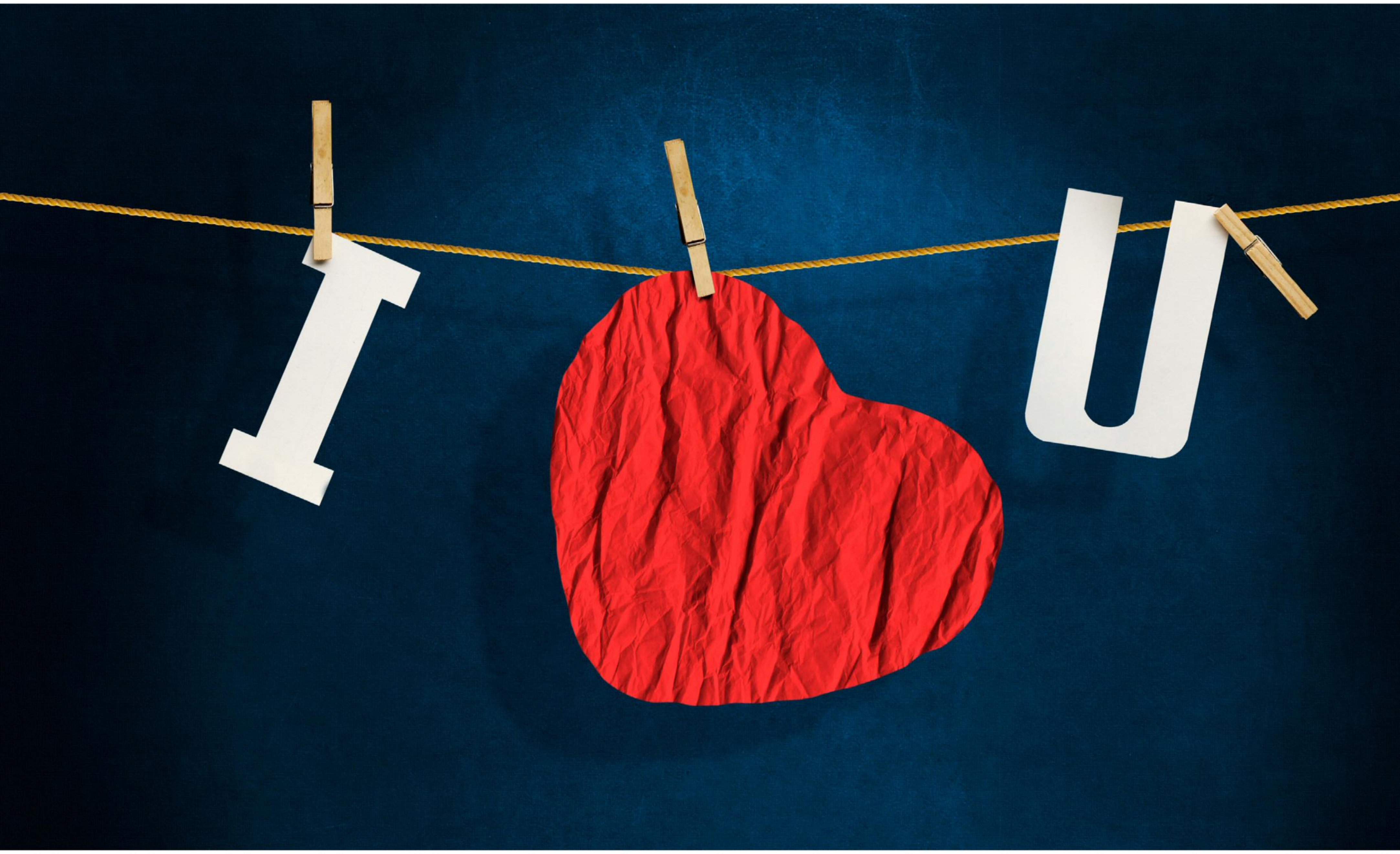
The currency could go towards simple things such as screen time. Your children will quickly understand saving and spending, especially the important concept of delayed gratification, made famous by Stanford's 1972 marshmallow experiment, which found that those children who were able to wait a few minutes before eating a marshmallow in return for a reward were found to be healthier and more successful 40-plus years down the track.

Scifo recommends adopting strategies that suit the child's personality. If they're hands-on, set up something tactile like a market stall. If they're tech-oriented, perhaps robo investing is the way to go.

"Some [robo advisers] are based on exchange traded funds, like Six Park, and others are direct share portfolios, such as Spaceship. They're sound investment strategies and are tech-oriented, so they're oriented to youth. But the emphasis is on the financial awareness they instil," he says.

The ASX sharemarket game offers another ready to go way to introduce your children to the concept of equities, including their risk.

Financial habits are exactly that – patterns of behaviour that become ingrained through reiteration, replication and repetition. But the focus should not just be on your children; improving their financial literacy also requires educating them on your own financial



journey – the victories but also the mistakes. "That can be scary for some parents, who may not have taken the time themselves to look in the mirror and reflect on their own financial decisions," says Scifo.

He says this aspect can be helped along by a professional, who can provide you with a frank and unbiased assessment, which you can then relay to your child. "That way, you're sharing from a place of strength and expertise," he says.

Bank of mum and dad

Business is booming for the bank of mum and dad. Increasingly, adult children are calling on their parents to fund everything from phone bills and groceries to rent, cars and education.

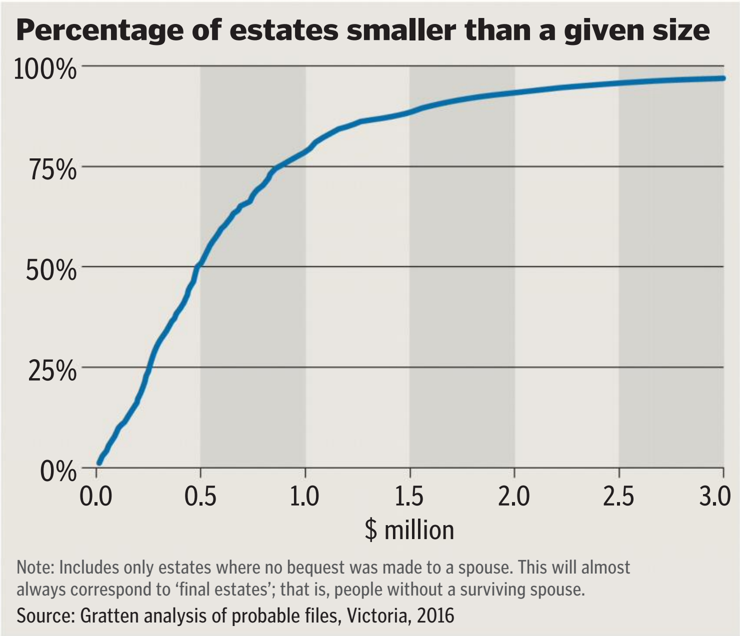
A survey by the Domain property portal reveals that more than half of Australian parents subsidise the lifestyles of their adult children, with almost 40% letting them live rent-free.

Research by the comparison site Mozo found that the bank of mum and dad is the fifth biggest home lender in the country, lending an average of $73,522 to help their children get into their first home.

HOW DO YOU FINANCIALLY HELP YOUR ADULT CHILDREN?

Paying for groceries	39%
Free rent	38%
Paying bills (broadband, mobile phone, energy)	35%
Providing free childcare	25%
Paying for car-related costs (rego, petrol, car insurance)	22%
Payingfor part or all of car	21%
Paying for transport	21%
Paying for some or all of holidays	20%
Paying for/subsidising tertiary education	16%
Charging low rent	15%
Loan/money for home deposit	15%
Other	15%
Helping with wedding cost	13%
Going guarantor for their home loan	5%
Helping to pay their mortgage	4%

Source: Finder, December 2019. Survey of 1020 adults..



It's not a bad thing in itself to provide for your children – that is, after all, one of the core tenets of parenthood. "Parents aspire to be the bank of mum and dad and provide financial support to their children," says Josh Funder, chief executive at home equity specialist Household Capital. "But intergenerational wealth transfer needs to be responsible. Boomers must make sure their own needs are met before trying to assist their loved ones."

Aside from the fact that parents' pockets are not bottomless, providing too much support can become a crutch, especially during early adulthood. "If it's become a crutch then the mistake has already been made," says Scifo.

The bank of mum and dad can be understood in terms of both the level and nature of the support provided. Complacency and other negative financial habits can stem from receiving too much, receiving it too easily, or a combination of both.

"Lending to kids is great, but you should have an agreement in writing," says Scifo.

Heidi Schwegler, a financial planner at AHS Financial, says if you are giving money, make it clear that it's a gift without the expectation that it will be paid back.

Early inheritance

The urge to provide compels some parents to consider passing on wealth to children earlier in life. But providing an early inheritance is uncommon.

Research by the Grattan Institute found that the most common age to receive an inheritance is 55-59, while more than 80% is inherited by those over 50. And about 75% of inherited estates are less than $1 million (see graph).

"As life expectancy continues to increase, we would expect today's young people to inherit even later in life. This means that inheritances are increasingly likely to supplement people's retirement savings rather than help young people into the housing market," says the institute.

The research also found that people under 45 are more likely to report receiving a gift from parents than an inheritance in a given year. But gifts tend to be small – less than $1000 a year on average. For the 16 years from 2002 to 2017, less than 3% of people under 50 reported receiving gifts of $50,000 or more.

On the face of it, it seems logical to gift an inheritance at a time when children are in greater need of it. But is it the right or wise thing to do?

"On the one hand, parents need to set themselves up financially, but on the other hand they see their kids struggling and in need of support," says Schwegler.

She believes that as long as you say "this is a gift", bringing forward the inheritance is a good thing because everyone benefits – the parents get joy from seeing their kids get a leg-up and the children receive wealth when they need it more.

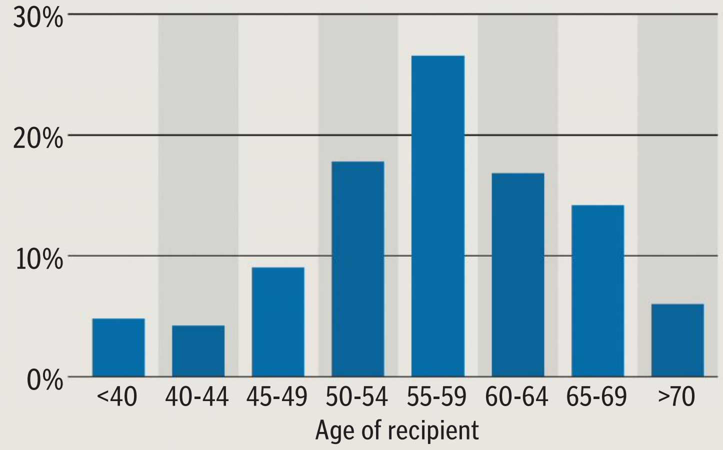
However, gifting inheritance can't come at the expense of your own ability to pay for your lifestyle.

"We have a lot of debt," says Lisa Barber, a financial planner from Hillross Aspire. "Once future care arrangements and provisions are organised, anything above that – it can be beneficial to distribute before death." However, you don't know when your time is coming, so there's a risk you distribute too much too early, says Barber.

Schwegler says first and foremost, parents need to make sure they're financially secure. People are living longer, and while the costs may decrease as you get older, retirement can be expensive.

"The problem I often see arise is the cost of aged care, which can be horrendous," she says. "While everyone thinks that they're fit and healthy all the time, you need to plan for that situation."

Proportion of inheritance money



Note: In probate data, the age of the recipient is only identifiable for children of the deceased, which represents three quarters of the final estate money. Includes only estates where no bequest was made to a spouse. This will almost always correspond to 'final estates'; that is, people without a surviving spouse.

Source: Grattan analysis of probable files, Victoria, 2016

Beware elder abuse

Of course, early inheritance should be top down, not bottom up. Elder abuse, also known as inheritance impatience, is a pervasive and often unreported problem. Abusive children can feel both motivated and justified in taking advantage of their parents due to the expectation that they will inherit their wealth anyway.

The Financial Services Council says common forms of elder abuse relating to inheritance include:

- Failure by adult children to sell assets or release funds needed by an elderly parent for the purposes of preserving inheritance.
- Adult children gaining control over all inheritable property and exhausting estate resources to the disadvantage of elderly parents or other beneficiaries.
- Adult children benefiting from carer payments without providing adequate care-giving services to the elderly parent.

"A will is not bulletproof. The courts are often in a position of authority to decide on the basis of need and moral claim," says Greg Bird, head of strategy and distribution, life and super at Australian Unity.

"This, along with the increasing number of estates that involve blended families, mean careful planning to ensure your client's estate is distributed according to his/her wishes is more important than ever.

"Also to be considered is perhaps the biggest ticking bomb – the increasing incidence of dementia in elderly Australians, which can create a raft of problems where capacity and undue influence may be concerned."

Methods to protect against such abuses include assigning multiple powers of attorney and advanced care directives, estate planning, including wills; structuring or preparing "granny flat" agreements; and other similar intra-family agreements that are documented.

How to transfer your wealth

Assuming you're financially secure enough to cover your own financial needs, you can then move on to thinking about transferring wealth to your children or grandchildren.

Firstly, you need to understand your reasons for transferring wealth, and the problems that may arise - including the unequal distribution of assets or who gets what.

"Why do you want to start transferring wealth? Once you know the why, then you can look at the how and the what," says Harry Goldberg, financial planner from Purpose Advisory.

Financial planner Lisa Barber says this is where she sees the most unrest in families. "If a sibling isn't aware another is receiving, there's a lot of greed and disruption in families," she says.

And fair distribution doesn't necessarily mean an even distribution. "If one beneficiary is supported more than the other, there should be a family discussion around that. If there's disagreement and a parent passes away, legal costs can run wild," she says.

Barber has advised several clients where, even after a parent's death, estranged children will appear and want their portion, which invariably leads to a costly legal battle. In these cases, it often goes in favour of the estranged child, she says.

It comes down to open communication and getting everyone on the same page. "Fair and equitable is difficult in a family – some children are more financially disadvantaged than others," she says.

Assuming you're in a position to pass on wealth, paying down a child's debt can provide them with a useful leg-up. Data for the fourth quarter of 2019 show Australian households remain the second most indebted in the world, after Switzerland, with debts totalling 119.5% of gross domestic product. On average, Aussie households have about twice their disposable income in debt.

"I've never seen cash provided to the kids which is then re-invested if they have debt; it almost always goes towards paying down debt, especially a mortgage," says Barber.

"If you are gifting money to a child, nine times out of 10 they have debt. "It's all about priorities. Some parents will prefer to pay for private school fees, others will pay for the HECS debt because they don't want their children to have a debt when they start their working life."

The average debt is $20,303, according to the most recent figures from the tax office for the 2016-17 year, up by a $1000 from the year before.

And this is set to get worse for many prospective students. While degrees, including nursing and mathematics, will be cut to $3700 a year, humanities degrees will more than double to $14,500 a year.

"Coming out of university without any debt is a fantastic starting point for any young adult, but can that parent afford to pay that debt – that's the question," says Barber.

Monetary gifts pose their own set of risks, though. They will become a matrimonial asset available for division if your child separates from their partner. It will also become an asset available to creditors should your child's business be sued by creditors.

These risks can be mitigated by providing long-term, possibly interest-free, loans instead.

"If you make a properly documented loan to one of your children during your lifetime rather than a gift, then if one of your children and their spouse or partner goes through a relationship breakdown you can recall the loan and the amount you lent them will not be available for division in a Family Court property settlement," according to Fox & Staniland Lawyers.

Loans can also maintain equity between children. "If you wish to let only some of your children have the benefit of some of your assets during your lifetime, but you ultimately want to treat all your children equally, then by passing the benefit by way of a loan when combined with appropriate compensating gifts in the will can ultimately have the equalising effect you desire," says the law firm.

Are they ready for it?

Just because your child is young and may be in need of the money doesn't mean they have the maturity or inclination to use it responsibly. Geoff Stein, from Brown Wright Stein Lawyers, likes to apply what he dubs "the red Ferrari test".

If your children would choose a fancy car over buying a house, investing or paying down debt, then maybe they're not yet responsible enough to handle the gift of wealth.

"I often ask clients, 'At what age were you responsible enough to receive the kind of wealth you want to pass down?' " he says.

He says family dynamics related to inheritance are as much of a horizontal exercise as they are a vertical exercise. "Even in a simple family, you don't know what your relationship with your sibling is like until you have to share an inheritance with them," he says.

"If you haven't got a vanilla family, questions arise about what happens if the surviving spouse has other children of a deceased spouse, and sometimes the person who's made the will hasn't thought through what provision is appropriate. Even if that person has organised a will, the surviving children may not agree with the arrangement."

Other considerations may include whether any of your children have special medical needs, leading you to perhaps provide them with a proportionately larger share. As with much of this, a lot comes down to your own personal values.

Set up a trust

The most common means of passing on wealth is through a trust.

The tax office defines a trust as "an obligation imposed on a person or other entity to hold property for the benefit of beneficiaries".

The trustee is responsible for managing tax affairs, including registration, lodging returns and paying some liabilities.

Beneficiaries receive income from the trust and report it if and when necessary.

Trusts are particularly useful in making sure inheritance ends up exactly where you want it.

"Sometimes the parents don't have a good relationship with their child's choice of partner," says Barber. "In those cases often a trust is formed. It can then be distributed from there, but it will stay in the trust and they don't become the owner, only the beneficiary."

If you want to pass on wealth while you're still alive, it's a revocable trust. Here a chosen trustee is assigned responsibility for managing that individual's assets on behalf of the eventual beneficiary. The trust is still controlled, and the assets owned,

by the person who made it, so they can revoke or amend the trust as they see fit. Because of this flexibility, the revocable trust may also allow the trustee the discretion to make changes too.

Once the grantor dies, a revocable trust will automatically default to an irrevocable trust, which can no longer be altered. The trustee has full control over the trust. The only way to alter the trust is for all the beneficiaries to agree to do so.

One type of irrevocable trust is a testamentary trust. These are created by your will, coming into effect at the time of death.

"Testamentary trusts are the number one estate planning strategy people should employ, especially if there's significant wealth to be passed on," says Peter Bembrick, from HLB Mann Judd.

Their key advantages are asset protection and tax effectiveness. Assets held in the trust are not assets of any individual, so they won't be assessed as part of an estate if your child goes through a separation. They also allow income tax splitting, and that can include children under 18 who come under the tax-free threshold.

"If children hold the assets in their own name, there's no protection should they go through a divorce or be sued, but a testamentary trust protects against that," he says.

Lawyer Geoff Stein says: "You get the asset protection features, in addition to tax concessions."

It's also worth remembering that the tax benefits of the trust extend only to the assets placed in it by the creator of the trust. Beneficiaries or trustees can't add to the trust in order to free-ride its tax-effectiveness.

"You can't load up trusts with more assets and expect it to be all concessionally taxed; you're limited to the original inheritance," says Bembrick.

Mortgage offset

Barber says one of the most effective ways to provide cash to your children, in a way that ensures it will be used responsibly, is to transfer money directly into their mortgage offset account.

The interest saved on the home loan will typically be more than the children will receive were the cash to be held in their own savings account.

"It's a win as it allows you to transfer cash, and they can pay you a portion of the higher interest rate they receive," she says.

There are a couple of ways to go about setting up a loan agreement with your children. Both options require a written agreement organised by a lawyer, and this can set you back between about $1500 and $2500.

You and your children (or grandchildren) can enter into a loan agreement that's secured by a second mortgage.

A higher-risk option would be to create a caveat on the title in the names of the parties lending the money. However, this is a riskier way to go as the mortgagee would have all rights to the property if the initial loan was not managed and the property went into foreclosure.

Top up superannuation

Another option is to put extra money into your own superannuation account, knowing that your children or a trust can benefit from that.

"One way to be tax effective is through a tax death benefit pension. It can transfer into a child and grandchild's name," says Barber. "Because it is from super, it is tax-free income for the grandchildren.

It's not at all common, and it's a very unknown area of tax planning regards the transfer of wealth."

This is also a way to engage in investing with your child earlier on in life, allowing them to understand the ins and outs of a structure from which they'll eventually benefit.

However, Goldberg points out that superannuation death pensions will lose their tax-effectiveness following death if not paid out to a dependant, unless the death benefit is paid in a lump sum. If paid as an income stream, it will be taxed at the child's marginal tax rate once they reach a certain age.

A dependent for tax purposes is classified as:

- The deceased's spouse or de facto spouse.
- The deceased's former spouse or de facto spouse.
- A child of the deceased under 18 years old.
- A person financially dependent on the deceased.
- A person in an interdependency relationship with the deceased.

Passing on property

If you inherit a property, no tax will be paid on that inheritance. However, the issue of the capital gains you'll be slugged with if you sell it down the road is a bit more complex.

If the property was a main residence before death, then as long as it's sold within two years following death, it will be free of capital gains tax. If you sell a property that's been rented out, then you essentially "inherit" the cost base if it was bought after September 1985.

Conversely, if the property was purchased before September 1985, then the cost base of the property is the value at the date of death. Any capital gains will then be taxed.

Investment bonds

Investment bonds provide another cost-effective way to pass on wealth, with features of a life insurance policy, superannuation and a managed fund. Money is put into a fund that's managed and passed onto beneficiaries in the event the owner of the bond dies.

Importantly, investment bonds are internally taxed, so the income from them doesn't need to be declared at tax time.

"Where the investment bond really shines for the purposes of estate planning, however, is in the area of beneficiary nomination," says Greg Bird.

"An investor can nominate beneficiaries within the account, including charities, to receive the proceeds tax free upon the investor's death, irrespective of how long the investment has been in place. In this instance, the investment bond is considered to sit outside the control of the deceased's will so it is not subject to the usual delays associated with probate."

Whichever way you choose to pass on wealth, it will be best served with research and a bit of self-reflection thrown in. It's never too early to start planning and it's advisable that it's conducted with expert consultation. *M*

A will plays a key role

- Most Australians have a will (59%) or expect to make one (22%).
- Few people make a deliberate decision not to make a will.
- Making a will is triggered by life stage changes or changes in assets.
- Older people and those with assets most commonly make wills.
- Not all wills reflect current intentions and/or circumstances.
- Wills are primarily used to distribute assets. Having a will to nominate guardians, choose executors and/or clarify funeral arrangements is undervalued.
- Wills are the major, but not sole, component of later life planning. Enduring powers of attorney and advance directives are much less commonly used to plan for the future.

Source: Australian Centre for Health Law Research

Tax benefits of an investment bond

Investment bond earnings are taxed at 30%. Withdrawals don't attract personal income tax if you have held the bond for at least 10 years. No capital gains tax if you transfer ownership of the investment bond.

Baby steps for new parents

STORY DARREN SNYDER

$300,000 and counting … that's how much it can cost to raise a couple of kids. But if you plan ahead you can ease the financial burden.

Starting a family, or planning to start a family, can be a joyous and exciting time. But make no mistake, it can also be a challenging time and an emotional rollercoaster. To help smooth the journey it is important to get on top of your day-to-day finances early. Studies have shown that at a minimum it costs more than $300,000 for two parents to raise two children up to the age of 17. And if you plan ahead these costs won't be as daunting in the longer term.

When couples or singles approach a financial adviser about starting a family, three common questions arise: Can we/I afford to have a baby? What benefits are we/am I entitled to? And what does our/my financial future look like?

Renee Tang, a Newcastle-based financial planner at First State Super, says there's not a common answer to these questions as every person's situation is unique. However, a good financial planner will not only answer these questions, but dig deeper to better understand where you want to be in the long term.

Can you afford it?

One of the first considerations when starting a family is the potential loss of household income and how to manage it. Two common scenarios that need to be addressed are: what if the primary carer loses some or all of their income and how long do the parents plan to be out of work?

James Gerrard, director and financial planner at financialadvisor.com.au, says a common scenario is a couple who are saving $2000-$3000 a month on two incomes before having a child. If one income is lost for 12 months, it's likely those monthly savings will fall – even with government support.

"If you're going backwards $2000 per month in cash flow, then you'll need to save at least $24,000 before the baby arrives – otherwise you're going to be eating into your savings to get through that [12-month] period," says Gerrard.

The Sydney-based adviser says savings will also be important for when one partner re-enters the workforce as they'll often be working part time. This also means household income is down before the child arrives and now there's the increased daily expense of looking after a little one.

Tang says parents need to consider what financial commitments they will have before and after the child is born, such as doctors' and hospital bills, ultrasounds and other tests, birthing classes and child care; as well as mortgage or car repayments. She says it is common for couples to buy a house and have a child in tandem and they'll need to think about what this means for their budget.

"Think whether your current accommodation is suitable or even whether your car is suitable," says Tang. "If a child is to come along, maybe the two-seater convertible is no longer an option."

Tania Tonkin, director and financial planner at dmca advisory (part of the IOOF group), says that the number one thing to do if you've bought a house and have a child on the way is not to overstretch yourself with mortgage repayments.

"Often fixing your home loan rate for a set period of time can be a good idea to help out because it confirms what your mortgage repayments are going to be," she says.

Although higher interest rates are unlikely for some time, Tonkin says if they were to be increased, your fixed rate would provide some comfort.

The Adelaide-based planner also says three to six months' worth of income is often a good savings buffer as 12 months "can be a fairly hefty sum to set aside". She suggests holding this buffer in your mortgage offset account as it's "going to give you some benefit in the sense that it's reducing the payment on your home loan but it's easily accessible as well".

Tonkin says to help with budgeting, utility and insurance costs can be brought down to monthly payments instead of the big quarterly or annual bills.

"Identify what your living expenses are, then work out what you need to live on and then, where possible, consider paying off bills monthly and in smaller chunks so you're not hit with big lumps at once."

Tang says once you come to terms with your budget or spending plan, then a financial adviser can work through your debt repayment plan – for example, how much do you want to put towards the mortgage and how will this impact your long-term goals?

"We could also work on your saving capacity, and whether you wanted to tailor it for your children's education plan or how much can you put aside for your own wealth accumulation," she says.

Protect the future

Expectant parents will often ask advisers about how to protect their and the baby's financial future should one or both of them die or become sick or permanently injured.

At this point it's worth completing a review of your life insurance policy. Gerrard says while it's fine to have a policy within your super fund, you should check that you have the right features and whether the policy is powerful enough to meet your needs, especially with a child in the family.

> **Fixing your home loan for a set period can be a good idea because you know what your repayments will be**

For example, total and permanent disability (TPD) cover is one area that differs between policies held inside or outside your superannuation. TPD insurance inside super will pay a lump sum if you can't do any job for which you are skilled. A policy outside super will pay a lump sum for your own job, not any job – and because the terms are more specific (often meaning a payout is easier to achieve) it can be a more expensive option.

Gerrard recommends people opt for levelled premiums with their life policy. If you were to lock in, say, $1 million worth of insurance cover when you turn 35, the premium might be $1000 a year and it stays at that rate until the policy is cancelled at 65.

"The default cover with super funds might start at $1000 per year when you're 35, but it might keep going up every year (stepped premiums) and 10 years later the premium might be $3000-$4000. The younger you are, the cheaper it is to lock in that levelled premium structure," he says.

Tang says it's also important to keep affordability in mind when it comes to life insurance. If a couple are living off one income, they may want to think about adjusting their life policy to suit.

Tonkin says mums and dads often have adequate life insurance, but when a child comes along the dollar amount, in terms of cover, can increase significantly.

Multiple children in the mix

If you have a child or children from a previous relationship, this should also factor in your planning to start a family with a new partner. A top priority would be to make sure you can continue to afford to pay child support as well as looking after the new child.

Tang says while the cost is important, you will need to think about the time and effort you need to cater for children from a previous partner too. The number of days each week the child will spend with each parent must be determined, especially if there's a newborn involved.

Gerrard says one of the most important conversations is to also work out what the asset split will look like if the partner with children from another relationship dies. He says it's better to sort this sooner rather than later, otherwise it will be a mess for all parties involved.

He's seen clients have screaming matches about what assets should go to whom. He tells of a case where a husband and wife were married for 15 years and had one child together aged 10. The husband had a couple of boys from a previous relationship (who were now adults) and he wanted them to be looked after in the will. However, the current wife felt differently, wanting assets to solely go to the couple's daughter.

Tonkin says parents need to think about who the guardians will be for their children if both parents die, or perhaps set up a testamentary trust that provides for the children if one partner dies. This helps if you're thinking an ex-spouse is likely to try to access your assets.

She says the education costs of children from a previous relationship are also a big talking point. She's seen examples where one parent will decide to stop paying private school fees, meaning there's a significant impact on the other parent who may be able to afford to continue with private education.

A good solution is a binding financial agreement that sets out the terms for financial support. These don't have to be drawn up by a lawyer; it's something people can do together with a witness present. And it becomes important in case something does go off track. M

Check out the benefits

There are several federal government benefits that you may be entitled to once you have a child. Several of the benefits listed here are means-tested and have other detailed terms and conditions. Speak to your financial adviser to see if you qualify or visit the Services Australia website.

- Parental leave pay
- Family tax benefit A and B
- Dad and partner pay
- Parenting payment
- Newborn upfront payment and newborn supplement
- Child care and additional child care subsidy
- Rent assistance
- Single income family supplement
- Assistance for Isolated Children Scheme

She says that during the conversation about starting a family, often a needs analysis will be completed for life insurance. It asks what your future expenditure requirements might be if your spouse or partner is no longer around. And it then leads to what sum of money should be insured for the parents.

Effort for education

A common issue for parents starting a family is whether they should invest now for future education. If you can afford to do so, all three financial advisers suggest putting some money away for education – and there are several ways to do it.

You can open a term deposit account where money is readily accessible, secure and low risk but collecting extremely low interest. It's a similar scenario if you were to put the money in a mortgage offset account. Alternatively, you might consider investing in a managed fund, an investment bond or an education bond. For the two latter options, investment returns are taxed at 30% with no capital gains tax (CGT) discount and this is paid within the bond by the provider. If you hold the money in an investment bond for more than 10 years, then withdrawals after that are tax free.

Tonkin says that the main benefit of an investment bond is that money is accessible at all times, whereas with an education bond you have to determine that withdrawals are purely for education purposes. There are other features and tax implications with these investment vehicles, so it is best to speak to your financial adviser.

There are other ways to invest for your children, too. Gerrard says for each of his own children he has been buying one ounce of gold every year until they turn 18 and will then gift it to them.

Bank gets really personal

Customers will need to feel comfortable about privacy and security in the age of data sharing

The arrival of open banking – which allows financial institutions to share customer data – should give households the ability to track down better deals and products. But it also raises concerns about the privacy and security of personal information. Here are five "home truths" to help set your mind at ease:

1. You'll have to wait

Let's say you're a customer with Bank A and you're considering switching your home loan to Bank B. Bank B needs to be an accredited data recipient (ADR) to access your personal data under the open banking regime. About 50 applications have been lodged to become an ADR and at the time of writing only two had been approved. Based on the federal government's timetable on when banks and their customers can share data with other finance institutions, we are still very much in the early days of open banking.

2. You can say no

Even if Bank B is an ADR, you don't have to give it permission to access your data. It's completely up to you. However, if you don't share your data, there may be banking products and services that won't be available to you. Also, you might miss out on a better price (for example, a lower interest rate). Paul Wiebusch, partner and open data leader at Deloitte, says: "It would be interesting to see what new propositions might emerge as we see greater sharing of data."

3. You can revoke access at any time

Wiebusch says that one of the misconceptions about open banking is that once you've given permission to a data holder to share your data, you can't change your mind. This is not true. The federal government and banking industry are designing a consumer dashboard that will help people keep track of the data they share and with which companies. In this dashboard, you can nominate for how long you want to share your data.

Twelve months seems to be popular with customers surveyed by the Data Standards Body, but there is a disclosure on the page that states you can revoke access at any time, including within your pre-agreed consent period. The overarching principle here is that you own your banking data and no finance organisation can get hold of it or store it for an indefinite period without your permission.

4. It's safer than "screen scraping"

There's already a way you can avoid the admin hassles that come with applying for a credit card or a personal loan. It's called screen scraping, and you can provide a third party with access to your data by giving it the log-in details to your account.

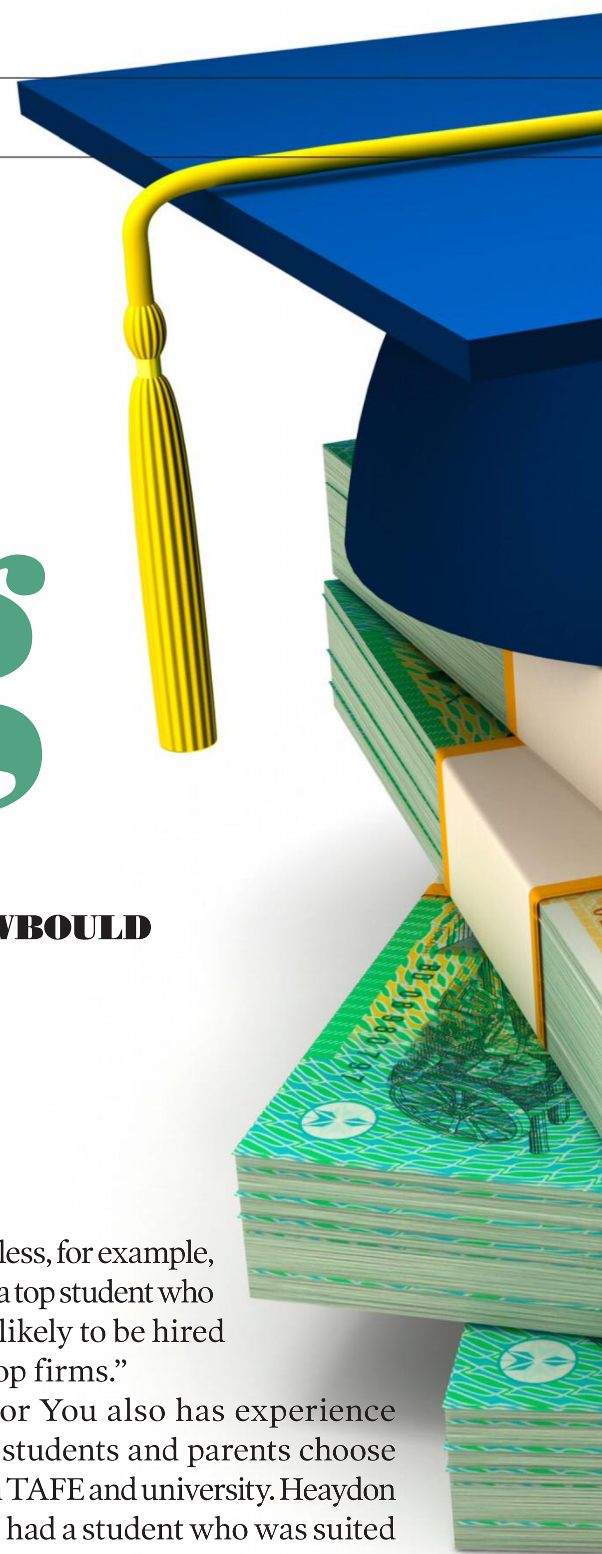
By contrast, open banking doesn't require you to divulge details such as log-in names and passwords. This makes it a more secure way of sharing information and makes the transaction less exposed to fraudulent activity.

5. It's more than just banking

The consumer data right (CDR) legislation is intended to be an economy-wide data sharing right, says Wiebusch. "Banking is just the first sector to which it applies. The energy sector has been designated and work is under way on the rules and the data sets that will apply for this sector."

In short, data sharing will increasingly become part of the way we choose our service providers and allow us to discover the products that are better suited to our needs and budget. Not all the nitty-gritty details have been ironed out, so it pays to be vigilant. But broadly speaking, open banking is a good thing and will work in the customer's favour.

Michelle Baltazar is editor-in-chief of Money. *She has worked on various finance titles including* BRW *(now closed) in Australia and* Shares *magazine in London.*



A new learning curve

STORY JULIA NEWBOULD

The federal goverment's tertiary fee shake-up may be good news for some and spell disappointment for others

Future nurses and teachers will benefit from the federal government's university fee restructure, but with fees for humanities, law and economics degrees set to rise, some students may be forced to rethink their options.

New students in 2021 can expect to pay about 28% more for a law degree, and the cost of a humanities degree is likely to more than double from about $20,000 to $43,500. Those looking to enrol in nursing and teaching will benefit from a fee drop of about 45%, and in science 23%. Current students, on the other hand, will not see an increase in their fees but will get the benefit of any reductions.

Weighing up the costs

Lauren Heaydon, careers coach and founder of career counselling website Mentor You, says the government's fee change announcement has driven career decisions for some of the people she mentors.

"I had a student receive an early offer for an arts degree at the University of Notre Dame but her father talked her into a teaching degree instead," says Heaydon. The difference was an arts degree costing $14,000 a year versus a degree in primary education costing $3500, but Heaydon says arts and communications degrees are good if you're unsure what you want to do.

"Taking a communications track would have been a good area for her, and at the end of the third year she could do a masters in teaching for a fourth and fifth year, if she wanted," says Heaydon. "But when the new figures came out the family thought it was too expensive to add a master's degree costing $50,000 all up instead of a teaching degree on its own."

Most students are not too concerned about the cost, but it is hard for parents to have their kids amass large HECS-HELP debt, especially if they are unsure what they want to do.

Investing in education

Education is no longer seen as a once-in-a-lifetime expense. Research now suggests that a teenager today will have 17 jobs and five careers in their lifetime, and someone in their 20s will have four careers and 17 employers, changing roles every two years.

Education is a long-term investment, not a cost, and needs to be considered in that light, says independent career coach Heidi Winney.

"Ongoing learning throughout your lifespan is the norm now, particularly as we are living in such a VUCA [volatility, uncertainty, complexity and ambiguity] world."

Winney says it's always important to seek advice from a career development professional unless potential students have clarity around what they ultimately want to do.

"School advisers may not always be the right people unless they have industry experience and have worked in corporate environments. Some courses are more expensive now so it's even more important to gain clarity about direction and choose wisely.

"New graduates often find it difficult to get work unless, for example, they are a top student who is more likely to be hired by the top firms."

Mentor You also has experience helping students and parents choose between TAFE and university. Heaydon says she had a student who was suited to a construction-type career.

"We recommended a trade first and then uni as kids who come through on the tools are often better workers than those who are uni trained because they understand the trade first. It doesn't mean kids shouldn't go to uni, but they should go later in life to become more qualified," she says. But the parents felt that because they had invested in a scholarship account for the child, he needed to go to university, she says.

Where TAFE can pay for itself

TAFE, which involves practical work on the job as well as studying, can provide relief for parents and students. The Master Builders Association offers a pathway into university through doing a trade. There are two options.

One is the apprentice to site supervisor program, where existing apprentices can begin the diploma of project management while concurrently completing their apprenticeship. The other is a trainee master construction recruitment program, which begins with on-the-job training in certificate II in construction, gaining hands-on exposure to all elements of site work including carpentry, concreting,

height safety, formwork, plastering, painting and leading to a diploma in project management and a bachelor of construction management (with a 12-month credit to the degree).

A student mentored by Heaydon took this route and is now at TAFE one day a week while working the other four. In his fourth year he will work full time before he has the opportunity to complete the construction management degree on a part-time basis.

Parents love that idea, says Heaydon, especially when students are unsure what they're going to do after year 12. There are also traineeships available for students in areas such as business administration, finance, banking and real estate. "People working in valued jobs now include supermarkets, liquor shops, petrol stations and tradespeople. And some jobs that were highly regarded are now quite volatile. With planes down, for instance, engineers are unemployed and many may need to retrain in another profession."

There has also been the argument that certain tradespeople will be able to earn more money than those with degrees – for example, a machine operator in excavation can make $200,000 a year while an engineer out of university for 10 years will likely earn a maximum of $150,000.

Finding perspective

Year 12 student Isaac Grove says he plans to go to university next year but is undecided about what to study.

"I guess the government is trying to push people into certain paths and that works for me in a way. Being undecided, I'll probably pick something that's not triple the price of another degree. I'd still want to be vaguely interested in it though.

"I've thought about teaching – the reduced cost would make a difference, but if I was really set on a course, the cost wouldn't sway me. But because I'm undecided, the cost makes a difference."

Grove says he's a "little bit conscious" about HECS-HELP debt and how long it would take to pay off.

Of his schoolmates, Grove says a few people know what they want to do and they're set on that, and the cost of the degrees won't change their minds.

How to cover the costs

If you're an eligible student enrolled in an eligible university course or vocational training program, you can access the Higher Education Loan Program (if you're at university) or the VET student loan program (if you're at TAFE or another vocational training provider).

When you earn enough to make repayments, they'll be made through the tax system. If you're an employee, some of your pay can be withheld by your employer to cover your repayments or you can pay at tax time. This will also work if you're self-employed; you pay once you've filed your tax return. The 2019-20 loan repayment threshold was an income of $45,881, but from July 1, 2020 it rose to $46,620. If your income is between $46,620 and $136,740, the amount of your loan repayment rises from 1% to 10% in increments.

Skills in demand

In 2019, the federal government identified the occupations most likely to be in demand now and in the future.

These included health care and social assistance; professional, scientific and technical services; education and training and construction; aged and disabled carers; registered nurses; child carers; welfare support workers; software and applications programmers; management and organisational analysts; accountants; primary school teachers; secondary school teachers; and education aides.

It also identified 10 trades where there is a skills shortage and will provide $1000 to apprentices at the end of first year and $1000 at the end of the apprenticeship. Employers will be paid $2000 at the end of the first year and $2000 at the end of the apprenticeship.

Skills shortages were identified in the following 10 areas: carpenters and joiners, plumbers, hairdressers, air-conditioning and refrigeration mechanics, bricklayers and stonemasons, plasterers, bakers and pastry cooks, vehicle painters, wall and floor tilers and arborists.

More information is available through australianapprenticeships.gov.au.

Start saving early

Evalesco director and financial adviser Marshall Brentnall says when it comes to school and university fees there is less friction when people start putting money aside early.

"There are several ways that we see Australians funding education – the main ones are investment bonds, education bonds and personal wealth accounts," says Brentnall.

"The advantage of investment bonds [previously known as insurance bonds] is that they are simple, taxation is capped at 30% annually and after 10 years the proceeds are entirely capital gains tax free.

"Scholarship or education bonds are an effective way to put money aside. However, there can be significant penalties should you use the monies for a purpose other than education.

"By far the most common method is where parents regularly invest a set amount of money into a wealth account that invests in a diversified portfolio of shares, which they continue to add to each month. An advantage of this strategy is that it is flexible, and the monies can be used for any purpose whatsoever, rather than just education." *M*

Loss hurts but don't throw the game

Chess can teach us valuable lessons about managing our finances – and about life itself

Ever since my son was little, we've loved playing chess together. Chess is a great game to learn how to win at life. Look at the whole board and don't let immediate threats blind you to other opportunities. Think four moves ahead, but be present in the actual game and change your plans based on your opponent's moves. Use failure as a way to learn to play better next time. All are fundamental life lessons that we all need to be reminded of, and chess is a great way to practise these lessons.

One of the greatest lessons of all is what to do when you lose your queen. The queen is the most powerful piece on the chessboard, and to lose it usually means you are at a significant disadvantage. When you lose your queen you often feel as if you've already lost the game. You play more recklessly because you feel there's nothing to lose and, sure enough, you quickly lose the game.

But a seasoned chess player knows that the game isn't over until the king is in checkmate. While losing the queen is a setback, you reassess the board, change your plans and continue to play. The player who can reset and not react to the pain of losing the queen is the most formidable.

The way we instinctively react to loss, and try to avoid loss, is what behavioural scientists call loss aversion. When your queen (think of your job, for instance) is under threat, you can often get distracted by avoiding the pain of loss rather than keeping an eye on the whole board. Good players use this distraction technique by threatening the queen of their opponents, so they don't see the actual threat somewhere else on the board. When we do lose our queen we often throw in the towel and give up or play recklessly, ending up in a worse situation than when we started.

We see this behaviour in share trading all the time. If your more profitable shares start to take a dive, you get distracted by this threat and stop playing the board. As the feeling of loss increases, emotion takes over and you begin to trade recklessly to make up for losses. This rarely ends well.

And it's not just limited to share trading; we also see this effect in our spending. Once we blow out our budget we tend to completely overspend and think, "I can get things back under control next pay day." Or in business, we often see leaders who have lost a lot on one project that doesn't go well, then make deals and invest in riskier projects in order to make up for the pain of the initial loss.

When you lose your queen, whatever that might mean to you in real life, the trick is to learn to put emotion aside and respond according to what is right in front of you. Put the pain of loss out of your mind and ask yourself what the best move is right now given the reality of the present context. Respond, don't react. This is the greatest lesson I could ever give my boys, and one I try to remind myself of every time life deals me a blow that I didn't see coming.

When you lose your queen, don't throw the game.

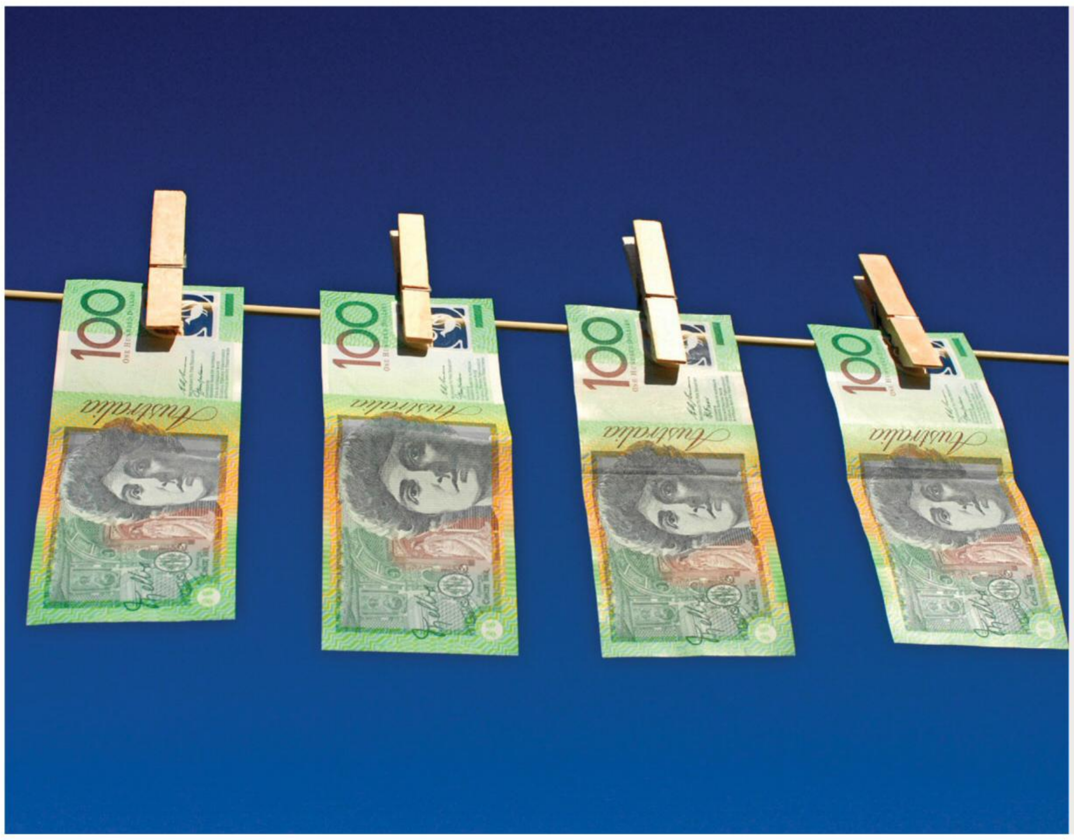
With more than 15 years' industry experience, Phil Slade, behavioural economist and psychologist for Suncorp, works across digital innovation, strategy, cognitive bias and human-centred design, with a key focus on delivering new and improved customer experiences.

Three ways to control emotion in the face of loss

- Take a step back and be present. Look at the long game and don't lose focus on your end goal. Temporary setbacks are just that – temporary. No one succeeds in life without a few speed bumps along the way.
- Reframe. Often loss is also a hit to your pride, and you can incorrectly attribute misfortune to your intelligence (or lack thereof). Look at each of the "beliefs" you have about the situation and reframe them, giving them another causal attribute. This will help de-personalise the situation and encourage more rational thoughts.
- Actively look for learnings in failure. People often think that learning from failure is something that happens automatically as a part of the recovery process. This is not so. Proactively seek out what mistakes were made so that you don't repeat them in the future.

When generosity backfires

Lending money to a sibling is fraught with danger, so proceed with caution



Checklist for a family loan

- Is it a gift or a loan?
- Don't rush in to lend to a sibling without thinking through what it will mean to your family relations.
- Understand your sibling's financial circumstances.
- Work out the maximum amount you can afford to lend.
- Can you afford to lose the money?
- Put the agreement in writing with the terms clearly outlined.
- Consider getting a lawyer to draw up a loan document.

It's natural to want to help loved ones but lending money to a family member can be tricky and spark drama at the best of times. For this reason, it's important to think it through before helping a sibling who has lost their job or had hours or pay slashed during Covid-19.

A global pandemic makes everything less certain. A kind and generous act during these times, such as a loan, has the potential to sour family relations or even split the family apart.

In some cases, family loans can go well and cement bonds, particularly if the borrower pays it back in full. But the unpredictable nature of the coronavirus means the borrower may not find a job any time soon and may be unable to repay the loan in a set period of time.

There is a view that if you do lend to a family member, be prepared to kiss the money goodbye. For this reason, never lend more money than you can afford to lose.

Of course, in the event that a family member's request for money is urgent, you may have no choice. But before the money leaves your account, you need to work out if it's a gift or a loan.

If your first response is to be generous, take into consideration your own needs, too. How much do you need in your emergency fund? What would happen to you if your or your partner's job came under pressure?

If you need the money back in a few months, think carefully about lending it. If it is money that you need for school fees or your mortgage, don't put it at risk. While the borrower might have a sincere intention to pay it back, you do need to consider the scenario that you might not see the money again. Setbacks can happen, particularly in a crisis.

It is best to be quite business-like with a loan. You need to have a detailed conversation with your sibling about their finances. Do they make poor financial decisions generally, or are they usually financially rock solid? If you lend them money, will you be asked for more money in the future?

Also be sure that they have made the most of the hardship assistance available: JobKeeper, JobSeeker, withdrawing money from their super fund as well as applying for bank freezes on mortgages and other state benefits.

Put it in writing

You want to avoid a dispute over whether the money was a gift or a loan. So always set out the terms of the loans including the amount, repayment schedule (perhaps when your sibling finds a job) and any interest to be charged. Unless you have it in writing and signed by lender and borrower, the reality is recollection of the deal will fade.

Loans that aren't documented and signed are often not repaid. You could get a lawyer to draw up a document, but expect to pay around $1000.

Documenting a loan is a good idea even if you intend to write it off. You never know what is around the corner. You may be comfortable at present, but in future you could find yourself financially disadvantaged by divorce, fraud or illness. There's a chance that your sibling could recover financially and be in a position to pay the loan back when you really need it.

If you lend to one sibling, what about other family members who are hard up? Do you draw a line and say no to them?

Also take into account your partner's view about lending money to your sibling. If your sibling never pays the money back, your partner may end up feeling resentful. Getting on with your family is important but it is essential to have an agreeable partner for your relationship to thrive.

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

Checklist for planning your space mission

When the spare room no longer cuts it, a bigger, better office can help your business flourish

Launching my own small business from an apartment in Sydney's inner west in 2000 was a dream come true. However, the reality is that operating from a spare bedroom or garage can often hold back a business and you'll need to set up shop elsewhere.

David Ente, a director of Raine & Horne Commercial South Australia, believes small to medium enterprises (SMEs) usually move to a commercial space because they are expanding and want a more professional address.

Anne Nalder, founder and chief executive of the Small Business Association of Australia, expands on this theme: "Due to the nature of the business, the owner may feel it will have more prestige by having a physical office."

For me, the decision to shift into commercial space arrived in 2008 when I merged my content writing business with a colleague.

We settled on office space in St Leonards on Sydney's lower north shore, which provided us with a sense of commercial legitimacy and a professional environment we could proudly invite our clients into for meetings.

Time to smell the roses

Family demands can prompt a shift to commercial space, says Ente, who over the past 20 years has helped many plumbers, electricians and landscapers move their business away from home.

"As the business grows, these guys often get kicked out as the kids come along and they generally opt for a small office or warehouse location," he says.

"Typically, the perfect commercial property for tradies is an industrial unit, which is 100 sq m with an office, bathroom and a shed for storage or to park a trailer, van and other equipment.

"If you operate from a home office, it's easy to look out the window and notice the roses need pruning. The next thing you've lost a workday in the garden."

Nalder agrees a home business requires discipline. "It means one has to take running their business seriously and having children around can be a huge distraction," she says.

Move to a co-working space

Before leasing a workspace, many businesses test the waters with a hot-desking arrangement offered by WeWork, Servcorp and Wotso. In theory, a flexible workspace or co-working site offers an SME the advantages of a centrally located business at a more affordable price than a traditional commercial office.

According to the comparison site Finder, prices for co-working spaces generally range from $500 a month for a hot desk up to $2000 for a private office. In addition, the fee might include commercial printers, scanners and quality internet. There might be reception and mail-forwarding services, cafe and bar facilities and even bike storage.

Nalder says service-related businesses are probably best suited to a hot-desking environment.

"Other types of businesses that wouldn't be suited to co-working include retailing, manufacturing, catering and agriculture, as examples," she says.

Ente agrees: "If you're an insurance broker, financial planner, mortgage broker or a small one-man-band real estate agency, and you need a space where you can just plug in, grab a coffee, have a meeting and a professional address, then a co-working space could work."

Technology businesses and marketing consultancies have also gravitated to co-working spaces.

Reverb, a media management and public relations advisory firm led by former Acuity editor Keith Barrett, operates from the co-working hub INNX in Newcastle. Reverb's clients include ASX-listed financial services businesses and technology companies, which are mostly based in Sydney.

"Running a consultancy business from Newcastle with clients in Sydney meant it was unlikely I would need to entertain clients in my office," says Barrett.

"Also, people running specialised consultancy businesses must use the best freelance talent available for individual projects. So it wasn't in my best interests to have employees sitting in an office for 38 hours a week."

Impact of Covid-19

Barrett also has a message for the co-working behemoths in the wake of Covid-19.

"I'm not sure how this model will work in the future," he says. "I will be required to travel to Sydney less because we've all become proficient in video conferencing. However, if I need to jump onto a private Zoom call with one of the CEOs I work with, I will need a boardroom or quiet room readily available.

"A single boardroom for dedicated Zoom conferences won't be enough, and for this reason I'll need to consider my own space in the future."

Also, shared workspaces are affordable because the model involves stacking together as many SMEs as possible into the floorplan.

"Post-Covid, social distancing will mean fewer people can use a co-working space, so as these workspaces establish what they can safely accommodate it may be more

expensive to have a dedicated desk or office space within one," says Barrett.

Regardless of whether a business is considering leasing its own space or a co-working option, Nalder says the pandemic has impacted expansion plans. Ente agrees Covid-19 has forced many micro-businesses to shelve expansions plans in 2020.

"There are plenty holding off because they think they can do a super-duper deal because they think landlords will be begging for tenants. This is not the case," says Ente.

"Right now, the vacancy rates we are seeing in Adelaide, for example, are not out of the ordinary, although the inquiry level from potential commercial tenants is marginally down."

On the contrary, Nalder believes Covid-19 has given budding commercial tenants an excellent opportunity to drive a bargain. She says due to the coronavirus, business owners wishing to lease premises are in the driving seat. "If a landlord or agent is being difficult, seek someone else. But bear in mind that it is up to the landlord at the end of the day to accept or reject [your offer]."

What to consider in leasing

Negotiating a commercial lease requires you to understand the key terms and conditions contained in the lease clauses. However, in terms of how much you should pay for a commercial lease, Nalder counsels that an SME should only spend whatever it can afford.

"But as a rule of thumb, somewhere between 2% to 20% of rent to gross revenue is the unwritten rule," she says. "Generally, a figure of 10% is the norm and having a budget is central to this decision making."

When the time arrives to negotiate a commercial lease, Nalder advises a small business owner to determine what a shop, industrial unit or office must have to support your business and the accessories and trimmings that you are prepared to forgo. Because you need to commute to the office, you might decide that parking is important, but you could survive without a kitchenette.

Also, be mindful that a commercial lease is much longer than a residential lease, which is usually for 12 months.

"A commercial lease normally has a minimum of three years with options to extend," says Ente. "There are more obligations on the commercial tenant than in a residential lease, including the maintenance of the property and the payment of all outgoings such as utilities. You also need to organise a security deposit over the lease."

A security deposit, or deposit bond, is paid by a commercial tenant to the landlord as a guarantee. It is typically equivalent to up to three months of rent.

An office fitout might also be paid for at the tenant's expense. However, this depends on the negotiations, according to Ente.

"Instead of a rent-free period, a tenant might negotiate a contribution to the fitout from the landlord. Consequently, you need to ensure the term of the proposed lease is long enough for you to recoup your investment in a fitout."

Nalder encourages SMEs to try to negotiate a better rental rate. "The longer the lease, the better the rate that applies, while also ask for a rent-free period – and this should include the utilities also. I'd also try and negotiate a rent-free period if you must have the premises redone."

Ente says new commercial tenants should be realistic.

"We had a possible tenant just last week who offered an annual rent of $12,000 where the landlord wants $20,000. The tenant also wanted outgoings such as water rates and electricity included in the lease agreement. He was never going to do a deal and just wasted everyone's time."

New commercial tenants should ask their landlord for a sub-lease clause, advises Nalder.

"This clause allows you to sub-lease if things get tough financially," she says. "Also get an agent or lawyer to negotiate on your behalf if you can afford the fees. They would be less emotionally attached."

Ente says a commercial lease is a long-term commitment that is expensive to get in and out of. So do your research first.

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

Percentage

STORY DARREN SNYDER

Would-be first home buyers need not despair if they are struggling to raise a 20% deposit

The first home loan deposit scheme is an exciting boost for first home buyers, allowing them to buy a property with a 5% deposit and without lenders mortgage insurance (LMI).

Instead of LMI, the federal government will guarantee 15% of the home loan. In other words, the government is taking on the lender's risk that you don't pay off the loan.

According to Deslie Taylor, mortgage broker and principal at Mortgage Choice Ormeau, the scheme is saving first home buyers up to $15,000 off their upfront costs. It means these same buyers don't have to immediately come up with thousands of dollars for LMI after already saving for a deposit.

Let's say you had a 5% deposit on a $475,000 home, totalling $23,750. Add the cost to buy (solicitor fees, building and pest inspection costs and other charges) and you could easily spend another $5000. Then if you paid your LMI as a lump sum of $15,000, you would be looking at $43,750 upfront and almost double your original deposit.

Arguably if you can afford that final figure (with some wriggle room) you could form a stronger deposit on the same or another home and lessen the LMI; and similarly if you bargain down the price of your property it can reduce the LMI. But it's not really the point of the government's offer, and Taylor says that in the $475,000 example – if you qualified for the scheme – you'd only have to come up with $28,750 upfront for the deposit and buying costs.

You can learn more about how the first home loan deposit scheme (FHLDS) works and how to apply at the National Housing Finance and Investment Corporation (NHFIC) website.

Don't qualify? Don't fear

If you're not lucky enough to qualify for the FHLDS or you're not going to be one of the successful applicants (only 10,000 positions were on offer from July 1), don't

game

fear – all is not lost. There are several other home buying grants you can apply for and they differ from state to state (see July issue, page 69).

James Symond, chief executive at Aussie home loans, says if your deposit is less than 20% of the home's value, some lenders will allow you to add LMI to the loan, otherwise known as capitalising LMI. Here you gradually pay the insurance cost along with the rest of the loan.

The downside, says Symond, is that this will add to the long-term cost of LMI because you're paying interest on the premium. But this can be minimised by making extra repayments.

Taylor says that in the current environment there are few lenders who will apply LMI to the loan, meaning you'll have to pay a lump sum upfront.

"You can still buy with the lower deposit; but you'll be looking at an interest rate that will be around 4% if not more," she says (see table).

Symond says another option is to ask a family member to act as guarantor for your first home loan.

"Some lenders offer family pledge loans based on a guarantee from a family member, usually mum or dad," says Symond. "This means parents offer part of their home equity as additional security for their adult child's loan."

This way no cash changes hands, and if you're lucky to have the backing of the FHLDS or other grants, the extra security can push the loan security up past 20% so that LMI is no longer required. Lenders may still want to see a history of personal savings, says Symond.

If you're unsure about your options, speak with a mortgage broker, financial adviser or your bank.

Size matters

Often you'll only ever hear two figures when it comes to home deposits: 20% (to avoid LMI) and 5% (the

WHAT LENDERS MORTGAGE INSURANCE COSTS

	LOAN AMOUNT		
Loan-to-value ratio (LRV)	$500,000	$750,000	$1,000,000
80%	1%-1.2%	1.15%-1.4%	2.15%-2.6%
90%	2.4%-2.8%	2.15%-2.7%	2.15%-2.6%
95%	2.96%-3.4%	4%-4.7%	4%-4.7%

Source: *Rules of the Lending Game*. Mortgage insurance rates are generally charged as a percentage of the loan amount plus stamp duty. Percentages are indicative only.

Is mortgage insurance tax deductible?

For investors, the ATO classifies LMI as a cost of borrowing. If the cost is more than $100, it can be claimed over five years or the term of the loan, whichever is less. And it's always a good idea to check with your tax professional to know exactly what you can claim.

Boost your chances

What can borrowers do to improve the loan/LMI approval process?

James Symond, chief executive at Aussie home loans, says some upfront planning is always a good idea.

"Simple steps like asking your credit card issuer to reduce the credit limit on your card can make a valuable difference to your borrowing capacity," he says.

"Building up a track record of regular savings is critical. Lenders want to be sure you have the discipline to manage a home loan."

He says lenders each have their own criteria when it comes to employment history, but most want to see that you have at least made it through a probationary period.

"Importantly, avoid making multiple loan applications with a variety of different lenders," he says. "These applications will appear on your credit record, and lenders are likely to issue a 'please explain'."

Talking to a mortgage broker can help you identify those lenders that are likely to offer loan approval for your circumstances and give you a clear idea of the LMI premium across various lenders. It's much easier to make the decision that's right f or you when have all the facts in front of you, says Symond.

minimum deposit). But what if your deposit falls somewhere in between?

Taylor says it's important to remember that LMI is a risk insurance. The higher the risk to the lender, the higher your premium.

"If you've got a 5% deposit, that's the highest risk possible because of the equity position that the bank has retained and is holding," she says.

"The higher the deposit, the lower the premium on LMI. If you put in a 10% deposit, the premium almost halves because that risk factor has dropped dramatically. And, of course, with a 15% deposit the premium drops again [but not as significantly]."

As a guide, says Symond, buying a $500,000 home with a 5% deposit ($25,000) can mean paying an LMI premium of almost $15,000. If you can bring the deposit up to 10% ($50,000), the cost of LMI can fall to $8680.

"Not all lenders accept 5%. However, some may accept a 10% deposit. Going that extra distance to save a bigger deposit can considerably open up the range of available lenders and help you secure a better rate," he says.

Taylor says she sees some clients who have saved a 15% deposit. However, if they only pay 10% the difference might be $1000 in LMI. In this scenario, the client might like to retain some of their deposit for emergencies as opposed to exhausting all their savings for the sake of a $1000 saving in an LMI premium.

Lenders are offering new products too. As of July 13, St.George is charging $1 for LMI, provided you've saved a 15% deposit for your new home (up to a loan value of $850,000).

Capital gains

There's a view put forward by some property experts that LMI can be offset by your home's capital appreciation. While this is certainly possible, a lot of factors must be in your favour.

Symond says no one can predict exactly how the property market will move over the short term, so it is always risky for home buyers to assume big gains over a short period. Over the longer term, though, the picture is different as history shows that housing typically rises in value over time.

He adds that one of the best features of current home loans is that you don't have to wait for the market to rise to build up equity in your home.

"Homeowners can take control by paying a bit extra off their home loan each month. This pays down the loan sooner, helping to grow equity in the property," he says.

In the book *Rules of the Lending Game* by Melbourne-based Stuart Wemyss, a case study is provided where LMI can prove beneficial for property investors. He presents the idea that by borrowing more and paying for LMI on your first investment property, it allows you to invest more money sooner, which also allows you to benefit from compounding capital growth. Then there's the idea that because you've now got a higher budget, you can buy a better quality investment.

In the book *Smashed Avocado*, journalist turned author Nicole Haddow presents another case study where LMI could be used to your advantage.

Let's say you buy a $500,000 home with a $70,000 (14%) deposit. Your LMI cost could be as little as $5000, depending on your provider, says Haddow. This means a $430,000 mortgage becomes a $435,000 mortgage.

"And in the event your property value rises $100,000, the cost of your LMI is effectively absorbed by the rise in value," she says.

"If you'd waited to save a $100,000 deposit, the property might be worth $550,000 and that means you'll still only have [a deposit of] 18%. Had you bought it at $500,000 using LMI, you'd be ahead financially."

Taylor says if you're going to buy a property and put down a 10% deposit, and you're going to be in a position to use the retained funds to improve the value of that home immediately, then there's a discussion that's worth having.

"For the sake of $5000 in LMI or a percentage of your LMI, let's say you're going to improve the value of your home by $50,000, then we have that conversation about whether it's going to be to your benefit," she says.

She warns, however, that it's common to see people putting all their savings into their home and then being forced to scrimp and scrape to get it renovated – even as far as purchasing a personal loan, which is only placing yourself in more debt.

"If you find they're just going to retain the [saved deposit] funds for lifestyle, then I would think you're better off putting that money into the loan, and possibly paying the 20% deposit because chances are you're going to waste that money and it's going to slowly dwindle as opposed to investing that money back into the home," she says. "Don't have that temptation there to spend." M

Share in the cash bonanza

First time buyers and renovators should make the most of government handouts

It's party time for first home buyers who are willing to buy new properties, with plenty of free money on offer as governments move to support the construction industry in the wake of Covid-19 – for example, up to $76,070, including stamp duty concessions, if you build a home valued at less than $600,000 in regional Victoria.

And those who are already homeowners don't miss out either, with $25,000 available for renovations through the HomeBuilder grant to those who qualify.

If you want to build a new home you can also benefit from the $25,000 grant. On top of that there are also incentives for homeowners installing solar systems.

To qualify for HomeBuilder you need to sign a building contract by December 31, 2020, and construction has to start within three months of the contact date. The value of your new property must not exceed $750,000. For renovators the contract has to be worth between $150,000 and $750,000 and the value of your existing home must not exceed $1.5 million.

HomeBuilder is also means-tested: singles need to earn under $125,000 a year and couples under $200,000.

The good news for first home buyers who qualify is they can add the grant to existing state-based incentives.

Wait, there's more ....

For those setting up their first home in the states where prices are less expensive, or in regional areas, the grants will go a long way to making it much more affordable.

If you live in Western Australia you've struck gold – $55,000 for a newbie buyer, not including stamp duty incentives for those who build a home worth less than $430,000. This is made up of the $10,000 first home owner grant (FHOG) that was already on offer plus the $25,000 HomeBuilder grant plus a bonus $20,000 that the state government will tip in on top of HomeBuilder. And if your new home is

valued at $430,000 or less you will pay no stamp duty – a further saving of $14,440 – adding up to a total $69,440.

First-timers building in the Northern Territory can also bag up to $55,000, not including stamp duty relief or up to $2000 towards the cost of household goods. On top of the $10,000 FHOG and $25,000 HomeBuilder grant a $20,000 BuildBonus from the territory government is available to the first 600 applications.

Tasmanians can benefit from up to $45,000 in government grants plus stamp duty relief for properties valued below $400,000.

Similarly, if you build in regional Victoria, $45,000 in grants is available ($35,000 closer to Melbourne). There is no stamp duty payable on a home worth less than $600,000 (potentially a further $31,070 benefit to you), and there is discounted stamp duty for properties valued between $600,000 and $750,000. So a first home buyer building a property worth less than $600,000 in regional Victoria could score a total of $76,070.

First-timers building in Queensland or South Australia will be eligible for a $40,000 bonanza, with both states offering $15,000 FHOGs for new properties. On top of that Queenslanders don't pay stamp duty on homes costing less than $500,000 and a discounted rate up to $550,000, amounting to a saving of $15,925, on a home under $550,000. All first homeowners in South Australia pay some stamp duty but there is an off-the-plan concession of up to $21,330 on properties valued under $500,000.

In NSW, there is a FHOG of $10,000 for new properties costing less than $600,000 and owner-builder building contracts worth less than $700,000 on top of the new HomeBuilder $25,000 grant. No stamp duty is payable on properties valued at under $650,000, representing a saving of up to $24,740, and discounted stamp duty applies to properties valued between $650,000 and $800,000.

For those living in the ACT there is only the $25,000 HomeBuilder grant, but all ACT first home buyers are exempt from paying stamp duty on all properties as long as they earn less than $160,000.

Homeowners can also score discounts from federal and state governments if they install rooftop solar and/or battery storage.

Turn on the solar power

If you buy a solar power system today it's subsidised by a federal government scheme worth about $585 per kW. That's around $3900 off on a typical 6.6kW system that is usually applied at the point of sale, meaning advertised prices almost certainly have the rebate already applied, according to the solarquotes.com.au website. This means you would pay around $6600. If you want to add a battery it will cost about $10,000 to add a decent amount (around 10kWh) of storage to a solar power system. Take 30%-50% off these costs if you live in Victoria, ACT or SA and are eligible for your state's battery rebate, says solarquotes.com.au.

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 JULIA NEWBOULD

Why socks are a health hazard

With many people still stuck at home, a correctly set-up workstation is important for both safety and productivity

When Covid-19 hit us hard in March, most of us had to vacate our offices. We packed up our desks, collected our laptops – or, in some cases, desktops – and headed home.

We logged into work through hastily connected networks and took over a space in our homes –in the study, at the dining table or anywhere we could find a suitable spot.

Some of us have returned to our offices while others have been told working from home will be the "new normal" for many more months. So now is a good time to make sure our home set-ups are appropriate for longer-term use.

Hall & Wilcox law partner Alison Baker says while the workplace may have moved, the obligations still exist for employers to provide a healthy and safe environment.

"There are no concessions," she says. "You have to consider staff physical and mental health. From a physical point, you have to make sure the workstation is ergonomically safe with the right equipment and environment, including decent lighting, heating, cooling and other things," she says.

"We recommend our clients get their staff to do a self-assessment to identify if there are any occupational health and safety red flags.

"Many businesses – when their people had to mobilise quickly to the home environment – reimbursed them for the cost of buying equipment like monitors, keyboards, etc."

Angela Uther, founder of The Red Chair, a business and human resources consultancy, says the key to setting up an ergonomically correct office is making sure your eyes are looking directly at the middle of your screen, not down or up.

"Everything comes from there, because if your seat is too low or high, or your desk is too low or high, you're in trouble. The other part is having right angles for your arms to your keyboard and knees to the floor," says Uther.

"This is why you often see a desk that goes up or down or a footrest and a phone book under the monitor. You can do it yourself, with a footstool or a blanket wrapped around books at home.

"I wouldn't recommend sitting at the dining table because the height of the table is often too high and you need a proper desk chair. If you have a desk that's the right height, you can use a dining chair.

"You can also stand up at a kitchen bench and I would recommend that. If you're just reading through something, try to do that in a standing position or with an iPad or laptop on a higher shelf so you can do some stretches or walk a couple of steps from side to side.

"Don't be seated all day in the same spot because that makes any kind of ergonomic issues worse."

Uther says one of the greatest OH&S (also WHS) dangers of working from home is people working in socks. It's dangerous, it can be slippery and falling down the stairs is one of the most common injuries of working from home. "I recommend grip socks or slippers, or comfortable shoes."

When you're professionally setting up people to work from home there is a mutual responsibility. As an employee you should complete a declaration to say you have checked measurements and so on to confirm your workstation is ergonomic. And if you need something to make it safe, you should be able to ask your employer to help you, says Uther.

"In this kind of environment a lot of employers are doing good things like providing a $50 a week budget or sending you whatever you need, but some employers won't have the resources to do that, so you need to keep receipts and make sure any costs you do incur can be claimed back at tax time," she says.

Craig Lawrenson, chief operating officer at Hub24, an investment and superannuation platform, says as the shutdown happened so quickly and everyone had to go home at short notice, the company realised people were in different situations at home so it provided two lots of payments to facilitate setting up home offices.

"We provided the money to help people to set up what they needed – chairs, desks, another screen for their computer, internet, a whole bunch of things," says Lawrenson.

"Feedback from staff was overwhelmingly positive. We're open-minded about making further payments because our employees are wearing costs they wouldn't normally wear."

Part of Hub24's approach to its staff of 250, who are now working from home, was to provide an OH&S checklist that sets out the key points and follow up through HR.

"Part of the money was to help support that," he says.

The success of new furniture maker Stagekings indicates that many people were unprepared for working from home when the orders came in March.

Managing director Jeremy Fleming, who switched his business from designing sets and stages to making home office equipment, found there was a great demand for desks in the first weeks of lockdown.

"In just the first three months, we made nearly 10,000 IsoKing products and sent them across Australia to thousands of new customers," says Fleming. From there the company expanded its offering to more than 40 items, including monitor stands, footstools, bookshelves and other equipment as demand built.

At tax time, there are three ways to claim your expenses:

- Actual cost method: the work-related portion of your actual expenses.
- Fixed-cost method: usually 52c per hour for heating, lighting and cooling, and decline in value of home office furniture plus the work-related portion of your other expenses.
- Special Covid-19 rate: 80c per hour shortcut calculation (only available between March 1 and June 30, 2020), including phone and internet charges.

Adrian Raftery, from the accounting and tax service Mr Taxman, calculates that when using the 80c shortcut method most people will underestimate their claim by as much as $1500, as they cannot claim internet, mobile phone, home phone and office equipment such as webcams and office furniture, nor any stationery or computer consumables.

"Sit at your desk and scan the room for various items you may use, even partially, for work purposes," he says.

When it comes to larger purchases, Raftery says $299 is the sweet spot for any home office purchase, as anything that costs more will need to be depreciated over time.

The ATO has different depreciation schedules for different office equipment – for example, a chair may have a 10-year schedule and a laptop or monitor may have just three or four years. It can all be entered quite simply through your myGov account or a tax accountant.

Depreciation is also calculated on a pro-rata basis. So, for example, if you buy a laptop on June 30 then you will only be able to claim 1/365th of depreciation for the financial year. But next year you will be able claim more.

Raftery says ideally when claiming for a home office you would have a dedicated work space, but at this time the ATO has been more relaxed and you can just have a laptop on the couch. **M**

Long road to recovery

STORY DARREN SNYDER

Developing countries have suffered a huge setback, but opportunities will emerge from the economic chaos

The International Monetary Fund (IMF) didn't mince its words in June when it said economic activity in emerging markets has decelerated at its quickest pace in 50 years.

A direct result of the Covid-19 pandemic, economic slowdown isn't only occurring in emerging markets – but it's felt at a much larger scale in these countries because they don't always have as many financial stimulus levers to pull, and they're typically more vulnerable to what's happening in global markets (think plunging oil prices, for example).

Before the pandemic, emerging markets had built a solid case for investment. Some of the world's biggest and fastest growing companies have their base in emerging markets, including Alibaba (China) and Samsung (Korea). The 25 to 30 countries considered to be an emerging market (a country that's transitioning to a high-income base) were contributing 74% of global growth and were expected to increase this up to 84% by 2023, according to fund manager Fidelity International. The Fidelity Global Emerging Markets Fund won *Money's* 2020 Best International Emerging Markets Fund (see table on p62).

Post pandemic there's potential for these growth numbers to return; but it's a widely held view that this storyline will be lengthy. It's because some emerging markets headed into 2020 with high debt and limited capacity to help their health sectors or offer financial stimulus to citizens and businesses. The IMF says emerging markets (EM) on average have responded to the coronavirus with financial stimulus totalling 2.8% of GDP, while in advanced economies this figure is 8.6%. It means the road back to "normal" for emerging markets is likely to be long.

Michael Cirami, co-director of global income at fund manager Eaton Vance, says the EM countries that manage to implement stimulus successfully are a good chance of being the winners.

"Three months into the pandemic, it became clearer which EM countries are rising to the challenge and which are not. For example, the bungled responses of Brazil and Ecuador have damaged their leadership role in the eyes of EM investors, while countries like Vietnam, South Korea and Thailand are likely to gain from their effective, transparent policies," says Cirami.

He says investors in China will likely pause if they judge – as Eaton Vance does – that the country's transparency in fighting Covid-19 has been less than ideal.

"The pandemic represents the first EM crisis in which many countries have tried to cut rates as stimulus – previously, such moves typically provoked investors to flee the local currency. That has been Brazil's experience this time as well, as the real slumped as much as 30% against the US dollar," he says.

"It's too early to handicap the winners ... but not too soon to note that one of the laggards has been India, which has been hindered by inefficiencies in transmitting policy to its 28 states."

Cirami says during this historic recovery, the research capability required to identify potential winners and losers has never been more crucial.

Picking a winner

What hasn't changed about emerging markets is that you can get exposure to some of the top companies in these countries by purchasing shares through your stockbroker or online trading platform, provided they have the capability to handle international trades. For broader emerging markets exposure and portfolio diversification, however, an investment in a managed fund (including exchange traded funds) is worth considering.

BNP Paribas Asset Management (the investment arm of the first major foreign bank to operate in Australia) posted on its blog in late June that now could be the time to buy into emerging markets.

It says that, for the past decade, emerging markets have underperformed developed markets, but there are signs the tide is turning. And there's a widely held view that emerging markets outperform and underperform over 10-year cycles, with the last underperformance wave beginning in 2010.

The investment manager says, in the short term, commodity-sensitive Latin America and regions such as Europe, the Middle East and Africa (EMEA) should outperform as crude oil and metal prices continue to recover.

"Equity markets in China may lag due to US election-related political tensions," says Daniel Morris, senior investment strategist at BNP Paribas Asset Management.

Over the medium term, however, he says the effects of China's attempts to boost its economy should feed through to the rest of Asia, in particular Chinese technology companies.

Morris says IT company multiples (the prices investors are prepared to pay per dollar of earnings) in emerging markets are at some of the lowest levels since the tech bubble in the late 1990s. It means there could be opportunities to grab a bargain.

"On a price-to-next-twelve-month (NTM) earnings basis, relative multiples are similarly near levels not often seen since 2005, after which there was an extended period of EM outperformance," he says.

Cautious view

In early July, BlackRock, the largest fund manager in the world, made several tactical calls about how it would manage some of its investment portfolios over the next six to 12 months. Most notably it moved to a neutral position on US shares, meaning it doesn't see any major increase or decrease in these stocks for the next six to 12 months. The $US7 trillion ($10 trillion) manager also moved to an overweight position in European equities.

"The [European] region is exposed to a cyclical upside as the economy restarts, against a backdrop of solid public health measures and a galvanising policy response," says BlackRock.

When it came to emerging markets, however, BlackRock moved to an underweight position. This means it will typically hold less EM shares than the underlying benchmark indexes for its managed funds.

"We are concerned about the pandemic's spread and see less room or willingness for policy measures to cushion the impact in many – but not all – countries," says BlackRock.

In late June, fund manager Robeco produced its third-quarter outlook for 2020 and it too was taking a cautious view of emerging markets. It matches with the consensus that government finances across the world will look horrible after Covid-19. And those countries with the most leeway to help their population financially will do much better. It says emerging markets like India, South Africa and Mexico are all suffering, even in the upturn seen more broadly across developed markets.

Robeco also looked into the impact that a second wave of infections could have. It says even with partial lockdowns, a second wave would set the recovery back

EMERGING MARKETS COUNTRIES
Argentina
Brazil
Chile
China
Colombia
Czech Republic
Egypt
Greece
Hungary
India
Indonesia
Korea
Malaysia
Mexico
Pakistan
Peru
Phillipines
Poland
Qatar
Russia
Saudi Arabia
South Africa
Taiwan
Thailand
Turkey
United Arab Emirates

Source: MSCI Emerging Markets Index, July 2020.

MONEY'S 2020 BEST INTERNATIONAL EMERGING MARKETS FUNDS

			Performance (%pa)			Management fees		
Product	APIR code	Year started	1-year return	3-year return	5-year return	MER	Performance fee	Minimum investment
1. Fidelity Global Emerging Markets Fund	FID0031AU	2013	5.86%	10.42%	8.75%	1.00%	NA	$25,000
2. Capital Group EM Total Opps Fund	WHT0053AU	2012	4.39%	5.06%	4.56%	1.18%	NA	$25,000
3. Robeco Emerging Conservative Equity Fund	ETL0381AU	2013	-6.86%	4.39%	3.71%	0.96%	NA	$10,000
4. Schroder Emerging Markets Sustainable Fund	SCH0097AU	2016	-9.13%	0.81%	NA	1.40%	NA	$20,000
5. Schroder Global Emerging Markets Fund	SCH0034AU	2006	3.64%	6.28%	6.75%	1.40%	NA	$20,000

Source: *Money* Best of the Best Awards 2020. Performance data updated as at May 31, 2020, and supplied by Rainmaker Information.

by at least 12 months. It is also worried about company and country debt levels globally.

"The bad news is that governments would again have to come up with unprecedented stimulus packages and stretch debt dynamics further," it says, and "many emerging market countries clearly will have less ability for continued support. Caution at country level is therefore warranted here."

The Robeco Emerging Conservative Equity Fund placed third in *Money's* 2020 Best International Emerging Markets Funds.

BNP Paribas Asset Management's Morris says ahead of the US presidential election in November, it is reasonable to expect heightened anti-China and anti-trade rhetoric from President Donald Trump.

"During the worst of the trade war, emerging markets and particularly China underperformed the US," says Morris. "That said, the political calculation could also support at least another interim resolution as a rising stockmarket could still be one of Trump's strongest claims to re-election."

He adds that weaker currencies will be of less benefit to exporters too when global trade is likely to remain subdued and many developed countries may wish to re-shore production of goods.

Fixed-income manager Brandywine Global released a research note in June that aligned with other perspectives when it came to the actions of governments determining how economies will recover after Covid-19. But Patrick Bradley, senior vice-president of investment research, says, "We have to wonder whether or not governments will come under pressure from citizens straining under the lockdown who have lost jobs and have found it increasingly difficult to feed their families."

"Many parts of the world have been under mandated lockdowns and the services sector has been especially hard hit, like restaurants and tourism.

"Only essential services have been permitted to operate. This has led to protests across the globe ... tensions are rising.

"In most developed countries, the strength of their institutions will allow a peaceful resolution to the lockdown dissents. However, the same peaceful resolution of conflict in emerging markets may be different, where the strength and stability of institutions and government responses to the virus crisis might prevent a resolution of protests or civil disorder.

"Aggressive policies, particularly in EMs, could contribute to social unrest and growing protests, which could exert a negative impact on a country's economy." *M*

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To achieve reliable results over time, create and stick to a dedicated plan.

› *Longevity*
Make sure your money lives as long as you do by evaluating your portfolio regularly.

› *Protective & Resilient*
Consider adding a technical system to your investment strategy for more objective decision making.

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MARCH 2020
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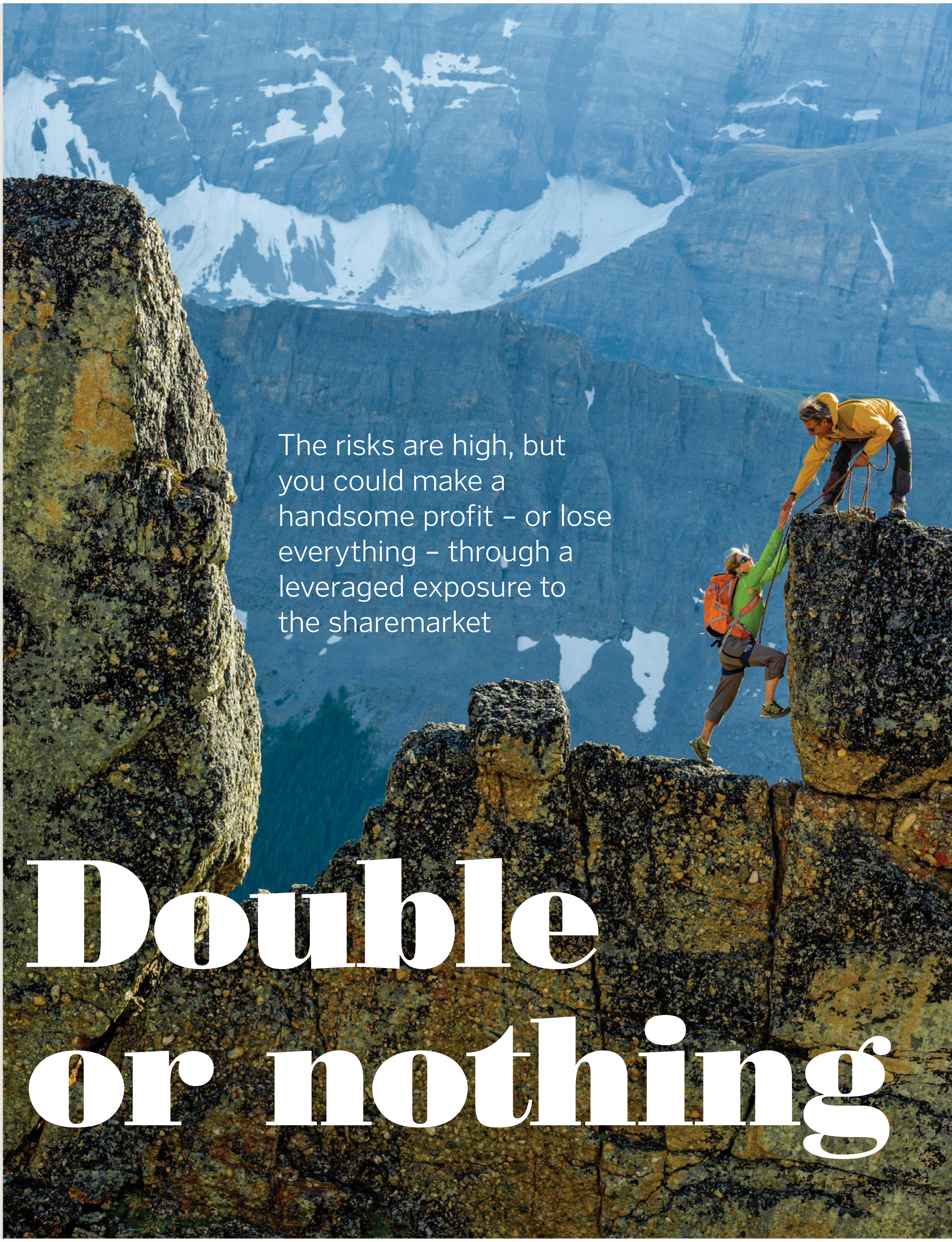
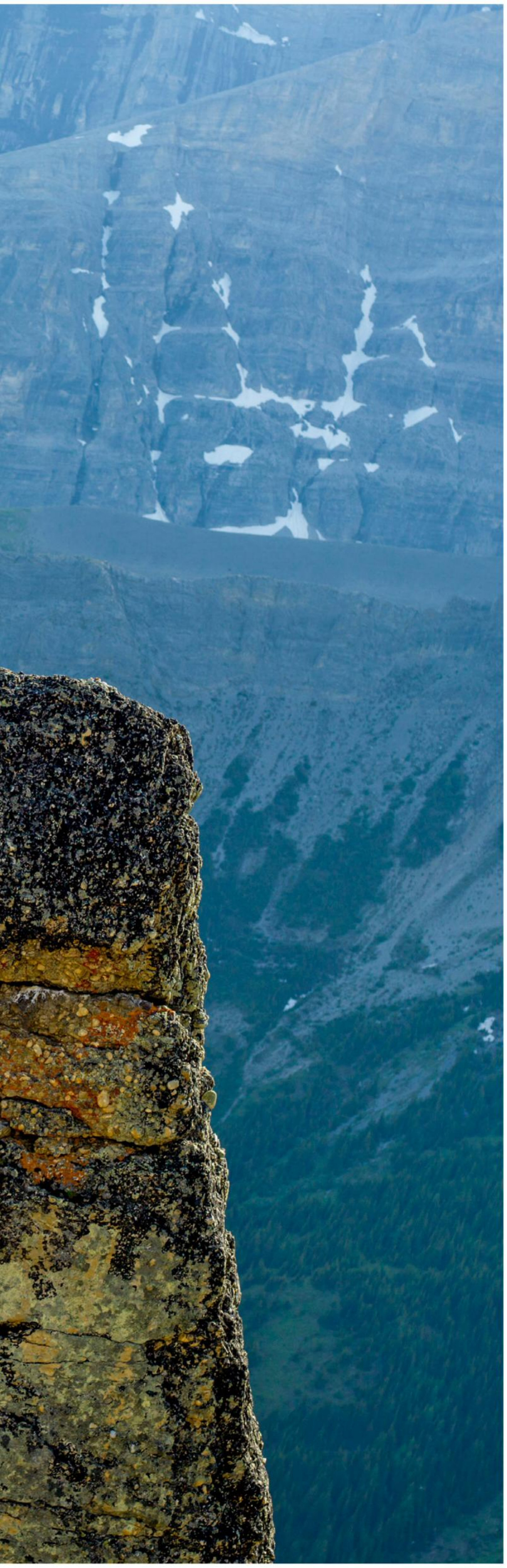
Elizabeth Tian, director of equity products, Citi Australia

Nathan Ide, managing director, Private Capital Management



The risks are high, but you could make a handsome profit – or lose everything – through a leveraged exposure to the sharemarket

Double or nothing



10 MOST-ASKED QUESTIONS

Q What is a self-funding instalment?

SFIs are a type of instalment warrant that give investors leveraged exposure (through a limited recourse loan) to a range of ASX-listed securities and exchange traded funds (ETFs), with no risk of margin calls. Ordinary dividends or distributions paid on the underlying security are used to reduce the loan amount. You can purchase self-funding instalments and instalment warrants through your financial adviser or broker. The ASX also has a useful booklet on understanding trading and investment warrants.

RODNEY GREENHALGH

Q How do self-funding instalments differ from other instalment warrants?

The difference is that dividends are used to help pay down the loan. Other instalment warrants see dividends paid directly to the investor. Neither product is superior, it just depends on whether it suits the investor to receive dividends as cash or to pay down the loan.

ELIZABETH TIAN

Q Who should invest/borrow in a self-funding instalment?

Borrowing to invest always has inherent risks, which may magnify both gains and losses. Therefore, it is recommended you should anticipate a good five years to invest. We recommend SFIs to our accumulation clients (that is, up to around 50 years of age) to ensure there is enough time to ride out market volatility. SFIs are especially of interest to younger clients who would like to grow their "investment pie" in or outside of super due to the limited funds they may have. Many see the benefits of using SFIs compared against the large investment outlay which may be required for an investment property.

NATHAN IDE

Q How much can you invest/borrow in a self-funding instalment?

As long as you have the available funds to purchase them, there are no restrictions on the number of SFIs in any particular security you can acquire. However, investors should remain mindful at all times of concentrating risks within their portfolio. As with any investment, an SFI's value can fall to zero. It should be noted that the gearing levels for SFIs are set by the product issuer on listing and cannot be adjusted at the individual investor level.

RODNEY GREENHALGH

Q How are loan repayments made in a self-funding instalment?

The wonderful feature of SFIs is that dividends received are automatically paid off the loan. The SFI issuer, such as Citi or Westpac, manages this process for investors. It means that busy investors are not required to pay down their loans each month. I typically focus on investing in SFIs that are yield focused, such as the Vanguard Australian Shares High Yield ETF (ASX: VHY). With a yield of around 5.7%, it provides a strong income stream to pay down the loan. At the end of the loan term, if repayments are still required

– and this is most likely always the case – investors have the option to pay down the remainder of their loan out of their own funds or roll over into a new SFI.
NATHAN IDE

Q How is risk managed in a self-funding instalment?

Risk is managed in the same way as it would be if you were buying shares. Diversification and stock selection are important and if you are borrowing specifically for dividends you need to be aware of dividend risks (for example, whether the company will continue to pay dividends, or reduce payments). Because it is a loan-based product, investors should also be mindful of interest costs and the level of their borrowing.
ELIZABETH TIAN

Q What happens to my investment if share prices suddenly fall?

This is one of the reasons I prefer SFIs: no margin calls. Although the strategy is not "set and forget" there is comfort in knowing that in times of market stress, which we are in now, SFIs do not require the investor to top up funds or sell down their investments. This is one of the compelling reasons I recommend SFIs to clients who are seeking leverage to grow their wealth.
NATHAN IDE

Q Do SFIs have other special features that I should know about?

Special features can include prepaid interest, capitalised interest, a stop-loss or an embedded-put (to sell at an agreed price on or before a particular date). Whether you choose to use these features depends on your personal circumstances. For example, some people may choose prepaid interest to help with tax planning or to manage cash flow. Others may choose an embedded-put, as the loan is limited recourse and optional, investors do not have to repay the loan if asset prices fall below the loan amount. However, they may have lost their capital at the expiry of the SFI.
ELIZABETH TIAN

Q Are there any tax implications when investing in a self-funding instalment?

Depending on the investor's circumstances and subject to the capital protected borrowing rules, the interest payments may be tax deductible and franking credits may be used to offset tax payable. Ordinary dividends or distributions paid on the underlying security are included in the investor's assessable income.
RODNEY GREENHALGH

Q What are the main pros and cons of investing in an SFI?

Investors who use SFIs are holding a share through a loan, so they can achieve greater exposure for the same capital contribution. For example, if an investor has $50,000 to invest and selects an SFI that is 50% geared, they will now have a $100,000 exposure. The clear benefit is greater potential for capital appreciation, as well as more franking credits. It's a loan, so you pay interest, but only on $50,000. As such, depending on the shares selected, they may be positively, neutral or negatively geared.

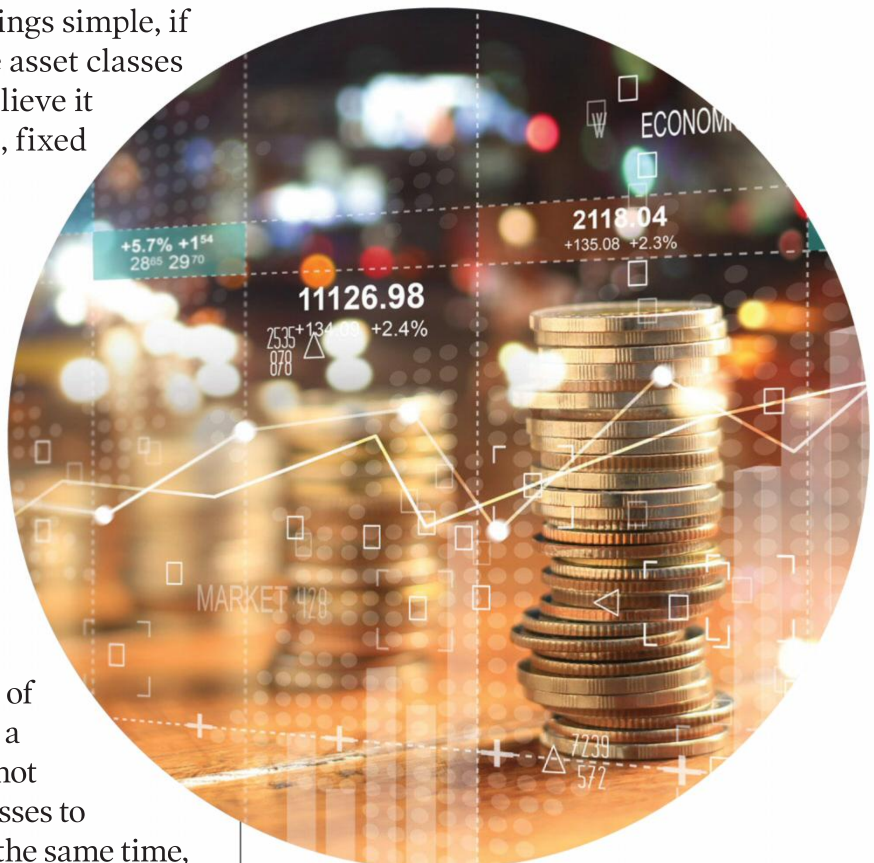
While the investor has potential for greater capital appreciation, there is also potential for greater losses if the underlying share falls in price. It's important to read the product disclosure statement of each product and ensure you fully understand the associated risks, as these are a more complex product than just investing in shares.
ELIZABETH TIAN

Bonds still have a role to play

Despite economic uncertainty, defensive assets can provide diversification benefits

In the vein of keeping things simple, if you had to choose three asset classes for your portfolio we believe it would come down to shares, fixed interest (bonds) and cash.

This way the portfolio construction balancing act oscillates between risk-on (equities) and risk-off (fixed interest and cash) strategies, given prevailing market conditions and future expected returns.



Theory states equities and bonds are negatively correlated – if one goes up, the other should come down, which highlights the benefits of holding these asset classes in a multi-asset portfolio. But it's not uncommon for both asset classes to deliver positive returns over the same time, as was the case in 2019. Granted, they were both going up for different reasons.

Do bonds still provide diversification benefits? The short answer is that over the past decade, long-term global sovereign bond yields have collapsed, driven by the monetary policies employed by global central banks.

Since November 2006, the declines in 10-year government bond yields for key developed markets were as follows: Australia -4.7%, US -3.9%, Germany -4.1%, Japan -1.7% and UK -4.3%. These are big movements considering a +/- 0.2% movement in yields is considered meaningful in bond markets.

This downward trend has in turn given stellar returns to bond investors in the form of capital growth. But the yield backdrop is such that some developed market bond yields are close to zero or negative. So how low can bond yields go and are yields more likely to rise, which could result in significant capital losses?

In our view, bonds still have a role to play in multi-asset portfolios. There remains significant uncertainty at the macro-economic and geopolitical level, which will likely see investors still gravitate towards the sector for its defensive qualities. This was evident in the recent virus-induced market sell-off, with Australian government bonds providing a solid positive return over the first half of 2020 while the S&P/ASX 200 Index was down 10.4%. Looking forward, monetary policy remains extremely accommodative with little signs the global central banks are going to pull back. This will likely provide a level of ceiling to bond yields.

In this environment, investors will be better served seeking long bond positions in developed markets where yields are still positive. This includes Australia and the US. The key down risk to using bonds as a diversification strategy is higher inflation but this is not an immediate risk.

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

3 FUNDS TO WATCH

1 PIMCO Global Bond Fund

Managed by one of the world's largest active fixed-interest managers, the fund provides exposure to predominantly investment-grade securities from around the globe, offering diversification across sectors and geographies and income generation. We see the fund as a core bond holding in portfolios.

We are attracted to the PIMCO fund due to: the well-resourced, capable and experienced investment team that is responsible for conducting in-depth research and PIMCO's well established and methodical investment process.

2 Colchester Global Government Bond Fund

The fund aims to deliver a defensive strategy while still providing alpha, it targets 2%pa (gross) over five to seven years. The fund is solely focused on high-quality sovereign bond and currency markets. We believe investors can use this fund as a cornerstone bond strategy and then express their views on credit markets via other positions.

3 Altius Sustainable Bond Fund

It offers investors fixed interest investments, which are managed with the consideration of environment, social and corporate governance (ESG) principles. The fund has an absolute-return focus, so can eject duration if bond rates start to rise. We do not believe the ESG bent detracts from performance. In fact, we found instances where the ESG policy added to performance by screening out certain investments that later underperformed due to ethical related issues.

Pros and cons of an income cut

Retirees with an account-based pension need to strike the right balance to ensure they can survive

This is a tough time for retirees who rely on an account-based pension: do they opt for the new, lower minimum drawdown rate or stick with the old one? For the past decade they have enjoyed returns of around 7%, which has supported the higher pension drawdown and kept super balances healthy. But that was then.

Now everything is up in the air as a result of the pandemic. The sharemarket has been hit and yields on cash, term deposits and bonds – a favourite of retirees – are at historic lows. The investment environment couldn't be more difficult.

While employees on a regular salary can sit on the sidelines and wait for their super to rebound, retirees have no such luxury. Unless they have cash set aside to tide them over, they are forced to crystalise losses whether they like it or not to meet their daily living expenses.

Once you move into an account-based pension, you are required to draw down a minimum amount of income each year. However, you can take higher payments if you wish or make lump sum withdrawals. The withdrawal rate rises with age and pension payments are calculated on July 1 each year (see table).

In March, as Covid-19 struck, the federal government stepped in with a temporary measure to halve the minimum pension rates for the 2019-20 and 2020-21 financial years in an effort to help retirees preserve their capital.

A similar measure was introduced during the GFC. National Seniors Australia lobbied the federal government to do the same again and give retirees the option of taking a lower amount to help them preserve their savings.

Retirees often worry that they will outlive their super and have to fall back on the age pension. Colin Lewis, head of strategic advice at Fitzpatricks Private Wealth, says people who can afford it should consider taking the lower rate.

When the government first did this during the GFC, the thinking was to slow the fire sale of assets in a depressed market by lowering pension payments that maybe weren't needed.

By now your super fund should have communicated with you to let you know whether you need to do anything.

"Generally, what they will do is if you've requested the minimum drawdown, it'll be automatically reduced to the new minimum from July 1 without you having to do anything," says Lewis.

If you can't manage on the lower amount, contact your fund, he says. "The beauty of an account-based pension is its flexibility. You can adjust it at any time. You

MINIMUM PENSION AND ANNUITY WITHDRAWAL PERCENTAGES

AGE	Minimum % withdrawal (in all cases)	Reduced rates by 50% for the 2019-20 and 2020-21 income years (%)
Under 65	4%	2%
65-74	5%	2.5%
75-79	6%	3%
80-84	7%	3.5%
85-89	9%	4.5%
90-94	11%	5.5%
95 or more	14%	7%

Source: Treasury.gov.au

“The beauty of an account-based pension is its flexibility – you can adjust it at any time”

can increase or decrease your pension payments at any time, as long as you don't reduce it below the minimum requirement,” says Lewis.

To ensure that the minimum is enough to live on, retirees will need to re-examine their living expenses and figure out what the change means for them. For some the new minimum will leave them short.

“There are people who need their account-based pension to meet their living expenses. It doesn't matter for those people that the government has reduced the minimum rate. They are still going to have to draw a certain amount of money to live off, regardless,” he says.

Accuracy is everything

People running a self-managed superannuation fund (SMSF) need to ensure that they calculate the new minimum pension payment correctly.

It's not a matter of merely calculating the annual pension payment using the normal pension drawdown factors and halving it.

For example, take Rochelle, aged 66, who has an account-based pension. Her balance at July 1, 2020 was $640,220.
The “normal” minimum is 5% x $640,220 = $32,010 (rounded to nearest $10)
The “new” minimum is 2.5% x $640,220 = $16,010 (rounded to nearest $10)
It is not 50% x $32,010 (“normal” minimum) = $16,005.

In the 50% case, the minimum has not been met, which may mean the member has not been running an account-based pension during the year. Thus, earnings, including capital gains, will not be tax-free.

Source: Fitzpatricks Private Wealth

For wealthier retirees with more options it's a different matter. Super rules and tax are complex areas, which means it's best to seek financial advice first to ensure you add value to any strategies and avoid making costly mistakes.

“Think about how much you need to live on. And where you are going to source the funds from. Ideally you, don't want to disturb your super,” says Lewis.

“If you've got more than $1.6 million and therefore your transfer balance cap is used up and you have money in accumulation phase ... what you may want to do is reduce your tax-free pension payments to the new minimum and take out any excess you need from the accumulation phase, which is taxed at 15%.”

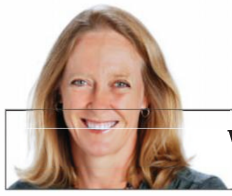
There may be additional estate planning advantages, says Lewis. “The problem with your account-based pension is it has a taxable component, and if you pass away and it goes to an adult son or daughter, they are going to be hit with a tax on that.”

While retirees often think it's easiest dipping into assets outside super, it might be a short-sighted solution.

“If you've got money sitting in term deposits, cash in the bank or shares outside of super and the income it generates is less than the effective tax-free threshold, you are not paying tax on it anyway,” he says. And it's free of inheritance tax.

“So in some ways you might be better off, if you need the income, taking it out of your super rather than out of your own private money, but that's an estate planning issue,” says Lewis.

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



WHAT IF? Annette Sampson

We experience a W-shaped recovery

A global increase in Covid-19 cases has dampened hopes of a quick economic bounce

THREE POSSIBILITIES

First, let's establish just how the economists categorise recoveries. The best option, which is looking increasingly unlikely both here and globally, is a V-shaped recovery where growth falls quickly and then kicks back up again. V-shaped recoveries are typically short and sharp, doing a minimum of long-term damage.

Then there's the U-shaped recovery where the economy falls, then muddles along at this lower level for a period, before rising up out the other side. U-shaped recoveries take longer than V-shaped, but once things start to get better they improve fairly quickly.

Which brings us to the W-shaped recovery. This is also known as a double-dip recession. In terms of confidence, these are much more damaging than other types of recoveries as the economy seems to be on the rebound and then plummets back into recession. Businesses and consumers who managed to get through the first dip can lack the resources to get through a second downturn.

But as bad as that sounds, it's not the most damaging type of recovery. The L-shaped recovery is a scenario where there is an extended downturn and, while the economy does start to grow again, it takes many years for it to reach the pre-crisis level again.

Some have also referred to a "swoosh" recovery where the downturn is followed by a prolonged slow uptick – much like the Nike logo.

WHY TALK OF A "W"?

The upswing in Covid-19 cases in Victoria and globally in June has basically put paid to hopes for a V-shaped recovery. Whether this constituted a second wave of the virus, or merely an extension of the first wave, it has raised the risk of recovery being a longer and harder path than many

initially hoped. The initial opening up of economies after lockdown had proven positive for the Australian and some overseas economies. Job growth in May and June had been surprisingly strong, and the Reserve Bank noted a pick-up in retail spending locally. But can the rebound can be sustained?

The OECD has modelled scenarios for both a one-hit and double-hit outbreak (see graph). It shows that a second

THE CHALLENGE Darren Snyder

Reinvest your dividends

You can use the payout to build up a bigger shareholding

Our fascination with dividends will be challenged in 2020, especially this month (August) as we hit the major reporting season for ASX-listed companies.

As we write this in early July, three of the big four banks (CBA, Westpac and ANZ) have already suspended their dividends while NAB has significantly cut its payout.

It's a similar story among oil companies. In June, fund manager Nikko Asset Management told investors that dividend expectations for Australia's top 200 companies had fallen 30%. Then only days later, fund manager Allan Gray said it's working towards dividend yields of close to zero in the near future across the majority of ASX-listed companies.

outbreak triggering a return to lockdowns would create a W-shaped recovery, but in either case world growth is unlikely to be back to levels seen at the end of 2019 for at least another two years.

Under its double-dip scenario, world economic output would fall by 7.6% this year and climb only 2.8% in 2021. That compares with a 6% fall if we avoid the full second wave.

It estimated that the Australian economy could drop by 5% in 2020 under the single-hit scenario, increasing to 6.3% if everything went W-shaped.

While noting Australia had fared better than many other countries, and was less at risk of a major second wave with its borders closed, the OECD noted our high levels of household debt pose a threat to recovery and measures such as JobKeeper may need to be extended.

Fortunately, it believes Australia has the means to fund a strong response if there is a second outbreak or the recovery falters.

EMPLOYMENT IS KEY

Household debt is most likely to raise its ugly head as a problem if unemployment worsens. To some extent, households have been shielded from debt by relief packages and programs such as JobKeeper, but that can't be extended indefinitely.

The OECD predicted our unemployment rate will be 7.4% this year and rise in 2021 to 7.6%, even without a second hit to the economy. If the second hit results in going back to a full national lockdown, it predicts unemployment of 7.6% this year and 8.8% next year. According to the ABS, the unemployment rate in May was 7.1%.

In its May statement on monetary policy, the Reserve Bank said unemployment was likely to hit around 10% in the June quarter, although it expected both growth and employment to improve in the second half of the year. However that was before infections in Victoria got out of hand.

DID YOU KNOW?

The Reserve Bank has researched the similarities and differences between this pandemic and the Spanish flu of 2018-19, which hit in three main waves. While the economy in 2020 is vastly different, it concluded rapid recoveries from pandemics are possible if the public health aspects are not too prolonged.

BEST-CASE SCENARIO

This downturn is inextricably linked to health outcomes, so getting Covid-19 under control is our best chance of still experiencing a strong recovery.

WORST-CASE SCENARIO

Australia's economy is highly exposed to international trade, so even if we manage to control further outbreaks domestically, our recovery could still be slowed by a second wave overseas, especially in major economies such as the US and China.

THE WILD CARD

The pandemic is not the only factor affecting economic recovery. We also have tensions with China and the US election to deal with.

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.*

There will be a select few companies that haven't been heavily impacted by Covid-19, such as supermarkets, and it's likely they will maintain or even enhance their dividends to shareholders.

If you're lucky enough to be receiving a dividend in 2020, you generally have two options: have the company credit you the money into a bank account or by cheque; or use the dividend to buy more shares in the company via a reinvestment plan.

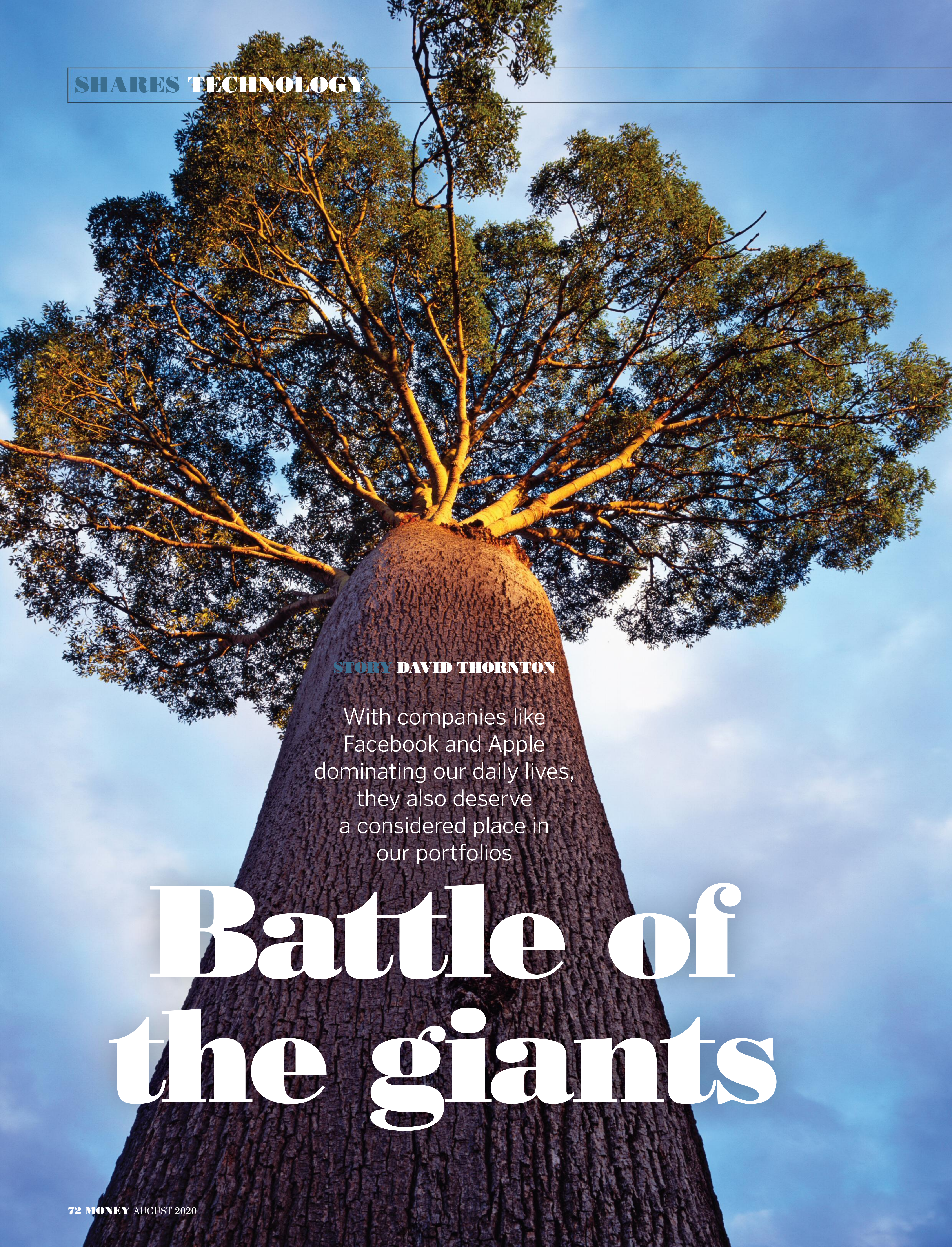
The latter option is often viewed as a great way to increase your holding in a company as well as compound your wealth over time.

And if you do decide to reinvest your dividends, it is important to keep copies of the paperwork or another formal record. This will help you work out any capital gains or losses when it comes time to sell the shares, and will help your tax adviser or accountant.

The Australian Taxation Office says that if you participate in a dividend reinvestment plan you are treated, for tax purposes, as if you received a cash dividend and then used it to buy more shares.

In the lead-up to the last federal election you might recall there was significant debate about Australia's franking credit scheme. This is part of the process around how you, and companies, are taxed for your dividends. Franking credits are a tax credit paid by companies to shareholders in conjunction with dividend payments. These may entitle you to a franking tax offset that covers or partly covers the tax payable on the dividends.

MoneySmart, the Australian Securities and Investments Commission's website, says for an investment you need to keep records that show: how much you paid for it; how much you sold it for; any income (dividends); and any expenses paid while owning the investment. You need to keep records for five years after you included the income and capital gain or loss in your tax return.



STORY DAVID THORNTON

With companies like Facebook and Apple dominating our daily lives, they also deserve a considered place in our portfolios

Battle of the giants

Chinese and American technology giants are fundamentally changing the way we go about our daily lives. But they're also changing global commerce, and this is rewriting the playbook when it comes to the way investors view them.

Technology titans can be split into two camps: the American FAANGs (Facebook, Amazon, Apple, Netflix and Alphabet, which owns Google) and the Chinese BATs (Baidu, Alibaba and Tencent). Microsoft should also be in there, as the world's most valuable company, but "M" doesn't seem to lend itself to the acronym, so it misses out. Electric vehicle maker Tesla also deserves a special mention.

The FAANG companies should be familiar to readers of *Money*. The BATs are less known. Baidu is a search engine, like Google, and it is also heavily invested in a range of internet-related products. Alibaba is a retail and ecommerce business, like Amazon. Tencent is another conglomerate of varied internet-related services, but is most notable as the world's largest video game company.

To give some idea of the scale of these companies, the FAANGs have a combined market capitalisation of more than $US5 trillion ($7 trillion) at the time of writing. That's more than three and a half times Australia's entire gross domestic product (GDP) for 2019.

They are also popular with investors, meaning they're expensive. Many of these companies have share price-earnings (PE) ratios, at times, in triple digits. That compares with an average of 30 for the whole of the NASDAQ, the stockmarket where the FAANGs are listed.

Same but different

The FAANGs and BATs share many similarities. Both leverage technology and massive market reach.

According to Alex Pollak, chief investment officer at Loftus Peak, a fund manager who invests exclusively in disruptive companies, the core quality that binds these companies together is the networks they run on. The communication industry's Metcalfe's law and the network effect holds that the number of transactions is exponentially greater the more people there are on a network.

"With every potential connection, there's essentially someone tolling that connection," says Pollak.

That could be through advertising as in the case of Facebook, connecting sellers and buyers in the case of Amazon and Alibaba or connecting gamers in the case of Tencent. This is the reason these companies are able to harvest so much value. They're also products of rapid advances in telecommunication technology.

"If you look at the whole way online is digitising commerce, it's all about connections combined with fast broadband," says Pollak.

Indeed many of these companies simply couldn't exist were it not for the huge advances we've seen in broadband capacity. Watching Netflix or Amazon Prime movies in high definition would not be possible with the dial-up internet of old.

Where they fit in

While these companies share the same space when discussing disruption in the 21st century, they still provide vastly different products and services.

"There is competition amongst them, but they do each command their own segments of the market," points out Kanish Chugh, from ETF Securities. "When we talk about these companies, we call them tech – but on a sector basis only Apple is a tech company. All the others are either consumer discretionary or media and communications."

While these new age companies can be misdefined, some of them seem unable to fit a definition at all.

"What really is Google?" asks Chugh. "Is it a tech stock, is it a media and communication stock, or is it an infrastructure stock. Where does it actually fit?"

Chugh prefers to view these companies as infrastructure players, a nod to their cornerstone role in society. While roads have moved goods and services in the past, and still will, broadband networks will do the same in parallel in the future.

"They combine physical or information distribution and artificial intelligence," says Chugh.

The American FAANGs and the Chinese BATs do admittedly serve different markets, but this difference is shrinking.

The FAANGs have a truly global target market. You'd be hard-pressed to find any place in the developed world that isn't also populated by an Apple product or receiving an Amazon package.

The BATs, by contrast, have been primarily reliant on the domestic Chinese market.

"Companies will always gravitate towards their home market," says Chugh. "China already has an enormous consumer market so it's not a bad place to start and grow. Now the BATs are expanding outside China.

"The same took place with the FAANGs. They became entrenched in developed markets before moving into emerging markets."

Granted, there has been pushback against Huawei's attempt to provide 5G networks in western countries, but it's predominantly a hardware company whose products reportedly pose a security, and therefore

> **While roads have moved goods and services in the past, broadband networks will do the same in the future**

geopolitical, threat. And the ongoing trade tensions between the US and China make it increasingly difficult for companies in one to do business in the other.

The new blue chips

The tectonic societal shift these companies represent, combined with their novel business models, is leading investors to question the way they perceive and value them.

A traditional PE ratio may not work for companies like these that are disrupting industries and committed to reinvesting their revenue.

This is vastly different from what we in Australia have traditionally thought of as blue chip: banks that pay dividends.

But Chugh believes the tech giants better represent what a blue chip truly is: reliable earnings and future growth potential. And if "cash is king", then they're set to be long-reigning monarchs, with combined cash pools in the hundreds of billions.

"We need to rethink how we value these companies," he says. "Maybe we look at total return, and also look at the places where we get yield, because we can't get yield to the same extent from fixed income these days."

Admittedly, these companies can exhibit short-term volatility. But their growth potential is without question, and if any companies are future proofed these surely come close.

"You need to ask: are you buying into the stock price or the future of the world – the thematic play that 'I fundamentally believe in this disruption'."

Not all investment experts are convinced the meteoric rise of the tech giants will continue unabated. A report by Aoris Investment Management pushes back at the common view that these companies have won their respective "winner takes all" markets.

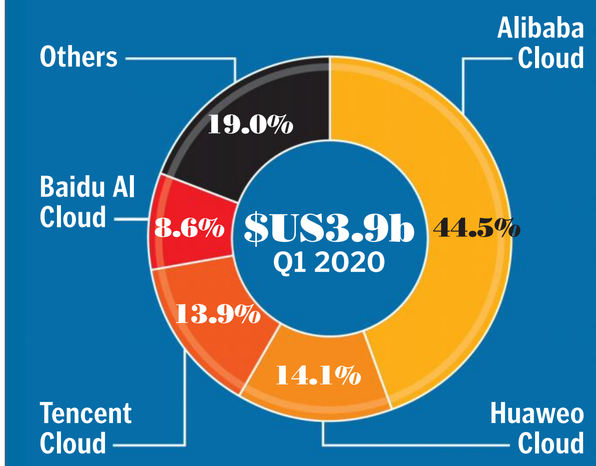
It suggests they face maturing core markets and increasing competition, often from each other. "Their incremental capital investments are going into areas where they are competitively weak and returns are unlikely to be as juicy as those they have enjoyed from their core business over the last decade," says the report.

Repeating these successes on such a scale is simply very unlikely, they argue, and attempting to do so can be harmful to investors looking for growth. "The frontier markets that the FAANGs are entering create a sense of excitement and are full of potential, but the cost of participation is high and the probability of success for any one participant is low," says the investment manager.

Add to this the "hot hand fallacy" that plagues many investors – the belief that a good thing in the past increases the likelihood it will be a good thing in the future.

"It makes us think that Amazon will dominate every market it enters; that everything Apple touches will turn to gold; and that the algorithms that have created online search and targeted online advertising will solve trillion-dollar problems in industries such as healthcare, transportation, education and law enforcement."

China cloud infrastructure services spend



Cloud infrastructure spending in Mainland China increased 67% to $US3.9b in Q1 2020 despite disruption caused by COVID-19.

Source: Canalys estimates, June 2020

How to invest

Gaining direct exposure is possible through broking platforms such as CommSec and Nabtrade. The FAANG stock codes are FB, AAPL, AMZN, NFLX and GOOG, while the BAT stocks are BIDU, BABA and TCEHY. All are listed on the NASDAQ apart from Tencent, which is listed on the Hong Kong exchange.

Another option is to hold shares through an exchange traded fund (ETF). The BetaShares NASDAQ 100 ETF tracks the performance of the NASDAQ 100 Index. That does sweep up all NASDAQ-listed companies, weighted by market capitalisation, but the FAANGs make up more than a third of the pie.

ETF Securities offer its FANG+ ETF. Despite the name, this one includes both FAANG and BAT companies by tracking the FANG+ index on the New York Stock Exchange.

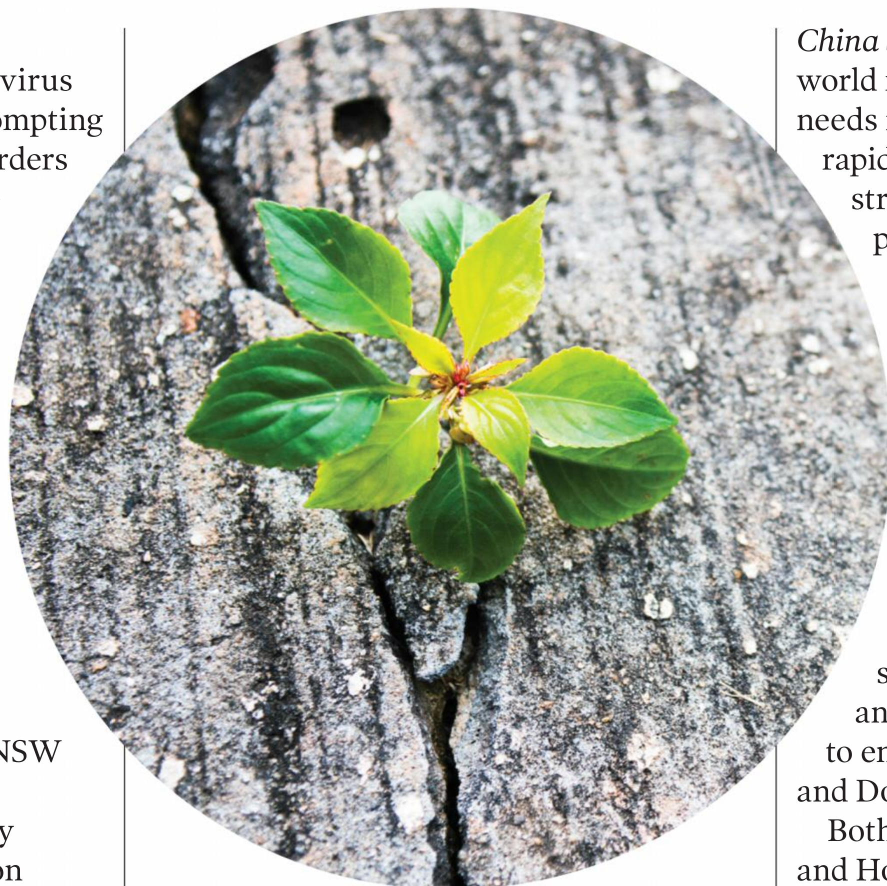
In the managed funds space, there's the Loftus Peak Global Disruption Fund, which holds Amazon, Google, Qualcomm and Alibaba, among others.

The Magellan Global Trust (ASX: MGG) is a listed investment trust with exposure to many of the tech companies, such as Alibaba, Facebook, Google, Tencent and Microsoft.

If investing in the local market is more your thing, then the WAAAX stocks (WiseTech, Afterpay, Appen, Altium and Xero) represent equivalent, albeit smaller, disruption. The BetaShares Aussie Tech ETF (ASX: ATEC) provides an easy way to gain exposure. Managed funds include Fidelity Future Leaders, Colonial First State Smaller Companies, Pengana Emerging Companies and Hyperion Small Growth Companies. *M*

Second-waving, not drowning

While Australia battles a fresh virus outbreak, the good news is China's economy and sharemarket are bouncing back



While we all focus on the mounting cases of coronavirus infection in Victoria – prompting the NSW government to close its borders with its neighbours for the first time since the Spanish flu of 1919 – something good is coming Australia's way.

Victoria's second wave in early July was no doubt a cause for concern as our second biggest state could have dragged the rest of this sunburnt country down.

The Victorian government moved quickly to lock down Melbourne for six weeks. With infected cases on the rise, premier Daniel Andrews was not ruling out expanding restrictions further and NSW was watching developments closely.

But, hey, Australia remains a lucky country. Per capita (cases of infection as a percentage of population), the total number of coronavirus infection (0.033%) was not that far from the figure for New Zealand (0.031%) and was far healthier than those for the US (0.9%), Brazil (0.8%), Spain (0.6%), the UK and Italy (0.4%) and India (0.05%).

Still, Victoria's second wave could put economic activity back in the freezer – that's 25% of Australia's total national output vapourised, delaying the country's recovery from recession.

However, something good is coming Australia's way.

We're still unsure how Canberra's souring diplomatic and foreign relations with Beijing will play out – China has already advised its citizens not to tour and study in the land down under, in retaliation for the Morrison government's call for an inquiry into the beginnings of the coronavirus pandemic.

To be sure, cooler heads will prevail. Scott Morrison's "inquiry" bravado would give way to what's best for the domestic economy. Follow the money.

This becomes even more imperative given the likelihood of a more prolonged contraction in the Australian economy.

But have no fear, big brother is here.

China is Australia's biggest export market and being first into the coronavirus pandemic and first out of it, its economy is revitalising sooner than everyone else. The politburo's tough love policy – cruel to be kind, health before wealth – worked.

To date, China's total cases of infection have remained around 80,000 since March, with nil new cases and total deaths increasing by only two since mid-April.

Not only has this allowed China to re-open, it's also given central command freedom to turn its attention to re-growing the economy.

The Shanghai Composite Index rallied by 5.7% after a recent Reuters report quoting the state media mouthpiece, the *China Securities Journal*, as saying: "In a world reshaped by coronavirus, China needs further sharemarket gains to fund a rapidly developing digital economy and strengthen its hand in intensifying power rivalries ... China's economy is recovering, while its capital markets are undergoing reform and attracting money from home and abroad, setting the scene for a healthy bull market."

But even before this, the sharemarkets in China and Hong Kong had been moving up despite the passage of the security law for Hong Kong, prohibiting acts of secession, subversion, terrorism and collusion with foreign forces to endanger national security, on July 1 and Donald Trump's sanction reaction.

Both China's Shanghai Composite Index and Hong Kong's Hang Seng Index had registered daily gains since then (at the time of writing), sending China's benchmark index up by 11.7% this year (compared with the S&P 500's 1.6% loss).

Threats of tariff increases and sanctions from Trump – implemented and planned – have forced China to look inwards into its domestic economy and away from trade negotiations with the US.

In the bigger scheme of things, Australia's coronavirus second wave is minuscule relative to what's happening in other nations. One way or another, we'll get on top of this.

The big question is whether Australia aligns itself towards China, a growing, albeit communist, power, or the US, a capitalist democracy but one that's becomes divisive under the present leader.

My money's on China, especially if Trump is re-elected in November.

Benjamin Ong is director of economics and investments at Rainmaker Information.

What it takes to be a winner

STORY DANIELLE ECUYER

Stick to the basics – and keep it simple – when you start playing the sharemarket game

Planning prevents piss-poor performance. I love this statement. It was the catchcry for my son's team during his school rowing seasons and it's good general advice. It applies to many things from sport to finance and everything in between.

Armed with knowledge you can plan for your investment portfolio or how you'll adapt what you already have. It's never too late to weed and prune what you've got or to invest in some new shares.

Planning the "best" investment portfolio for you will require a little preparation but nothing too arduous. Here is a go-to list of points to consider when starting out.

First-time investor

Are you a student or a young professional saving for a holiday or housing deposit? You can start a portfolio with as little as $500. The less money you have the simpler and more risk free the investment should be. It's just not feasible (from a cost standpoint) or reasonable to think that you should buy five to 10 separate shares at $100 each. For anything less than, let's say $2000, as a first-time investor, you should probably only consider buying one exchange traded fund to start, such as an exchange traded fund (ETF) that replicates the ASX 200 share index, for example. You can keep contributing to that until it reaches a critical mass of $5000. You could then consider adding some shares, but anything less than $1000 per share is just not worth it. Better to keep adding to the ETF and grow that.

For savings of $10,000-plus you can start to look at the model portfolios that suit your age, risk tolerance and commitment level.

Inheritance money

Inheriting shares or money is sometimes emotionally challenging, as you may put undue pressure on yourself not to make a mistake and lose any of it. Or you may feel conflicted about selling the shares you have inherited to change the portfolio. You may also be a new investor and then the task is more daunting. Depending on the size of the inheritance it may be wise to seek tax advice. Keep to the script, remember costs, don't invest in anything you don't understand and consider how the money can be best invested.

Can you add the money to your superannuation, perhaps a self-managed fund? If you're anxious about the risks, start with low-risk, low-maintenance portfolios (see tables). As your confidence grows and your knowledge base increases, you can select more shares.

Divorce settlement

Investing money from a divorce settlement can be emotionally fraught, particularly for women who may not have much financial experience. The wounds of the divorce are compounded by the fear of the unknown. Now I'm not a divorce counsellor, but I have been there with a young son, starting out in a new town (I relocated back to Sydney from London). I know it can be daunting, but gently, gently:

- Be kind to yourself, step back, take a deep breath and don't rush any decisions.
- Try to get some good advice about tax; you want a good family accountant if it's a reasonable amount.
- Think about how much you need to live off and what needs to be invested. When it comes to the investment aspect, think about costs. It's more likely than not that your money will be better invested in a low-risk, low-maintenance portfolio than anything more costly with an adviser.

Lottery windfall

Having never won the lottery I don't know how it feels, but I do often hear of people losing it all. So if you win the lottery or the equivalent (as in you receive a large lump sum of money), then you need to be prudent when it comes to investing and spending. In my time I have received sizeable bonuses as remuneration for my work in London. I can assure you I was very disciplined about saving the lump sums either by paying off my mortgage or investing the money in shares. It's too easy when we're younger (or older!) to not save any lump sums we receive. It's so easy to spend and so much harder to make the money we need as we age.

Depending on your level of financial knowledge, I suggest any lump sums should be properly allocated across a number of shares and ETFs, including overseas ETFs. As lump sums are usually bigger amounts it's important to diversify. So, depending on your ability, knowledge and experience, any of the example portfolios (see tables) would work.

Unhappy existing investor

I know how this one feels, and it's not always easy to have the conversation with yourself or an adviser about what isn't working and how to fix the problems. It will come down to you identifying what isn't working for you and then putting in place a plan to redress the situation. A few considerations:

- It's never too late to sell; holding onto the

PORTFOLIO WEIGHTINGS BASED ON MAINTENANCE LEVEL

	Low maintenance	Medium maintenance	High maintenance
ETFs	80%-100%	50%-60%	0%-40%
Direct shares	0%-20%	40%-50%	60%-100%

Source: Shareplicity. These are examples, not recommendations.

PORTFOLIO WEIGHTINGS BASED ON RISK LEVEL

LOW RISK (defensive shares, greater weighting to income)	**MEDIUM RISK** (balance between growth and income)	**HIGH RISK** (large exposure to secular growth shares)
• 80% weighting to ETFs: bonds, dividends, developed markets (Australia, US and maybe Europe); high quality. • 20% weighting to quality/dividend champion shares like CSL, CBA and REA.	• 50% weighting to ETFs: developed markets, less in bonds, dividends and income. • 50% weighting to more quality shares with possibly some resource exposure, banks and technology.	• 30-40% weighting to ETFs: emerging markets, trend ETFs like cannabis, IT, space and artificial intelligence. • 70%-50% weighting to growth, technology, cyclicals (lithium) and emerging technology shares.

Source: *Shareplicity*. These are examples, not recommendations. They are to give you some idea of how to structure a portfolio and what weightings and risk profile are possible.

"tensaggers" (as opposed to tenbaggers) or the losers isn't a winning strategy. The losing shares just never recover to your purchase price, so bite the bullet, sell and invest your money in a share or an ETF that will make you money.

- Don't be afraid to change an adviser or sell a managed fund; the world is changing and that includes share investments. Waiting for the pot of gold at the end of the rainbow isn't sensible. I suggest you follow the model portfolios that suit your age and disposition.

How your age may change your profile

Traditionally, professional advisers recommended that investors had investments in corporate bonds or fixed income equal to their age in years. For example, if you're 50 years old, 50% of the total cash is invested in bonds. You can buy ETFs or managed funds that give you exposure to high-quality corporate bonds and government bonds. And secondly, given the low-growth world, I would suggest the weightings should be lower.

Arguably anyone under 40 to 50 years old probably should maintain a high to full exposure to shares. Advisers recommended bonds and fixed income because they were considered as lower risk: in down markets the funds go down less than shares.

"Home offices" for wealthy families normally recommend a mix of one-third shares, one-third bonds and one-third property. (Home office is an expression used by investment managers to refer to wealthy families who pay a specialist to look after their investments and affairs.) This gives you an indication of how they allocate assets. With the help of ETF products and real estate investment trusts you too can achieve such an asset allocation. But I would suggest it's not appropriate for most of you, particularly younger investors. In my experience, this allocation is too conservative (risk free) for anyone under 40.

In your younger years, you want more growth (and possibly more risk) for two reasons:

1. The shares have the potential to go up more in a low-interest rate world.
2. Some of the high-growth companies turn into the dividend champions that become some of the best long-term wealth creators.

20-40 years: low maintenance/high risk

For this age group, I suggest a selection of high growth and major index share exposure through ETFs predominantly – a few high-quality shares. The aim is to invest as early as possible and keep adding to the share portfolio while keeping costs down. There are a number of themes millennial investors and gen Z are attracted to that can be captured in ETFs: these include ethical, ESG, sustainable funds, domestic and global; technology themes like global robotics and artificial intelligence; and global cybersecurity. There are more listed in the US with themes such as climate change and space captured in the ETFs, but you'll need a US share account.

12-POINT PLAN FOR BUILDING A DIRECT SHARE PORTFOLIO

1. A reasonable allocation of shares is 5%–10% of your capital in any one share for a $10,000 to $25,000 portfolio, and as the amount invested grows I suggest lowering the allocation per share to between 3%–5%. The larger the portfolio the more you may want to consider a bond ETF.

2. Increased exposure to REITs that are exposed to the optimal sectors of the property market for growth and income.

3. The more you increase the weighting to a share, the more risk you're taking on (the more money you can make and the more money you can lose).

4. Avoid creating a portfolio with 40-plus shares – it's just too many.

5. Remember to do the weeding and cull the losers or the saggers. The money can be better invested in a share that is going up.

6. Take some profits along the way but keep your quality core holdings; the dividend champions will repay your original capital many times over.

7. Remember that you're not performing against an index although you will need to reassess your portfolio if you're not achieving the long-term returns of the market.

8. Be clear about what you're aiming to achieve; most of us will need growth and income as we're living longer in a low-interest-rate world.

9. Reinvest the dividend income if you can; it grows your wealth more effectively and allows the power of compounding.

10. Don't trade too much or allocate only an amount to trading.

11. Watch and monitor the costs.

12. Make a commitment to stay informed and open minded, and never say never.

40-65 years: medium maintenance/high to medium risk

In these two decades your involvement and ability to invest will depend on your work and family life commitments. Normally as we age there's more time to

18+

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AVAXHOME -

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commit to our share portfolio, but this is a very personal decision based on confidence, commitment to reading and education as well as enjoyment. For some of you it might become a vocation and a passion, but at all times assess your limitations and manage the risk.

As you age, you may want to consider increasing your exposure to shares, products or securities that provide stable and reliable income streams, or at least setting the stage for investing in shares that can deliver those dividend streams in the future. Adding good-quality real estate investment trusts (REITs) and maybe some exposure to corporate bond ETFs is a possibility as well. These also set the stage for securing a future income stream.

65 onwards:
medium to high maintenance/low risk

This is probably the most challenging age demographic to comment on and will depend on whether you're already in this age group or structuring the portfolio for when you reach it.

Someone in this age group asked me a couple of years back if they should sell their CBA shares. What a tough question, and one that could never be answered in isolation. If you have held bank shares like CBA for years you have a difficult decision to make when it comes to selling them, because they produce high franked income for you. You're probably also sitting on a large capital gain. Try to avoid making a decision based on tax considerations. However, if you have made the tough decision to sell or at least partially sell such shares, ask yourself, can you afford to lose the income? Maybe it's better to potentially sacrifice a future capital gain or capital to maintain the income.

If you're still investing, think seriously about adding to these positions. Good portfolios manage the risk between shares. Try not to put too much in any one share, no matter how much you love it, and remember that even good companies go through tough times. ***M***

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This is an edited extract from *Shareplicity: A simple approach to share investing* by Danielle Ecuyer (Major Street, $29.95), available now. For your chance to win one of five copies, tell us in 25 words or less your sharemarket outlook for the remainder of 2020. Enter online at moneymag.com.au/win or send your entry to *Money* magazine, Level 7, 55 Clarence Street, Sydney, NSW 2000. Entries open July 30, 2020 and close on August 30, 2020.

Faith in founders

STORY GREG HOFFMAN

Well-managed companies are the holy grail of investments. Here's a shortcut to searching for them

Virtually all investors will tell you they prefer companies that are "well managed". But dig a little deeper into the topic and things quickly get murky, complicated and subject to opinion.

Let's contrast two companies with a similar number of employees: Google (listed on the NASDAQ stock exchange as Alphabet) and Woolworths. The former made $US162 billion ($233 billion) of revenue in 2019 and delivered a net profit margin of 21.2%. The latter recorded $60 billion of revenue in 2019 at a net profit margin of 2.6%. Both are widely considered to be well-managed companies.

I've had the good fortune to visit the offices of Google in both London and Sydney. The food (I dined on roast quail for lunch in the London office) and amenities (napping pods, anyone?) are famously impressive.

Yet can you imagine if the management team at Woolworths tried to offer its employees similar perks? It would be irresponsible. Alphabet generates roughly three times the revenue per employee and almost 20 times the profit per employee that Woolworths does. And that's after paying for all of the staff perks. At Woolworths, there simply isn't enough fat on the bone to offer Google-style benefits.

Clearly "well managed" means different things in different industries and companies. In one situation it might be all about efficiency and keeping costs as low as possible; in another it may be about pampering staff and providing a seemingly lavish environment to get the best out of them.

LOOKING FOR CLUES

When researching companies to invest in, pay attention to any clues you can find about the management style, company culture and morale. In the US last year, I was speaking with a staff member at a Lovisa (ASX: LOV) store who told me that she had worked for many retailers but that Lovisa was the by far the most cost-conscious of them all. Online reviews from employees and former employees can also be an interesting source of information to help form a picture.

A successful management style may not align with your own ideas of how to run a business. But for me it's about understanding whether a successful company's culture is sustainable and, especially if it's growing fast, replicable.

The most powerful shortcut I use to identify such cultures is seeking out companies led by their founders. These cultures are typically clearer and more ingrained. So, if they're successful, I have a higher degree of confidence that there is something genuine there rather than the claptrap that masquerades as culture at many organisations (you know, with motivational posters on the wall with stuff like "Together Everyone Achieves More").

SOMETHING FROM NOTHING

Founder-led companies also tend to be able to create something from nothing. A professional chief executive on a three-year contract is more likely to be paying advisers millions of dollars to instigate a "strategic review" while a founder is planning their next masterstroke on the back of a napkin.

This kind of ethos is evident in *What It Takes*, a

book by Stephen Schwarzman, who co-founded the hugely successful Blackstone Group. He'd been made president of his high school's student council and "wanted to do something that no [one] else had done, or even thought to do".

His school and city were music obsessed and he came up with the idea of getting a chart-topping band to come and perform at the school: "There were a lot of phone calls, a lot of whose dad knows whom. And at the end of it, Little Anthony and the Imperials came to Abington High School. I can still hear the music, see the band onstage and feel everyone having a great time."

"If you want something badly enough, you can find a way. You can create it out of nothing. And before you know it, there it is."

These lines capture the spirit of a true innovator.

The portfolios I manage are stuffed full of companies run by founders (or people who behave identically to founders). These include Ian Macoun at Pinnacle Investment Management (PNI), Hamish Douglass at Magellan Financial Group (MFG), Shane Fallscheer at Lovisa, Matt Hill at Globe International (GLB), Shaun Di Gregorio at Frontier Digital Ventures (FDV), Kent Swick at Swick Mining Services (SWK), Graham Turner at Flight Centre (FLT), Andrew Clifford at Platinum Asset Management (PTM) and David Evans at Evans Dixon (ED1).

Founder-led companies tend to be able to create something from nothing

SKATEBOARDS TO WORKWEAR

I could wax lyrical about all of these impressive leaders, but let's take the Hill brothers at Globe International as a case study. These skateboarding brothers created their global brand, focused firstly on shoes in 1994. Yet it has two more recent brands that I've found particularly impressive and attractive as an investment proposition.

In 2012, after observing tradies coming and going on a property development, Matt Hill was struck by the lack of style in their workwear. He hit upon the idea of adding a level of design to workwear to make it look better while losing nothing in terms of function. "Function by Design" or "FXD" was born.

Go to any building site in Australia with more than half a dozen workers and you're bound to find the trademark FXD green colouring around a black and white anvil logo close by. The company struck a seam of gold as mostly younger, cashed-up tradies flocked to a brand whose quality they learned to trust and whose designs made them look better than a boxy old pair of King Gees.

FXD now turns over tens of millions of dollars a year at healthy profit margins. I think that brand alone could be worth as much as the current valuation of the entire company. But there's more.

In 2017, the company launched Impala, a female-led brand which initially brought funky and fresh designs to old-school roller skates (built using Globe's technical inventory and know-how). If you search for the clip to the song *Confidence* by Ocean Alley (number one on the Triple J Hottest 100 in 2018), you'll see Impala's distinctive skates featured heavily. Impala has since launched skateboards and inline skates. Impala's revenue contribution is relatively small for Globe, but it is growing quickly.

Both FXD and Impala have been created from nothing by the team at Globe. The timelines required to nurture such brands is beyond the reach of most professional chief executives who need to show results during their contract term.

I've visited Globe's offices in Melbourne and Los Angeles and the distinctive culture is obvious from the minute you walk in. These are people who are passionate about their products and industry and are true innovators.

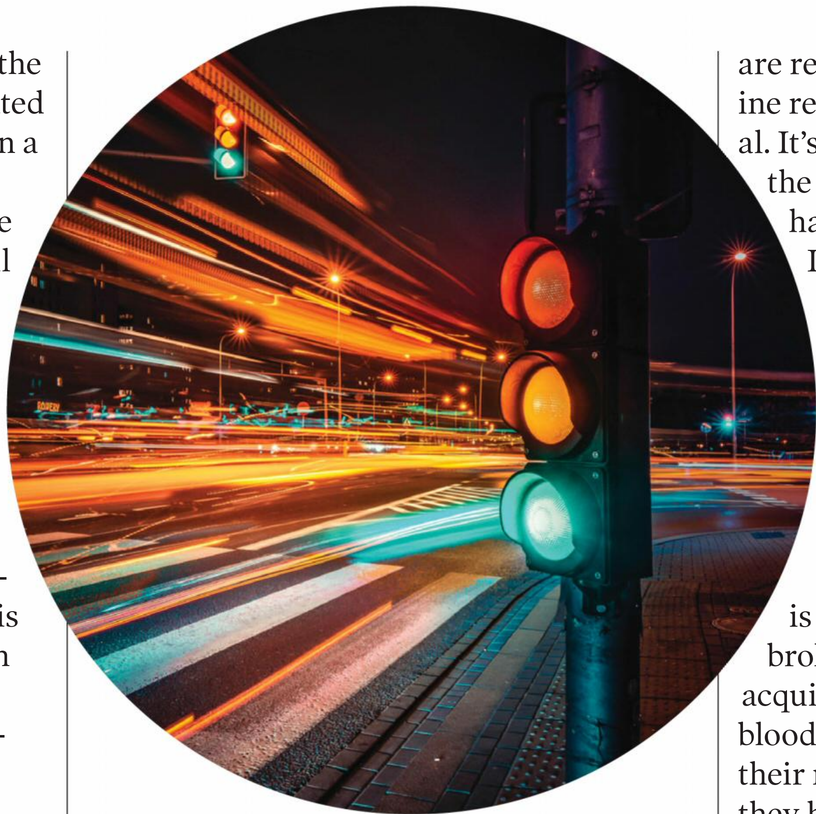
Not every founder-led company is a slam dunk, though. Frauds are often founder-led, for instance. And good investments can come in many forms. But given the choice between two similar companies at the same price where one is being managed by a founder, I'll take it every time.

Disclosure: Private portfolios managed by Greg Hoffman own shares in all of the companies mentioned except Alphabet and Woolworths.

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).

Why brokers always say buy

It's important for ordinary investors to recognise the difference between objective analysis and marketing material



The broking house I worked for in the UK in 1990 lost its number one rated media analyst. He had just written a brilliant piece of research on Maxwell Communications. The research lifted the lid on one of the country's most powerful media moguls and exposed the company for what it was: an opaque listed plaything with corporate governance standards that would curl the toes of the British "establishment" that invested in it. It was bust, and our man was pointing at the king with no clothes.

It was all good, except for one unfortunate thing. Our man could not contain his own wit, something rarely encouraged in broking let alone broking research. He titled his note "Can't Recommend A Purchase" (get it?). Robert Maxwell rang up and insisted the man be sacked. He was, even though he was right.

Maxwell later fell off the back of his boat and disappeared forever, leaving his sons to pick up the flak for a massive £440 million misappropriation of company pension funds. It was an ignominious end for the Maxwells and a development that vindicated our man. But he was not reinstated. Instead he got picked up by another major broker and remained the number one media analyst, on an even higher salary.

It seems being right is just not enough. There is an etiquette in research, unwritten rules that have to be respected, landmines that have to be avoided, and the truth is no defence. As the old motorcycle adage goes, "It's no good being in the right if you're dead". Analysts take note.

One of the biggest landmines is the "sell" recommendation. There are a number of reasons why 80% of broker research says buy. Saying sell is one of the lowest-return recommendations a broker can publish.

For a start, sell recommendations are more likely to be wrong than right because of the long-term upward trend of the market. The price of any company that doesn't go bust (a tiny minority) is almost certain to one day rise again. If you advise someone to sell, especially a big stock, you are bound to look stupid eventually. And as any broker can tell you, clients have tremendous powers of recall when it comes to money they didn't make. They will remember and blame you decades later.

The other blatant fact from a business point of view is that the audience for a sell recommendation is limited to existing shareholders. It only appeals to a limited number of people. But the audience for a buy recommendation is the whole world. Which one do you think is going to generate more business?

If you put out a sell recommendation, you have to ring people who have bought the stock and tell them they were wrong. It's a hard sell, especially when they are one of the long-term faithful. They'll think you're not doing the company's share price any favours and woe betide if you're wrong. It's a good way for a broker to upset clients.

A lot of broker research is "marketing material" written in support of a fee-paying corporate client. You need to know if you are reading objective analysis and a genuine research opinion, or marketing material. It's hard to tell most of the time. Read the small print to see whether the broker has a relationship with a company.

It might explain why they like the company, because they raised capital for it and have a duty to play an investor relations role for it. And, of course, the higher the price, the more likely they are to raise capital again, and whoever supports the company the most gets the deal.

One of the main reasons, however, is that companies don't like it when brokers suggest their painstakingly acquired shareholders sell. Analysts' lifeblood is the relationships they build with their researched companies and the access they have to management. Why would they want to screw that up?

Even if the analyst doesn't care, writing sell is one sure way to screw up the chances of their corporate department ever doing a deal for the company in question. Getting corporate deals is hard work; it can take years. Corporate departments are there to support companies and their share prices, not kill them. A sell recommendation from your own analyst is an Exocet missile for any corporate ambition.

Finally, from the adviser's point of view, no one remembers when you save them from losing money - rather it's only when you make them money. And even then they tend to believe it was their own good judgement. There's less mileage in a sell recommendation when it comes to reputation, even if you do get it right.

It is a fact of life. Brokers almost always recommend a purchase, at least on the front page.

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.*

SECTOR FINTECH

Beyond the market darlings

The company that turned accounting on its head is a classic tech success story

Remember that WAAAX acronym? Standing for Wisetech, Altium, Appen, Afterpay and Xero, it was supposed to be our answer to the US FANG stocks: Facebook, Amazon, Netflix and Google.

"Supposed to be" because, in part, it was a neat little marketing confection – none of our businesses, unfortunately, measures up to that American quartet ... at least, not yet. And it's partly because the success of the WAAAX group has been mixed – and certainly volatile.

None more so than the Australian fintech market darling Afterpay. Crashing from over $40 in February, the company's shares hit a low of under $9 – essentially a 75% fall. But that was the entree. In the following three and half months, the shares were up seven-fold, to almost $70. Did I say it was volatile?

And yet Afterpay isn't really a fintech company. I mean, sure, it's in the finance game. And yes, it uses technology, but then so do Westpac and AMP. The market (and the companies in question) like taking liberties with these sorts of descriptions. It reminds me of the dot.com boom when a business could add 20%-30% to its share price just by sticking "com" on the end of its corporate moniker. Other businesses that decided to go from, say, trucking to ecommerce could make an announcement and see their shares double or triple. (Don't let anyone tell you the finance profession is rational!)

I don't want to take anything away from Afterpay or its ilk, by the way. To invent a new way of paying, and have it accepted across the country – and increasingly the world – is no mean feat. It's just not fintech. Instead, that description belongs to companies that are truly technology businesses, disrupting the traditional finance sectors. Companies like the last of our acronymic quintet, Xero. Along with others, it has turned small and medium enterprise accounting on its head by taking it to the cloud and making it accessible to pretty much anyone (and by recruiting accountants to be its chief proselytisers – an often underrated strategic masterstroke).

Or the new wealth platform mobs: HUB24, Netwealth and the like. These companies have created tech to do what tech often does: make an existing process simpler, faster and cheaper for its clients, winning globs of market share along the way.

And frankly, while I think it represents pure speculation, as opposed to rational investment, the new breed of bitcoin and blockchain businesses also belong in this category – even if they are far less proven and risky – as companies that are using technology to upend the staid old ways of the finance game.

Yes, you can contort the definition to include Afterpay if you want: it's disruptive, for sure, and it's definitely providing a finance product (though it's quick to say the credit code shouldn't apply to it, so these things can be convenient).

Scott Phillips is The Motley Fool's chief investment officer. You can reach him on Twitter @TMFScottP and via email ScottTheFool@gmail.com. This article contains general investment advice only (under AFSL 400691).

Best in Breed's tips so far

SECTOR	STOCK	ASX CODE
Discretionary retail	Kogan	KGN
Consumer staples	Treasury Wine Estates	TWE
Resources	BHP	BHP
Financials	Insurance Australia	IAG
Healthcare	Cochlear	COH
Technology	REA Group	REA
Fintech	Xero	XRO

Foolish takeaway

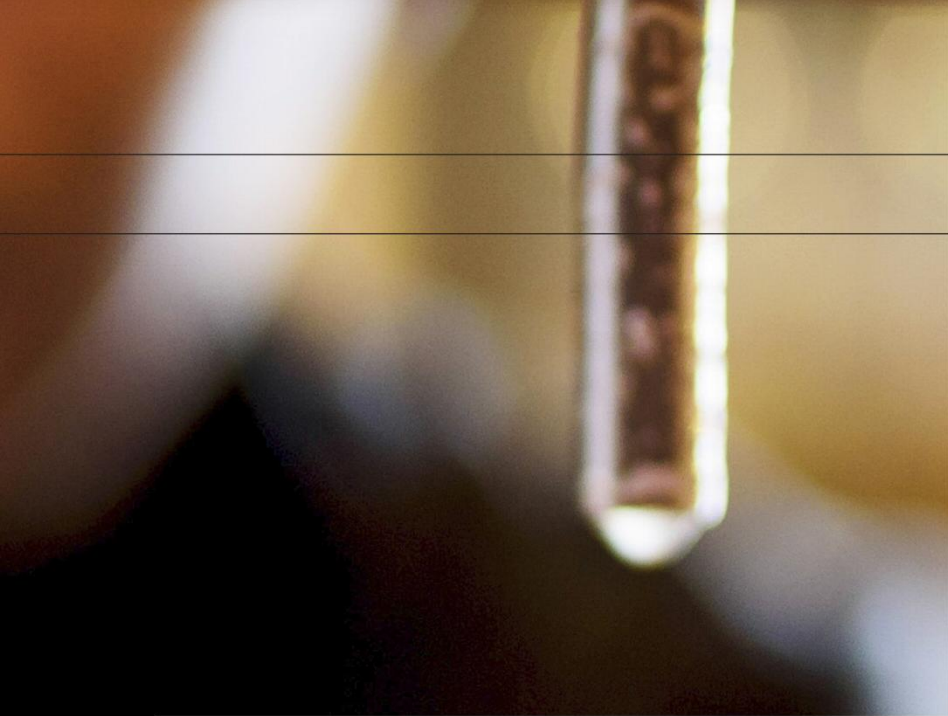
There is, to be sure, plenty of opportunity in wealth management. The sums involved are in the billions, and taking just a tiny percentage of that, as a "platform" provider, would be lucrative. But the game is still being played out, and there is no certainty when it comes to imagining how this tussle will end.

The prize this time goes to the granddaddy of fintech, and the company that taught many Australian investors about the value of recurring revenue and measuring both the cost of acquiring a customer and measuring that customer's lifetime value. Xero is the Best in Breed fintech company on the ASX.

Doesn’t pass the pub test

The high management fees that the Redcape hospitality group has to pay are a turn-off

STORY MICKEY MORDECH



Once-in-a-century pandemics aside, pubs are attractive investments for their resilience. In normal recessions, a parmigiana and pint are usually affordable luxuries while electronic gaming machines often benefit from government stimulus measures.

But there's another side to the optimistic picture: Australians are getting less boozy, tend to put less money into poker machines and are moving to other forms of gambling. Still, aided by population growth, pubs and gaming volumes have generally enjoyed modestly growing sales.

This highlights the battle pubs face to eke out growth. A regular refurbishment program is therefore a must: replacing worn carpets and repainting faded walls, plus the occasional major revamp to modernise for the younger generation, keeps the punters coming. The problem is that such refurbs are costly and disruptive and have different payoffs for the landlord and tenant.

Take the case of pub landlord ALE Property. Its tenant, ALH, is responsible for all refurbishments with rent reviews every decade. It doesn't make sense for ALH to commit to a major refurb close to a rent review – even if it's badly needed – because it would be "thanked" with higher rents.

But the alignment of interests in the owner-operator model of the rival Redcape Hotel Group solves these problems. By acquiring underperforming pubs and applying the owner-operator model, Redcape's venues benefit from regular refurbishments, which attract more patrons, leading to more profit, faster growth and higher valuations.

Further gains can be made by introducing membership and loyalty programs, centralising food ordering, software and hiring processes and supplying in-house beer from the company's "Australian brewery" at attractive margins.

While not of the same ilk as ALE, Redcape's portfolio is a good one with 21 of its 32 properties in greater western Sydney, where much of the land bank is empty. Feasibility studies have shown how apartment blocks could bring in attractive profits. The rest of the portfolio is located in regional towns like Mackay, Townsville, and Wollongong, where we'd expect less upside.

Once major gains have been made, management can sell assets, recycling capital into new pubs and repeating the process. This model could lead to higher growth rates than the industry's and higher returns for shareholders. It does, however, depend not only on management's judgement and operating nous, but also its incentives.

This is what puts us off. For someone allocating shareholder capital, even before selling two-thirds of his holding in February, chief executive Daniel Brady didn't have much skin in the game.

There are further issues. When Redcape was listed in 2018 by Moelis, the latter put in place cushy 10-year operating and investment management agreements with its own subsidiaries. These entitle Moelis to collect substantial fees to manage the portfolio and operate the pubs.

In effect, Moelis acts as Redcape's board and management. This lack of accountability to minority shareholders is a major worry.

Worse, ending these agreements is unattractive, given their punitive termination fees. Redcape's profits will be garnished for the foreseeable future to pay ultra-generous cheques to Moelis.

The fees are extensive and substantial. Moelis receives fees every time Redcape buys or sells property, conducts a renovation or refinances corporate debt. All act as an incentive for management to churn properties, add debt, value assets aggressively and over-renovate, just to keep the fees coming.

We can't say that's what's happening, but it might explain why Redcape turns over its portfolio so often, recently completing the most expensive pub deal ever for Byron Bay's $100 million Beach Hotel.

Moelis-related entities do own 40% of Redcape stock so they do have skin in the game. But we've no idea if they plan to hold it for the long term or if this was simply a requirement to get Redcape's float away.

The management structure is one black mark, relatively high debt is another and the potential for a capital raising a third. But Redcape does own real assets and therefore contains real value. Its current price also atones for plenty of sins.

Assuming that a capital raising isn't needed, Redcape trades at a 29% discount to its reported net asset value of $1.15 per share. It also offers a prospective 11% dividend yield based on pre-virus dividends.

Redcape is modestly undervalued at current prices, but given the lofty fees and the chance of a capital raising, it deserves to be.

Mickey Mordech is an analyst at Intelligent Investor.

> **Relatively high debt and a potential capital raising are also black marks**

YOUR GUIDE TO MANAGED FUNDS DATA

DATABANK

The tables on these pages contain data and information to help you compare managed funds, which are pooled funds managed professionally by investment experts.

Managed funds displayed in these tables are multi-sector or asset class specific. Multi-sector managed funds invest across a diversified mix of asset types spanning equities, property, bonds, cash, infrastructure, private equity and alternatives.

Managed funds are normally set up as unit trusts. You may be able to invest in them directly or through a platform.

Top 5 Multi Sector funds by size

Name	APIR code	Mngmnt fee %pa	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Vanguard Growth Index Fund	VAN0110AU	0.29%	20/11/2002	$5,762m	3.2%	15	5.7%	9
Vanguard Balanced Index Fund	VAN0108AU	0.29%	20/11/2002	$5,129m	4.0%	13	5.3%	11
QIC Growth Fund	QIC0002AU	0.50%	6/03/2002	$4,800m	-0.5%	66	3.8%	45
Vanguard High Growth Index Fund	VAN0111AU	0.29%	20/11/2002	$2,949m	2.3%	24	5.9%	5
Vanguard Conservative Index Fund	VAN0109AU	0.29%	20/11/2002	$2,486m	4.3%	10	4.7%	20
AVERAGE*		0.77%		515m	0.4%	106	3.8%	93

Top 5 Australian Equities funds by size

Name	APIR code	Mngmnt fee %pa	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Vanguard Australian Shares Index Fund	VAN0002AU	0.18%	30/06/1997	$12,374m	-6.4%	68	4.4%	62
Fidelity Australian Equities Fund	FID0008AU	0.85%	30/06/2003	$5,019m	-3.5%	40	5.4%	43
Dimensional Australian Core Equity	DFA0003AU	0.31%	3/07/2006	$2,553m	-8.6%	85	4.6%	57
Bennelong ex-20 Australian Equities Fund	BFL0004AU	0.95%	2/11/2009	$2,439m	11.4%	3	11.2%	5
iShares Wholesale Australian Equity Index Fund	BGL0005AU	0.20%	31/05/1998	$2,264m	-6.5%	70	4.3%	64
AVERAGE*		0.80%		$499m	-5.7%	127	4.9%	111

Top 5 International Equities funds by size

Name	APIR code	Mngmnt fee %pa	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Vanguard International Shares Index Fund	VAN0003AU	0.18%	30/06/1997	$15,461m	12.3%	49	9.3%	32
Magellan Global Fund	MGE0001AU	1.35%	1/07/2007	$11,872m	16.3%	25	11.8%	13
MFS Global Equity Trust	MIA0001AU	0.77%	24/04/1997	$5,693m	9.2%	75	9.7%	23
iShares Wholesale International Equity Index Fund	BGL0104AU	0.20%	31/10/1999	$4,218m	12.3%	46	9.4%	29
Walter Scott Global Equity Fund	MAQ0410AU	1.28%	28/02/2005	$3,881m	16.1%	28	12.8%	7
AVERAGE*		0.94%		$707m	9.0%	139	8.3%	97

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
IOOF MultiMix Growth Trust	IOF0097AU	0.96%	29/04/2008	$618m	4.2%	11	6.7%	1
Macquarie Balanced Growth Fund	MAQ0048AU	0.70%	31/01/1994	$720m	7.7%	3	6.6%	2
IOOF MultiMix Balanced Growth Trust	IOF0093AU	0.92%	29/04/2008	$1,769m	4.4%	9	6.2%	3
Fiducian Growth Fund	FPS0004AU	0.99%	1/02/1997	$135m	1.5%	35	6.1%	4
Vanguard High Growth Index Fund	VAN0111AU	0.29%	20/11/2002	$2,949m	2.3%	24	5.9%	5
AVERAGE*		0.77%		$515m	0.4%	106	3.8%	93

Source: Rainmaker Information. Data sourced as at May 31, 2020. *Numbers stated here depict averages, other than the Rank column, which is the total number of funds in the category. For any queries on these tables, please contact info@rainmaker.com.au.

These products may be recommended to you by a financial adviser.

The performance results displayed are the annualised investment returns each managed fund has delivered after taking into account taxes paid by the unit trust and investment fees.

Research was prepared by Rainmaker Information and for more information see **www.rainmaker.com.au**

RAINMAKER INFORMATION

INDUSTRY INTELLIGENCE

DATABANK

Top 5 Australian Equities funds by 5-year return %pa

Name	APIR code	Mngmnt fee %pa	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Selector Australian Equities Fund	DDH0002AU	1.18%	7/12/2004	$57m	4.5%	9	14.0%	1
Bennelong Concentrated Aust Equities	BFL0002AU	0.85%	30/01/2009	$863m	12.1%	2	14.0%	2
Fidelity Future Leaders Fund	FID0026AU	1.20%	22/07/2013	$661m	6.7%	7	13.5%	3
Australian Unity Platypus Aust Equities	AUS0030AU	0.76%	28/04/2006	$137m	11.0%	4	11.5%	4
Bennelong ex-20 Australian Equities Fund	BFL0004AU	0.95%	2/11/2009	$2,439m	11.4%	3	11.2%	5
AVERAGE*		0.80%		$529m	-5.4%	116	5.0%	104

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	$340m	22.0%	10	18.6%	1
Franklin Global Growth Fund	FRT0009AU	1.13%	1/10/2008	$296m	30.7%	2	15.3%	2
T. Rowe Price Global Equity Fund	ETL0071AU	1.18%	15/09/2006	$3,608m	24.2%	6	14.7%	3
Evans and Partners International Fund	ETL0390AU	1.25%	18/02/2014	$60m	18.0%	17	14.6%	4
Intermede Global Equities Fund	PPL0036AU	0.99%	20/03/2015	$129m	21.9%	11	12.8%	5
AVERAGE*		0.97%		794m	8.8%	116	8.3%	83

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
Fiducian Technology Fund	FPS0010AU	1.36%	1/05/2000	$143m	36.8%	1	18.8%	1
Loftus Peak Global Disruption Fund	MMC0110AU	1.20%	15/11/2016	$95m	32.5%	2	0.0%	
Franklin Global Growth Fund	FRT0009AU	1.13%	1/10/2008	$296m	30.7%	3	15.3%	3
CC Marsico Global Fund – Institutional	CHN0001AU	1.03%	10/12/2015	$30m	28.1%	4	0.0%	
Platinum International Technology Fund	PLA0101AU	1.35%	30/04/2000	$12m	25.6%	5	10.0%	29
AVERAGE*		0.84%		$618m	1.8%	342	5.7%	286

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
Auscap Long Short Australian Equities	ASX0001AU	1.54%	30/11/2012	$246m	-26.2%	359	-1.3%	292
Lazard Select Australian Equity Fund	LAZ0005AU	1.15%	7/06/2002	$161m	-17.2%	358	1.6%	279
Antares Australian Equities Fund	PPL0110AU	0.60%	3/07/1995	$10m	-16.4%	357	2.4%	259
Investors Mutual Equity Income Fund	IML0005AU	0.99%	1/05/2004	$613m	-16.0%	356	2.0%	272
Allan Gray Australia Equity Fund	ETL0060AU	0.75%	4/05/2006	$1,452m	-15.8%	355	5.0%	146
AVERAGE*		0.84%		$589m	1.9%	359	5.7%	292

WHAT THEY MEAN

Performance after investment fees. Investment returns after investment fees annualised to describe each fund's returns per annum. But if your managed fund achieves a high return and charges you an extra "performance fee", Rainmaker has not taken this into account. Past performance is not an indicator of future performance.

Rank. Funds are ranked against all managed funds in each segment, not just those included in each table.

Indices and averages. Arithmetic average investment returns or average fees for all fund investment options within each category, that is, not fund size weighted.

YOUR GUIDE TO SUPER DATA

DATABANK

The table on this page contains data and information to help you compare superannuation funds. It showcases MySuper investment options offered by some of Australia's biggest super funds.

MySuper options are default superannuation products that employees choose or are allocated by their employers.

The performance results displayed are the annualised investment returns each MySuper option has delivered after taking account of all taxes and fees. Past performance is no indicator of future performance.

The table also lists each fund's SelectingSuper Fund Quality Rating. Funds that achieve these quality standards are designated AAA. Research was prepared by Rainmaker Information, which publishes *Money* magazine. For more info, see **www.selectingsuper.com.au**.

Top performing super funds: Top 20 MySuper – May 31, 2020

RANKED BY 3-YEAR RETURN

FUND & INVESTMENT OPTION NAME	Fund type	Strategy	1-year return	1-year rank	3-year return (%pa)	3-year rank	5-year return (%pa)	5-year rank	Quality rating
Australian Ethical Super Employer – Balanced (accumulation)	Retail	S	3.5%	2	6.3%	1	5.9%	6	AAA
UniSuper – Balanced	Industry	S	3.4%	5	6.3%	2	6.2%	3	AAA
AustralianSuper – Balanced	Industry	S	1.9%	14	6.0%	3	6.4%	1	AAA
Virgin Money SED – LifeStage Tracker 1974-1978	Retail	LC	1.6%	16	5.9%	4	AAA	7	Not Rated
TASPLAN – OnTrack Build	Industry	LC	3.4%	4	5.9%	5			AAA
Media Super – Balanced	Industry	S	1.5%	17	5.8%	6	5.9%	8	AAA
State Super (NSW) SASS – Growth	Government	S	2.8%	6	5.7%	7	5.8%	11	Not Rated
First State Super Employer – Growth	Industry	LC	2.1%	12	5.6%	8	5.6%	19	AAA
Vision Super Saver – Balanced Growth	Industry	S	2.0%	13	5.5%	9	5.6%	18	AAA
Mercy Super – MySuper Balanced	Corporate	S	1.3%	22	5.5%	10	5.8%	9	AAA
IOOF ESE – IOOF Balanced Investor Trust	Retail	S	2.3%	9	5.5%	11	5.2%	27	AAA
LGS Accumulation Scheme – High Growth	Industry	LC	1.2%	25	5.4%	12	5.8%	10	AAA
Cbus Industry Super – Growth (Cbus MySuper)	Industry	S	1.7%	15	5.4%	13	6.2%	2	AAA
NGS Super – Diversified (MySuper)	Industry	S	0.9%	27	5.4%	14	5.5%	20	AAA
VicSuper FutureSaver – Growth (MySuper)	Industry	S	2.5%	7	5.3%	15	5.3%	26	AAA
HESTA – Core Pool	Industry	S	1.3%	23	5.3%	16	5.5%	23	AAA
StatewideSuper – MySuper	Industry	S	0.2%	42	5.3%	17	6.1%	4	AAA
smartMonday PRIME – smartMonday – Age 40	Retail	LC	-0.7%	57	5.3%	18	5.0%	33	AAA
QSuper Accumulation – Lifetime Aspire 1	Government	LC	0.5%	39	5.2%	19	6.0%	5	AAA
Equip MyFuture – Equip MySuper	Industry	S	2.2%	11	5.2%	20	5.2%	28	AAA
SelectingSuper MySuper/Default Option Index			0.6%		4.6%		5.0%		

Rankings are made on returns to multiple decimal points.

SelectingSuper Benchmark Indices – Workplace Super

INDEX NAME	Performance to May 31, 2020		
	1 year	3 years (pa)	5 years (pa)
SelectingSuper Australian Equities	-5%	4%	4%
SelectingSuper International Equities	5%	6%	6%
SelectingSuper Property	-10%	2%	4%
SelectingSuper Australian Fixed Interest	3%	3%	3%
SelectingSuper International Fixed Interest	3%	3%	3%
SelectingSuper Cash	1%	1%	1%

Source: www.selectingsuper.com.au and Rainmaker Information

WHAT THEY MEAN

Performance after fees: When calculating fees, Rainmaker assumes a member has $50,000 in their account.

Strategy: Some MySuper products invest your superannuation based on age and are known as lifecycle funds (marked LC). The table includes the LC option for 40-year-old members. Non-lifecycle funds are known as single strategy (S).

Rank: Funds are ranked against all MySuper investment options available in Australia.

Indices and averages: To produce these indices, Rainmaker analyses the results of more than 3300 investment options.

SELECTING SUPER AAA QUALITY
INDEPENDENT RESEARCH CONDUCTED BY RAINMAKER INFORMATION

Need help?

Useful numbers and websites

Australian Communications and Media Authority
1300 850 115
acma.gov.au

Australian Competition and Consumer Commission
1300 302 502
accc.gov.au

Australian Financial Complaints Authority
1800 931 678
afca.org.au

Australian Securities and Investments Commission (ASIC)
1300 300 630
asic.gov.au

Australian Securities Exchange
131 279
asx.com.au

ASFA
1800 812 798 (outside Sydney)
9264 9300 (Sydney)
superannuation.asn.au

CPA Australia
1300 737 373 (within Australia)
+61 3 9606 9677 (outside Australia)
cpaaustralia.com.au

Do Not Call Register
If you want to reduce telemarketing calls
1300 792 958
donotcall.gov.au/contact-us/contact-details

Fair trading/ consumer affairs
ACT: 132 281
NSW: 133 220
NT: 1800 019 319
QLD: 137 468
SA: 131 882
TAS: 1300 654 499
VIC: 1300 558 181
WA: 1300 304 054

Financial Counselling Australia
1800 007 007
financialcounsellingaustralia.org.au/contact

Financial Planning Association
Listing of financial advisers
1300 337 301
fpa.com.au/about/contact-us

Human Services Formerly Centrelink
Families: 136 150
Older Australians: 132 300
humanservices.gov.au

illion
For a copy of your credit report
132 333
illion.com.au

Legal Aid advice (free)
ACT: 1300 654 314
NT: 1800 019 343
NSW: 1300 888 529
QLD: 1300 651 188
SA: 1300 366 424
TAS: 1300 366 611
VIC: 1300 792 387
WA: 1300 650 579

My Credit File
For a copy of your credit report
138 332
mycreditfile.com.au

myGov
Track down lost super
1300 169 468
my.gov.au

Seniors Card
ACT: (02) 6282 3777
NT: 1800 441 489
NSW: 137 788
QLD: 137 468
SA: 1800 819 961
TAS: 1300 135 513
VIC: 1300 797 210
WA: (08) 6551 8800 (metro) or 1800 671 233

Superannuation Complaints Tribunal
1300 884 114
sct.gov.au

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"I'm not confident the pants I spent $500 on deserve space in my home"

What was your first job?
I was a checkout chick in a supermarket after school and on the weekends. When I was 12 I sorted mail in a country town for $5 an hour before school but they fired me because I took too many holidays.

What's the best money advice you've received?
Most recently it would be investing in index products. You definitely can't judge the market and Vanguard indexing is the best product out there. Before that I was investing in blue chips – classic Australian bank shares, reliable and stable – but they're not fun and don't give a good breadth of the market. Now for $5000 I can buy something and let the market do its thing and don't need to worry about what single blue chips are doing.

What's the best investment decision you've made?
Right now my best investment is my education. I'm doing a master's degree in environment and sustainability at Melbourne University. It's really exciting to see the potential changes that can happen in carbon pricing and the international trading of emissions and carbon storage. I think that will be a predominant feature in our global economy in next 10 to 20 years. It's probably the most expensive uni but I feel that if I'm doing something I love it's going to make me money, grow my career and allow me to have an awesome life. I spent too long in a job I didn't love.

Sally Flower

Melbourne-based Sally is a wellness coach and the founder of Home Sanctuary. She studied under the decluttering expert Marie Kondo to become an accredited KonMari consultant. She now flies around Australia helping clients clear their homes while bringing together her passions of sustainability and mindful practices around the home.

Before turning to her current life, Flower was living in New York and working in futures on Wall Street. She met Kondo there – it was the right place and time for Flower and soon after she got her licence and moved full-time into consulting.

What's the worst investment decision you've made?
Purchasing luxury items – they're just ridiculous. Living in New York and thinking it's okay to spend $500 on a pair of pants – that's just crazy. Coming from a KonMari context, the product has to give you joy for a long time for me to give it retail space in my home. I'm not confident that the pants I spent $500 on three years ago deserve a space in my own home.

What is your favourite thing to splurge on?
Organic food. I'm definitely that person who is okay buying an expensive jar of sauerkraut because it's organic and consumable and is supporting green businesses.

If you had $10,000 where would you invest it?
I'd put it in ethical indexing shares. I honestly think the future of our economy will be those products and investing in those is the best way for me to go ethically and financially.

What would you do if you had only $50 left in the bank?
Freak out. And then I'd try and sell some of my clothes and stuff on Gumtree. I'm all about the secondhand market. I tell my clients to do it all the time so I'd do it myself.

Do you intend to leave an inheritance?
Yes I do, but I also intend to leave a really light footprint. I intend to leave financials but also a world that I'm living in now. I want to make sure my children and grandchildren can enjoy the lifestyle I have so I want to make sure the world they live in is as wonderful as the one I live in now.

How has lockdown impacted your business?
As a keynote speaker I haven't been able to do those events. I had two events of more than 500 people booked that I had to do virtually. I've had to learn a whole new skill of presenting to a computer screen. As a keynote speaker you play off your audience, and I can't go into people's homes to declutter them, so I've taken a really big hit. Your home has to help you, it has to nurture you, and it can't be a place that stresses you out. It needs to be a sanctuary where you recharge, and people are seeing the importance of that. More than that, it's that people don't have to escape home. We've had this constant focus that the only way to unwind is to go to Byron Bay or Europe or skiing, but there are so many things to do in your home to unwind. You don't have to spend money to be happy.

Finish this sentence: money makes ...
people do crazy things. From a KonMari process, I see thousands of dollars discarded weekly into landfill. Money is precious – we should spend it on things that give us joy and on community or environment.


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