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Money

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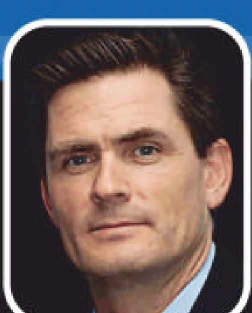
SUPER Booster
3-PART SERIES
AVOID THE DUDS
P56

TOP 50

SHARE BUYS & PROPERTY HOTSPOTS



MARCUS PADLEY
TIME TO GIVE FRANKED DIVIDENDS THE BOOT?

GREG HOFFMAN
WHAT A 12-YEAR-OLD CAN TEACH US ABOUT SHARES

JULIA NEWBOULD
PREPARE FOR THE NEW DECADE

GOING GREEN GARDENS THAT KEEP YOUR COSTS DOWN

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EDITOR'S DESK

Worthy goals

Sometimes "aha!" moments can happen around the proverbial office water cooler. My latest one came during the requisite sharing of new year's resolutions and a look back at the year that was.

Challenged about whether resolutions are worth it, a work colleague trumped us all: one of her 2019 goals for had been to reach a certain net worth; she hit that number and is now looking at a higher target for 2020.

Saving an extra $10,000 in 12 months is impressive, but projecting your net worth year on year doesn't have to be the stuff of dreams. It's that kind of thinking that can sustain a long-term financial plan.

I used to associate any references to net worth with the ultra-wealthy, a legacy of my days doing research for the annual Rich 200 issue of *BRW* (now defunct): a list of Australia's 200 wealthiest individuals and families. The entry ticket back in 2000 was $85 million.

But two decades on, I've got a new advocacy. Being financially independent is not just for the rich. We should all have a number to work towards, even if it's not in the tens of millions. It's with that mindset that we kick off the new decade.

It's that time of the year when you are probably thinking about your next financial move. So in our cover story (p. 36) we've asked the experts to give you a road map – for property and shares. And what does the longer-term future look like? Check out our 2020 Vision feature (p. 48).

I also want to congratulate everyone who participated in our Super Booster project. The sooner you start making informed decisions about your super, the better off you'll be. Read the final article of our three-part Super Booster series (p. 56).

On a final note, our thoughts go to those affected by the bushfires. *Money*, through our parent company Rainmaker Group, has donated to the Red Cross bushfire appeal as well as individually supporting our chosen charities. It's the least we can do.

Michelle

Michelle Baltazar, Editor-in-chief

Feedback

Letter of the month

Tale of two nans reveals the bigger picture

I must confess that I am sometimes frustrated by the broad platter of financial material in *Money* magazine. Partly I suppose because I follow other material that is very much focused down a particular bent. What is the purpose of travel tips, for example? They are not going to make one wealthier.

However, I had the healthy reminder of the bigger picture in Greg Hoffman's "Rich Nan, Poor Nan" article in the September issue. I always enjoy his columns, but this was particularly sensitively written. Rich Nan was the money savvy one – and he valued her contribution to his life. Poor Nan was not money savvy, but she "invested" in other ways, putting her energies into enriching the life of her grandchildren, for example.

The reality is that there is no one size fits all approach to money and life. It is okay for the FIRE community to live spartanly to achieve the goal of early retirement. It is also okay for those who want to travel while they are young and have the most energy to enjoy it and time to reflect on the memories. It is okay to be like my mother – "a dollar saved is a dollar earned" – and wash clingwrap, reuse butter containers and mend holes in socks. It is okay for the property investor to use leverage to build their wealth. And it is okay for everyone else across the spectrum.

What matters is that we understand the effects and risks of our choices on our financial resources across our lives, and have the knowledge to manage them properly.

So if *Money's* goal is facilitating this transfer of knowledge for all of us, I'm happy to get off my high horse and see the value of both Rich Nans and Poor Nans in our lives. Thanks, Greg!

Derek

Prize worth winning

Each month we'll award one letter a 12-month subscription to *Money* magazine.

Write to:

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

Sensible advice can supercharge wealth

As long-time readers, my wife and I consider ourselves one of your success stories.

We have taken your messages to heart and embarked on an amazing life change. We have always been good with money, but we feel we have supercharged things based on sensible advice.

We have a mixed bag of exchange traded funds outside our super that have exposure to shares in Australia, the US, other international markets, property and fixed interest. We have set a target sector exposure for each of these. At last count, we had exposure to more than 3000 investments across different countries and markets. Diversification is like a warm blanket. We both contribute a fixed amount of our salaries into a bank account linked to our share trading account – pay yourself first!

Each quarter we take the cash and buy more units in the ETFs to rebalance the sector exposures – save a little, often. Dollar cost averaging and being slightly counter-cyclical proves to be effective – that is, we're buying slightly more of the underperforming sectors each time to catch it up.

We reinvest the dividends so we harness Einstein's eighth wonder of the world. My goodness, compounding is like a tidal wave when you let it take over.

We don't worry ourselves with the prices and have targeted low-fee ETFs with proven managers. We trust the sector exposures we have set and use that as the target for each rebalance. It's so simple, it's crazy!

Thank you for what you do.

Toby

CORRECTIONS

The name for the winning Best-Value SUV is Ford Escape Ambiente FWD, not Ford Escape Ambient FWD, as published in the Best of the Best 2020 edition. We apologise for the error.

The winning Best Everyday Savings Account should have read the Macquarie Transaction and Savings Account, not the Macquarie Transaction Account. To open a savings account and get the 1.30% rate reported in the article, you must open a transaction account first. We apologise for the confusion.

REG'S TOON

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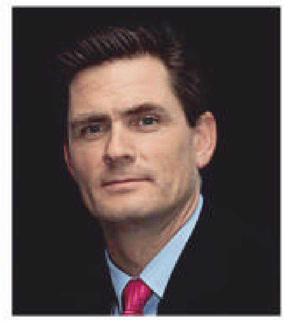
What's the first thing you order at a restaurant?

JULIA NEWBOULD
Julia is *Money* magazine's editor-at-large. She says: "If it's something special it would be a nice drink to set the mood – a martini, champagne or negroni. Food-wise, it's hard to go past fresh oysters, fish or duck, but my weakness is a side of fries. Or it just might be a good laksa."

TERRY RYDER
Terry is the founder of property investment website hotspotting.com.au. He says: "A liquid refreshment – a good supply of water, then something a little more potent, usually red wine in my case, and whatever others at the table regard as their favourite. Then we can focus on the menu. Good wine and good food were made to be together."



MARCUS PADLEY
In the 1980's restaurants were simple. Posh eating meant ordering a prawn cocktail in a wine glass drizzled with a dressing gathered from a thousand islands, closely followed by a steak diane with a béarnaise sauce, a salad nicoise on the side and a pinot noir if you wanted to show off just that little bit more. Now the first thing I order is my kids, to read the menu for me.

ALEXANDRA CAIN
Alexandra is a contributing writer at *Money*. She says: "A nice glass of fizz and a bowl of olives. Or half a dozen oysters. I'm also partial to a gin and tonic, maybe with ceviche. Or paté with pinot noir in winter. Now I'm getting hungry!"

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Among all the bad news, there has been significant progress

Sitting in a smoky haze as I write my column leaves me in rather a negative funk. The deaths of people protecting their property and the brave volunteers, plus people losing their houses and livelihoods and tens of thousands of people evacuating, is depressing. The vast devastation to our country, plus the deaths of hundreds of thousands of birds and animals, adds deeply to my reflective mood.

We've had two close friends lose their homes, one near Forster late last year and more recently one near Tumbarumba. My friend near Tumbarumba also lost part of his vineyard.

The years 2019 and early 2020 have been hard for many people – and the planet. A large part of our global population has been impacted by regional wars, rapidly changing weather patterns and other disasters. In fact, it has been downright ugly for too many people.

Yet I need to also look out and up, because among all the bad news, which appropriately dominates everything we see and read, there has been significant progress in reducing global poverty and disease – in particular child survival rates. Medical advances are giving hundreds of millions of people a longer and better life and this is also to be celebrated.

So having cheered myself up somewhat, I can turn to pure money issues and remind myself and all of us that 2019 was a cracking year for both investors and mainstream borrowers. Borrowers always do better when interest rates fall – and fall they certainly have. At the *Money* magazine Best of the Best awards in December, I was really interested to see that the "best" mortgages were charging customers under 3%. Wow, that is cheap money!

The bad investor news is that this means low returns on cash and term deposits. This would have impacted nearly every investor just a few decades ago, as we basically held cash. But thanks to superannuation and the popularity of shares and investment property, few investors hold solely cash these days. This means we have borrowers benefiting from much lower rates, while most investors had a cracking year.

If you simply held shares in the S&P/ASX 200 and reinvested your dividends, which is easily done in a low-cost index fund, you would have made around 23%. If you spent your dividends, which in 2019 were very healthy, you would have made around 18%.

Super funds are starting to announce their returns to December 31, but I see that my bog-basic, low-cost super "growth fund" earned me, after 15% tax on its earnings, over 17%.

The value of property is of no great interest to me. We live in our home, so its value is of little consequence, and with investment property we don't eat the value of it, we eat the rent it returns and this has been pretty stable. Global shares have had a terrific year.

Yep, like many investors in our age group (I turn 65 this year – how did that happen!) we do hold some cash and term deposits as a safety buffer, so the 1.45% or so we are earning is pretty depressing, but as part of a diversified portfolio it makes sense for us to hold some safe and liquid assets.

No doubt 2020 will be another volatile year, with changing weather patterns, geopolitical instability, plus many and varied disasters. But in the middle of all of this, predictions are for the global population to grow by slightly over 90 million, poverty to decrease and hence wealth to increase. Huge advances will also continue to be made in medical science.

So while it does not feel like it, sitting here in smoke haze, it is likely that 2020 will be a good year for investors. My tip is to ensure you are paying low fees and are globally diversified. These days this is so easy with super, ETFs or indexed funds. There are just no excuses for not managing your investment risk through diversification.

Next up for my family is to use some of the benefits of a good year for investments to make a donation to some of the many good charities either directly assisting to fight the fires or helping people or wildlife impacted by the fires. I know millions of Australians are doing this and it is something that, when added together, makes a powerful difference.

I don't know about you, but we feel a bit helpless and this is one way we can all make a contribution.

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


Angela
Member since 2014

NEWS & VIEWS

THE BUZZ

Adviser's code of ethics improves protection

'Sunlight' from royal commission prompts update

Taking effect from January 1, a new code of ethics for financial advisers will give clients greater protection.

It includes a new, clearer definition of a sophisticated investor. Previously, "sophisticated" applied to an investor "who has had a gross annual income of $250,000 or more in each of the previous two years or has net assets of at least $2.5 million, as prescribed by the Corporations Regulations 2001".

The previous definition was considered too broad by allowing income to be a gross figure, with a grey area regarding net assets (whether they could be owned jointly or individually).

Now there is also a requirement that the client has a level of financial competence.

The code is issued by the Financial Adviser Standards and Ethics Authority.

According to ASIC deputy chair Karen Chester, there has been a shift in the approach to consumer protection. "Much of the reduction in regulatory burden rests with business becoming consumer centric," she told the Australian Institute of Company Directors last year.

According to Chester, the impetus for this shift is the "sunlight" of the banking royal commission – "sunlight brought to poor consumer outcomes because, with both thanks and apologies to Jane Austen, 'today it is a truth universally acknowledged that a firm in want of a good fortune must be in want of good consumer outcomes'."

There are five values that must be followed by financial advice professionals: trustworthiness, competence, honesty, fairness and diligence. These are followed by 12 standards that relate to acting in the client's best interests, which is defined as: "You act in a client's best interests if what you do – the advice you give, the products and services you recommend – are appropriate to meet the client's objectives, financial situation and needs, taking into account the client's broader, long-term interests and likely future circumstances. The test is, in short: will your advice and recommendations improve the client's financial wellbeing?"

Other standards cover disclosure, conflicted remuneration, record-keeping, product knowledge and reporting poor advice.
Julia Newbould

ON MY MIND

Expats face a tax slug

The federal government recently passed a bill that means Australian expats will need to consider capital gains tax (CGT) on their former family home when they come to sell it. While it was hoped that commonsense would prevail, the removal of the CGT main residence exemption for all foreign residents is set to become a reality.

Australians living overseas have until June 30, 2020 to sell their former home and still claim the exemption, especially if they have been overseas for less than six years. However, anyone who bought their property after May 2017 has no such opportunity, as they are already exposed to a CGT liability if they sell while still a foreign resident.

Controversially, foreign residents do not get recognition for any period they lived in the property before moving from Australia.

Apart from selling before June 30, the only way to avoid the impact is to return to Australia and become an Australian tax resident again before selling. Be careful, however, to ensure this involves a genuine change of tax residency – it is not enough just to come back for a few months, sell the property and then move overseas again.
Peter Bembrick, tax partner, HLB Mann Judd Sydney

CALENDAR OF EVENTS

Tuesday, February 4
RBA interest rate decision

Thursday, February 6
Balance of trade

Monday, February 17
NAB business confidence

Tuesday, February 18
Westpac consumer confidence index

Thursday, February 20
Unemployment rate

NEWS BITES

A lack of training and restricted access to overseas-trained doctors will lead to an undersupply of GPs over the next 10 years, projects Deloitte Access Economics. The shortfall will result in a deficit of 9298 full-time GPs or 24.7% of the GP workforce by 2030. The deficit is expected to affect urban areas (31.7%) more than regional areas (12.7%).

Australia has become the world's largest exporter of liquefied natural gas, edging out Qatar. Our 2019 exports were double those of the US, the world's other fast-growing LNG producer. Australia's output came from all three LNG hubs: Karratha in Western Australia, Gladstone in Queensland and Darwin.

Australians are less than impressed with our digital infrastructure. The Global Infrastructure Index found just 41% rated the quality as "fairly or very good", below the global average of 55%, while more than half of the Australians surveyed rated the nation's digital infrastructure "fairly or very poor". Of the 28 countries surveyed, only Germany and Italy scored lower.

It's the saving that matters

Recently I asked friends and colleagues for the best financial advice they'd ever received. The outstanding message was a simple one – save. There were many variations on this theme: put aside a percentage of income, put aside half of any pay rise, always have three months' income put away for emergencies and pay yourself first.

Financial advisers will tell you it's not people on the highest salaries who have the best investment portfolios; it's those who are disciplined and make sure they regularly put money aside.

I'm the type of saver who needs to know what I'm saving for. I have accounts for different goals. One is for holiday money; another is an investment account where I keep money to grow until it's enough to buy shares; then there's an offset account. I am thinking of another one to hold money I make from any source outside my regular income.

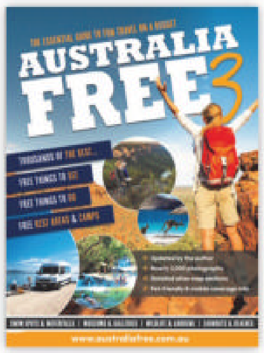
In this new decade, my first step towards saving more will be an expenditure diary. Each month, I want to save money, buy less, recycle and make sure things I'm discarding are somehow reused. That way, it's a win-win.

Julia Newbould

7.2 million

That's how many Aussies have entered 2020 with a "Christmas debt hangover", according to research from comparison site finder.com.au. Worse still, one in four of us takes up to five months to pay it all off.

BOOK OF THE MONTH



AUSTRALIA FREE 3: THE ESSENTIAL GUIDE TO FUN TRAVEL ON A BUDGET

By Mike Koch
(Woodslane, $55)

The best way to beat the post-holiday blues is to plan the next one. Designed for serious campers, this painstakingly researched guide is divided by states and territories and highlights points of interest in different locations, including markets, look-outs, beaches, rockpools and gardens.

Each state entry starts with the capital city and then moves onto other areas, with GPS co-ordinates provided for each location.

It includes free activities, such as walking tours. Rest areas and free camping grounds are also detailed, as are maps and dump points for waste.

Five readers can win a copy.
In 25 words or less share your best tips for a budget holiday. Enter online at moneymag.com.au/win or send entries to Money, Level 7, 55 Clarence Street, Sydney, 2000. Entries open January 28, 2020 and close on February 28, 2020.

APP OF THE MONTH

UBANK
COST: FREE
OS: IOS 10.0 OR LATER, ANDROID 6.0 AND UP

Budgeting spreadsheets are becoming a thing of the past as they make way for smarter tools in the age of open banking.

UBank and fintech Basiq have partnered to provide UBank app users with a more in-depth understanding of their spending habits.

Using machine learning, the new features will allow you to track your total spend and every transaction across 40 categories, as well as detailed spending by merchant.

With this information, together with personal savings goals, the app provides you with a single daily spending allowance (your Free2Spend number), which adjusts up or down in real-time depending on how much you spend.

If you overspend, the Free2Spend number decreases to help you get back on track. Underspend and you'll have more to put towards your savings account.

DAVID THORNTON

TAX TIP

Fire victims can get help

In the wake of the devastating bushfires, many taxpayers will need help getting back on their feet, understanding what their tax obligations are and how they can meet them when they have lost valuable records.

If you are unable to lodge your tax return or activity statement, the ATO can give you more time. It uses a list of "affected post-codes" to identify people and businesses in disaster-affected areas. It then offers automatic extensions to those people whose tax obligations would ordinarily have fallen due at or about the time of the disaster. A full list of fire-affected postcodes covered by these concessions can be found on the ATO website.

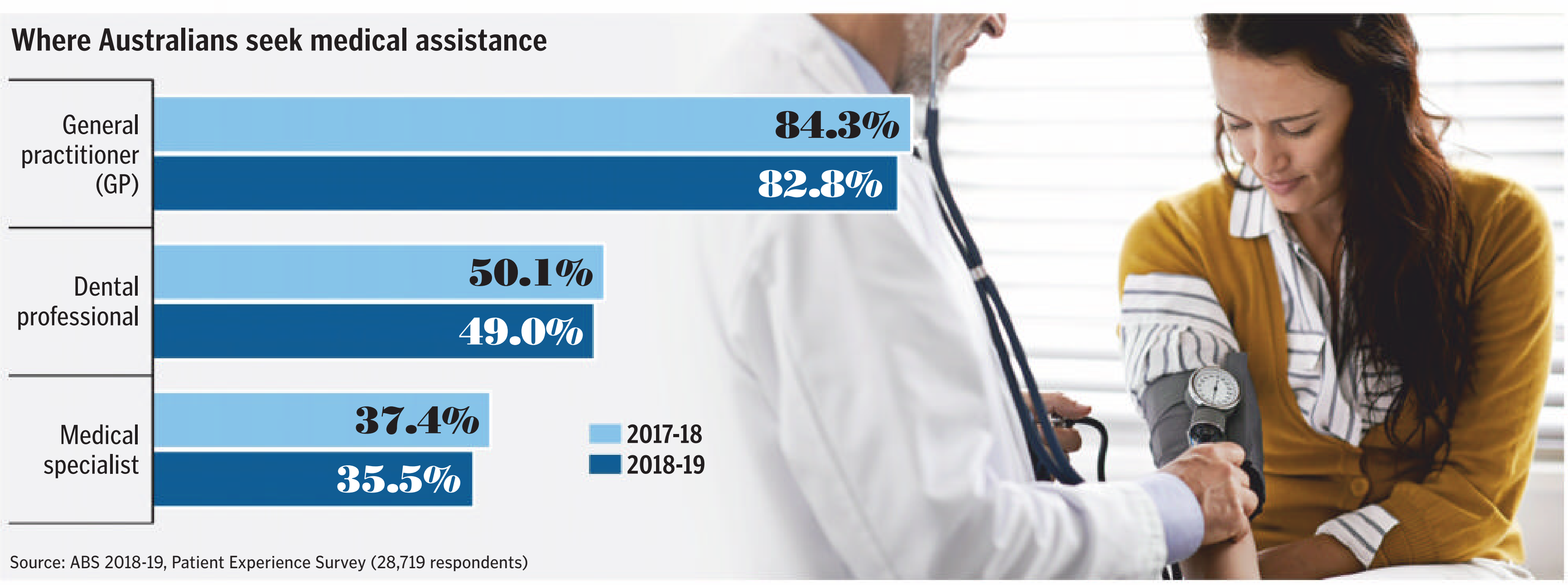
Even if you are not in the affected postcode, if you can show that you were impacted by the fire (perhaps your employer is in the affected district, for example, or perhaps you are in a neighbouring postcode that was also affected but is not officially listed), you may still be able to ask for help from the tax office.

One-off assistance payments you receive as a result of a disaster from local, state or federal government agencies, charities, community groups or your employer are generally tax free.

Finally, if you are unable to substantiate claims made in your tax returns or activity statements because your records have been lost or destroyed, the ATO can accept the claim without substantiation.

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

SNAPSHOT How we monitor our health



▶ MORE MONEY STORIES ON P56-62

HOUSE HUNTING

How to handle the stress

Dr Sarah McKay, Allianz's wellbeing advocate

Owning a home fulfils the great Aussie dream for many. However, the process often comes at an unexpected cost. Data from Allianz Australia found half (51%) of home buyers admit the search for a new home was so stressful it affected their mental and emotional wellbeing.

So what is the source of this stress?

The survey suggests unexpected costs are getting house hunters down. Homeowners wished they'd known about mortgage insurance or stamp duty, for example. Others wished they'd had more realistic expectations of what they could buy for their budget or how long the process would take.

As a neuroscientist who works in the mental health and wellbeing space, I also have firsthand experience of the stress of buying and selling. But the toll taken on emotional wellbeing is not inevitable.

Here are some of my top tips for coping with the uncertainty and lack of security many of us experience:

1. Rethink your stress response. See the positive in the challenge that may be causing stress. For example, remind yourself of the beautiful family home you'll have at the end of the buying process.

2. Build your tolerance for uncertainty. Psychologists say that acting as if you are tolerant to the unpredictable is good practice. Practise tolerating a small amount of uncertainty every day.

3. Connect with others. Ask a friend to help you pack crockery or cry on a supportive shoulder over the dream home you missed out on at auction.

4. Practise gratitude. Mental health researchers will tell you that turning your attention towards what is good feeds positive emotions. Try to focus on what you are grateful for in your life, what exciting opportunities lie ahead and what new plans you can set in motion in the future.

5. Let yourself grieve. It's normal to have mixed emotions about moving homes. Give yourself time. Grieve for your childhood home, your favourite neighbours and that barista who knows your coffee order.

Private health insurance is seriously sick

The Grattan Institute has slammed Australia's private hospital insurance system, calling it "unsustainable in its current form". The health insurance sector is caught in a negative feedback loop, the institute says.

Its latest report, *Saving Private Health 2: Making Private Health Insurance Viable*, says young, healthy Aussies get a bad deal, forcing them to drop their insurance. Premiums are then increased and more people drop out. By 2030, private health insurance is predicted to cover less than 40% of the population. Because insurers are required by law to charge everyone the same premium, they are less incentivised to innovate to keep costs down and members healthier. What's more, the commonwealth spends $5 billion subsidising private health insurance, despite evidence suggesting the amount it saves public healthcare is far less.

The report recommends a raft of reforms including deregulating premiums, phasing down lifetime health cover and the Medicare levy surcharge, and scrapping the general insurance subsidy.

"Premiums should be partially deregulated for people aged less than 55, so that what a person pays more closely reflects the benefits that someone of their age can expect to receive from hospital insurance," says Stephen Duckett, lead author and Grattan Institute health program director.

"The private hospital insurance rebate should be redirected towards older patients. Overall the net premiums paid by older people would rise a little, and younger people would pay less.

"Net premiums paid by older people wouldn't rise at all if governments implemented reforms previously recommended to make private healthcare more efficient."

COMPILED BY DAVID THORNTON and DARREN SNYDER

PROPERTY

RENTVESTING

Buyers eye other states

Almost half of investors plan to buy property interstate this year, according to research from the Property Investment Professionals of Australia (PIPA). Its latest survey also found 63% of investors would consider rentvesting – renting in one location and investing in another.

"More and more investors are recognising that there are myriad investment opportunities around the country, rather than being blindsided by what's happening in their own backyards," says PIPA chairman Peter Koulizos.

He says serious investors recognise that considering interstate locations for their next property purchase enables them to make the most of markets that are potentially about to rise.

"Savvy investors always consider the locations that offer the best market fundamentals as well as prospects for capital growth over the medium to long term," says Koulizos. "They choose not to follow the masses, but to invest in locations before prices start to rise, such as in Sydney in 2012 and in Melbourne not long after."

A case in point was growth that had occurred over recent years in locations such as Hobart, Adelaide and Canberra as well as parts of regional Victoria, Queensland, Tasmania and NSW while property prices were falling in Sydney and Melbourne.

However, be wary of investing in interstate property without professional financial advice.

45%
Of property investors intend to buy their next investment property interstate in 2020

31%
were unsure

"Going it alone when investing in any property, anywhere is always a risky move," says Koulizos. "These risks skyrocket when someone tries to do that in a location that they don't understand, plus they often buy sight unseen because of the distances involved and wind up with a dud investment in an inferior location."

Aussie cities' investor appeal wanes

Climate concerns have seen both Sydney and Melbourne fall in their global rankings as attractive real estate destinations, according to analysis from investment manager Heitman.

Sydney fell from seventh spot to 10th, while Melbourne slipped from 17th to 19th (see table).

"There have been some significant positioning changes, partially resulting from relative economic developments, spillover impacts from Brexit and an increased focus on sustainability in this year's market update," says John White, Heitman senior managing director, public real estate securities.

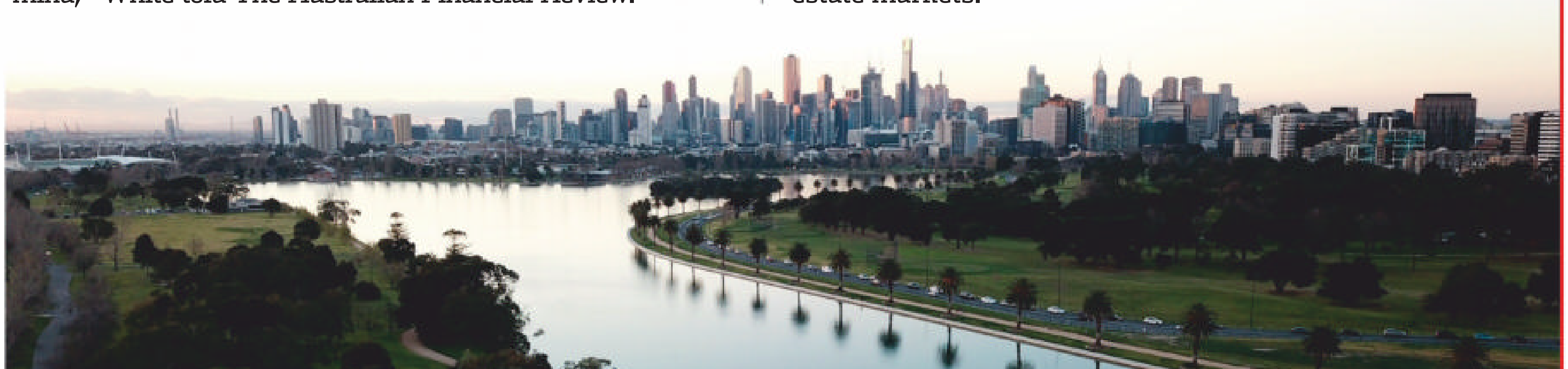
Sustainability concerns in particular have impacted the standing of Australian cities.

"The resilience of cities like Melbourne, Sydney and Brisbane and climate-related risks are increasingly top of mind," White told *The Australian Financial Review*.

"Our energy policy and climate policy [in Australia] is very much not as developed as what it is in Europe, for example. We are looking at the direction of where global investments can go with more of a focus on responsible investing and sustainability in the really long term."

According to Jerry Ehlinger, Heitman senior managing director and head of global real estate securities, "prime" real estate assets are consistently in high demand from investor capital from across the globe due to locational advantage, prestige, attractive leases to credit tenants, stable income and stable or increasing value. But they can also be difficult to access through direct investment.

The annual real estate market rankings are compiled through a review process using about 150 published surveys and indices – all across broad economic indicators – to rank the world's leading real estate markets.



▶ MORE PROPERTY STORIES ON P64-68

TOP REAL ESTATE DESTINATIONS

1.	London
2.	New York
3.	Singapore
4.	Paris
5.	Tokyo
6.	Hong Kong
7.	Amsterdam
8.	Los Angeles
9.	Frankfurt
10.	Sydney
11.	Toronto
12.	San Francisco
13.	Berlin
14.	Zurich
15.	Chicago
16.	Seoul
17.	Boston
18.	Washington, DC
19.	Melbourne
20.	Madrid

Source: Heitman Real Estate Securities Group

COMPILED BY DAVID THORNTON

INVESTING

▶MORE INVESTING STORIES ON P70-74

EMERGING MARKETS

Better year lies ahead

The emerging market (EM) drumbeat continues to gain volume. In addition to the diversification that automatically comes with adding a new asset class to your portfolio, emerging markets typically grow faster than developed markets.

Emerging markets have outperformed their developed peers since 2001, albeit with some turbulence along the way. They boomed in the lead-up to the GFC, underperformed between the GFC and 2017, had a standout year and then have underperformed developed markets since.

However, VanEck expects emerging markets to regain the spotlight because "with at least one more US rate cut expected there is pressure on the US dollar".

The ETF provider says growth in emerging markets over the past 20 years comes down to four key themes:

1. A shift from reliance on commodities to a broader economic base including technology and healthcare;

2. The corporatisation of state-owned monopolies;

3. Urbanisation; and

4. The rise of local middle-class consumers who are driving growth in education, entertainment, healthcare and travel.

"The investment case for growth in emerging market equities is compelling given their significant projected growth prospects as a result of increasing numbers of emerging markets consumers and the faster projected growth rates," says VanEck.

HOW EMERGING MARKETS PERFORMED

	Annualised Returns		Cumulative Returns	
	MSCI Emerging Markets Index	MSCI World ex Australia Index	MSCI Emerging Markets Index	MSCI World ex Australia Index
2001 to 2007	15.80% p.a.	-1.43% p.a.	179.26%	-9.56%
2008 to 2016	0.48% p.a.	5.56% p.a.	4.37%	62.74%
2017	27.09% p.a.	13.38% p.a.	27.09%	13.38%
2018 to 2019	3.77% p.a.	13.00% p.a.	7.03%	25.12%
Performance 2001 to 2019	7.59%pa	3.99%pa	296.49%	108.79%

Source: Morningstar Direct. Cumulative returns are calculated monthly and assume immediate reinvestment of all dividends. Data is in Australian dollars. You cannot invest in an index. Past performance is not a reliable indicator of future performance.

ETFs are getting younger at heart

Australia's exchange traded funds (ETFs) go from strength to strength, with no signs of losing steam.

Millennials represented just 12% of the Aussie ETF market five years ago. That number has skyrocketed to 43% within the past two years. Similarly, the average age of a first-time ETF investor today is 42, down from 56 more than five years ago.

Some of this can be attributed to ageing. Millennials now represent more of the Australian population, and they have more disposable income.

But it also reflects the rising appeal of ETFs as an investment product, now growing 18% year on year.

The move of ETFs into the mainstream can also be seen in the increasing number of financial advisers who use them – 3800 in 2010 versus 10,500 today.

"The use of ETFs can significantly reduce the time an adviser spends on constructing client portfolios, freeing them up to maintain existing and gain new client relationships," says Alex Vynokur, chief executive of BetaShares.

ETF TRENDS 2014-2019

Started investing in ETFs:	More than five years ago	Two to five years ago	Within the past two years
Average age	56 years	50 years	42 years
Who are female	11%	14%	24%
Who are millennials	12%	29%	43%
Who are retired	38%	24%	12%
Who invest in ETFs through an SMSF	41%	33%	14%
Who intend to re-invest in 2020	54%	60%	59%

Source: BetaShares/Investment Trends ETF Report, 2019

COMPILED BY DAVID THORNTON

SHARES

▶MORE SHARES STORIES ON P76-84

MARKET OUTLOOK

Bright prospects despite risks

State Street Global Advisors believes equities will perform strongly in 2020, thanks to accommodative monetary policy. But this may be tempered by stretched valuations, trade risks and recurring volatility.

Overseas, the asset manager is upbeat on North American equities, where it predicts a "lower probability of earnings disappointment", and is neutral on European stocks due to political and structural uncertainty, especially around Brexit.

In Australia, expensive valuations means "it will be important to focus on companies that can deliver on earnings growth and to maintain a valuation discipline in your stock selection".

It notes healthcare and IT, the best-performing sectors of 2019, are now the most expensive parts of the Aussie market.

The manager is underweight Asian and emerging markets, but is expecting an upswing due to: a pick-up in flows as the emerging markets benchmark expands; abatement of US-China trade tensions; increasing allocation to EM by global funds; or improving fundamentals and GDP growth due to structural reform.

On the fixed-income side, SSGA believes the Reserve Bank of Australia will hold off another rate cut until the lag effects of last year's cuts work their way through the economy, which the reserve bank says is at a "gentle turning point".

It says investors should chase exposure to equities, but with a defensive positioning. "In addition to considering tactical hedges such as gold, building appropriate and cost-effective defences will require careful weighting of hedging options."

HOLD Chorus (CNU)

The Intelligent Investor Gaurav Sodhi

RECOMMENDATION

BUY	HOLD	SELL
below $5.00	up to $9.00	above $9.00

HOLD at $5.28

Source: Intelligent Investor; price as at 10 January-20 close of business

As New Zealand's Chorus makes the transition from a copper-dominated telco to a fully fledged fibre utility, it must rely on the country's Commerce Commission to decide how it will be regulated and what will govern returns.

A draft report released by the regulator on methods for fibre regulation sheds light on what ultimate regulation and returns might look like. To simplify, there are two key variables that will determine returns for Chorus.

The first is the weighted average cost of capital (WACC), which serves as the default return earned by the business. Chorus wants this to be as high as possible and the regulator has a defined process so the company doesn't get its way.

The second is the regulated asset base (RAB), which counts Chorus's monopoly assets. Returns are approximately determined by the WACC times the RAB and this report dealt mostly with deciding the WACC. The RAB outcome will be decided in 2020.

Compared with previous releases from the regulator, this report illustrates that changes are being made in favour of higher returns. A draft regulatory decision is due next year and the risk of a nasty surprise has fallen. In fact, surprises are likely to be in favour of Chorus.

For portfolios seeking income and lower risks, Chorus remains interesting. But the share price bump that accompanied the report has pushed it just beyond our buy range. HOLD.

Gaurav Sodhi is a senior analyst at Intelligent Investor

COMPILED BY DAVID THORNTON

STORY ALAN DEANS

Cool under pressure

When Kim Liddell switched from leading a nomadic lifestyle in her early 30s, she had two young children and needed a flexible job. "I saw an opportunity in the market and thought that I'd buy a truck and send it to work," she recalls.

We're not talking any old truck. It wasn't set up to deliver groceries to online shoppers, or glammed up as a mobile party venue to circle city hotspots. Hers was custom-built to lug high-pressure water excavation gear to blast and then suck up dirt and muck so that essential underground services could safely and easily be accessed.

"I had taken time off to be a mum," explains Liddell. "Prior to that, I ran sales and marketing for a cruise company in the Whitsundays. In between, I travelled a lot with my husband, Paul's work. We moved to Sydney for him to work as a contractor on the Westlink M7 toll road project. Some new technology had emerged and not many people here were using it. I thought there was a market need. It couldn't be that hard to run one truck and a couple of guys or girls. Perhaps I was bold or naive or both. It turned out to be a steep learning curve, but the industry was extremely welcoming."

The week she put her first truck on the road, Liddell gave birth to her third child.

"Even though the statistics don't show it, the industry is extremely welcoming. Customers were happy to use me, suppliers were happy to supply, and so I didn't have the trials that a lot of women find working on construction sites. I had been around the industry for several years and had an awareness and understanding."

Fact file

Kim Liddell

Construction industry contractor. Learned how to be independent and hardworking after her parents went bankrupt when she was a young teenager. Aged 48.

Invests in residential property, learning from her father's, experience as a former land broker in Adelaide. Worked as a sales assistant at the Body Shop, and was trained to manage a business. Embraces adventure, sailing from Greece to the US on Young Endeavour. A registered fitness trainer who is passionate about health and wellness, she practises yoga and goes paddle-boarding.

Liddell now operates 10 trucks and is a director and vice-president of the Civil Contractors Federation NSW. A recent survey showed 4% of the industry's workforce is women. "That's really low. Some 76% of them are in administration roles, and very, very few are in civil construction."

Liddell says women face definite challenges working in construction. "At the younger end of the scale, it's about gaining confidence and finding their voice; to know that it's okay to speak up. Then there are site-specific issues that women struggle with. We've created templates and a code of practice on how to manage that in a workplace that's male dominated. But times are changing. We can embrace our feminine side and lead in a different way. I would love to employ more women, but they're very hard to find."

It's obvious that Liddell's own work is mucky. Digging can cause damage so Liddell uses high-pressure water jets designed to carefully expose underground services then suck up the mess left behind. A neat opening is left for plumbers, sparkies and others to work on the exposed fibre optics, gas, water pipes or electrical cables. "Think of a high-pressure gurney like you would use to clean a driveway," says Liddell.

Her business brought in about $200,000 in its first year, which has increased to several million dollars. Her company, Non Destructive Excavations Australia, has the gear to work on large projects, including Sydney's NorthConnex and WestConnex road projects, the Metro rail system, bus transit ways and electrical sub-stations. It is also called in to provide access around the base of heritage trees without risking damage. "We've come ahead in leaps and bounds in the vac industry over the years," says Liddell. Counterparts in the US even now come to Sydney to see what she's doing, because she says they view Australia as a pioneer.

To develop further, Liddell's attention has recently turned to recycling the mud slurry that otherwise she has to dispose of. She has opened a facility in western Sydney to re-use the waste. The water can easily be used in her business, while the mud slurry contains sand and clay. The latter is compressed to make clay cakes for sale to brickmakers, while the sand and stone are used in landscaping or concreting.

MICHELE MOSSOP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Business flair ... Liddell, who wanted to go to art school as a teenager, found the construction industry extremely welcoming.

Liddell still leaves the day-to-day work for others, and with the business ticking along she has time to consider business development, strategy and leadership along with having some free time. "I moved to Belmont a couple of years ago, which is two hours north of Sydney. I have two sons who are very competitive sailors and who want to go to the Olympics, so I've been supporting their aspirations. And I have a daughter, too." To round out the family affair, she has now hired her husband to focus mostly on business development. "I thought it might be quite clever to employ him because he knew what clients wanted before they knew it themselves."

Another passion Liddell has pursued, even before starting the business, is renovating houses. She first tried her hand at it in her early 20s when living in the Whitsundays. "It was my first foothold in the market. I couldn't afford to buy anything big and flash, so we bought something at Cannonvale, in Queensland, that had potential. We held that for quite a while as a rental property, and over the years I've done a few others. My depot at Vineyard, in western Sydney, had a derelict house that we totally renovated – tool sheds and old outbuildings – and they're now our offices."

Liddell now only retains two renovated houses, having sold others when she needed to buy a new truck. "I've probably made more money doing that than in my business. It has more than paid its way, and given us the flexibility to have a great life.

I have an eye for property, and for presenting it in a different way than to how I found it."

What sort of properties attract her the most? "The worst house on the best street. They may require a fair amount of structural work or some great vision."

Liddell says she was creative as a teenager and aspired to go to art school. But she didn't take to it and flipped into business studies. "The creative side has stayed with me. With renovating, for example. As an entrepreneur, I find that you have to be quite creative as well."

In recent times, Liddell has been focusing on developing her leadership skills. She has completed a program at the Australian Graduate School of Management, and is studying at the University of Sydney for a global executive MBA after winning a business scholarship. "I decided that it might be time to consolidate all my on-the-ground learnings into something formal. You can never stop learning, becoming a better leader or finding new and innovative ways to change for the greater good."

> "As an entrepreneur, I find that you have to be quite creative"

That course took her to India recently, where in Bangalore she saw the construction of a new metro rail project. "They opened theirs three years ago, whereas the Sydney and Melbourne ones are still under way. A developing country can see the lessons that other countries had to learn, and they can bypass things that don't work. But that is a learning for us. Is somebody else doing it differently?"

"I had a troubled childhood. I had parents who divorced and I lived with my mum for a while, my dad for a while and my nanna for a while. I had challenging years as a teenager. My parents went bankrupt. We lived in a tin shed and we ate what we could grow in the garden. Sometimes we didn't eat much. But there was always love and wanting the best for each other.

"I was very sporty as a child, but when I turned 15 I knew I was old enough to work. So I got on the local bus and stopped at every shop and asked for a job. I got several offers that day and the first place I worked at was a chemist in metropolitan Adelaide.

"Having no money makes you very aware of how important it is to have, at least, a little bit. That gave me an awareness of the necessity to work hard. I didn't need a lot, because I knew by then you could get by with not much at all. It was a very harsh lesson as a young person to live through in Australia. Not having a house. Not having food on the table."

MICHELE MOSSOP

CASE STUDY

PHOTO: MICHELE MOSSOP

Work hard, save hard

Buying a third property is on the cards for this young couple

NAME: Kelly Plummer and Dean Reed
STATUS: Homeowners in their 20s who have just bought an investment property.
QUESTIONS: Should we sell our home, which is CGT free, and pay off the investment property, or do we live with a big mortgage for both properties? If we buy another investment property for around $400,000-$500,000, where should we look? Is the Brisbane market sound? And what type of property – an older-style apartment or a newer one? Or should we venture into shares?
ANSWERS: Avoid selling the investment property, as you will lose too much in sale costs, CGT and then buying costs on another one. Instead, use the equity in your two properties to buy a third, but do your research. A good strategy, now that you have purchased your second property, is to pay off some of the debt and not rush into a third property. Salary sacrificing into superannuation will diversify your investments into the sharemarket.

Kelly and Dean were determined to get on top of their finances from an early age. The 27-year-olds have paid off almost two-thirds of their mortgage on a four-bedroom home in Sydney's western suburbs.

Kelly, a midwife, and Dean, a handyman, arrived in Australia three years ago with only $20 after travelling for six months. They secured jobs and permanent residency, saved hard – helped by housesitting – and last year bought the house.

"I work full-time weekend nights to get the most out of the penalty rates," says Kelly. "Dean works away a lot for work and finds jobs on Airtasker, but he currently has a boss who pays him well for his time."

Dean's handyman skills helped keep their renovation bill to $23,000. They upgraded the kitchen and turned the second toilet into a bathroom. They bought a second-hand kitchen on Marketplace for $700, including the dishwasher, and spent $1500 on laminated benchtops.

Originally they were going to rent out bedrooms and stay in the house, but now plan to travel around Australia and pick up work along the way. So they will rent it out.

With these plans in place, Kelly and Dean were looking to buy an investment property and found one in the same area. It is a fixer-upper, says Kelly, and she estimates they can do it for $60,000. "We have worked out that if we continue working the way we are, we can have our home in Sydney completely paid off by 2021."

Is it advisable to sell the first property?

"Estate agents have said not to sell, but to rent it out. It is a numbers game for us and a $100,000 profit is something we can't ignore. If we rent it out, there are risks and costs."

If they do sell the house, should they use the proceeds to pay down the remaining mortgage or buy another investment property. They have been weighing up whether to buy an apartment close to the city in Brisbane. Can they switch a debt from one property to another?

Or should they put money into shares? "It's something we have no clue about."

COMPILED BY SUSAN HELY

It's not such a good time to buy again

Margaret Lomas

Margaret is founder and director of Destiny Financial Solutions and a bestselling author of nine property investment books. destiny.com.au

You have done a great job getting as far ahead as you have at such a young age, so well done to that! When you have bought a property and done it up, and then had a good uplift to its value, it's tempting to do the same again, buying in the same area, and this is what you have done.

What you cannot ignore, though, is this: the uplift you saw is more than likely attributed to the fact that the entire market grew (and your house would have increased in value even without a renovation), rather than because you renovated. It was market timing that added the most increase in value to your property, and this time around that market timing is not as good.

You have now purchased at the end of a major cycle, and any renovation you do will add little to the value. It may, however, improve the rent return, but this will depend on vacancy rates when it's ready to rent. How long it will take to do up this property, while you are both fully employed elsewhere, is another cost that must be factored in. As it sits vacant there are no tax deductions available (as it is not earning income) and the pressure is on you to get it done so that you don't lose any more money.

It is critical to think differently when buying an investment. You must find a market at the beginning of a cycle. You need a property that is not only in demand from the demographics in that area but can be rented out the moment it settles, to maximise your deductions. Given your current financial position, you don't have the luxury of owning a vacant property that you do up in the hope of getting an elusive capital gain – you have to get cash flow happening immediately and let the gain take care of itself over time.

You're already asking whether you should buy an old or new apartment in Brisbane, but you're not even up to that yet! The type of property you buy depends on the demographics, and that may not be an apartment or in Brisbane. Your choice must be the result of active research undertaken all over Australia to determine the area with the greatest likelihood of growing over time.

As for "close to the city", that's not a reliable indicator of growth, and in Brisbane such apartments have been poor performers.

In terms of selling, your own home will be CGT free but the investment property would attract CGT, and if you haven't held it for 12 months it will be on the whole amount. It's probably not wise to sell as you will lose too much in sale costs, CGT and then buying costs on another property. Instead, use the equity in your two properties to buy a third, but this time be more commercial in your approach. "Flipping" only works in rising markets and once you get one market wrong you stand to lose money by doing up a property that fails to even get back the renovation costs.

If you do sell, absolutely pay down any personal mortgage rather than use it as a deposit for another property, because personal debt is not tax-deductible. In paying down your personal debt you'll create more equity to leverage with a loan into another investment.

Pause to review your goals

Steve Greatrex

Steve has worked in financial planning for more than 30 years and started independent financial planning group Wealth On Track in Adelaide 11 years ago. wealthontrack.com.au

Congratulations on building the equity in your own home and on buying another property. This is a great achievement and shows what can be done with hard work and smart saving.

The things I like about what you have done are:

- Housesitting. This is a great idea and can be used by people to save for their first home.
- Your "sweat equity". Leveraging Dean's skills to update your own home and now your investment property.
- Buying older homes rather than a new or fully renovated home. You can get some great prices for these types of homes – it you are prepared to put in the "sweat equity" and can see the potential in the home.
- Using Marketplace to buy your kitchen. Gumtree is also a great place for furniture.

As for switching debt from one place to another, many years ago I was in a similar position to you. I had paid out the loan on my own home and had purchased a unit with borrowed money. I asked my accountant if I could "move" the debt from my new home to my existing home. The answer was no, you can't move debt around like that.

This is where an offset account may be of use.

> Salary sacrificing into super gives you exposure to shares

When it comes to buying another property, there are many investors who are badly under water in the Brisbane apartment market. This could be a buying opportunity. On the other hand, you will be competing with other landlords to get the apartment rented. And there is little to stop more apartment building.

Now that you have purchased your second property, you may need to digest that first.

Go back to your goals – do you like your current home or would the new home be better for you in the long run? This is key.

If you sell your current home and it is your principal place of residence, there should be no CGT payable. (However, renting out the property may have some CGT implications for the time that it was rented).

In terms of investing outside property, consider salary sacrificing or making self-employed contributions to your superannuation. This should give you tax savings and a longer-term plan for retirement, and may give you some exposure to the sharemarket.

Q&A

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*.

Ang's decision about investing comes down to ...

Mortgage versus share fund

Q We are in our early 50s, with two teens still living at home, and we have been paying down our mortgage while topping up our offset account as quickly as possible. We have about $80,000 to go until we no longer pay interest. However, given interest rates continue to drop (ours is 3.59%) we wonder whether we should invest in indexed share funds instead.

We have $75,000 cashback available and $80,000 in the offset account. Should we withdraw $50,000 or $100,000 to invest? Alternatively, would it be better to tap into our equity and obtain a loan or line of credit to also take advantage of tax deductions (we are both in the lowest tax bracket)?

You know, Ang, I am really conservative. So I hate the idea of borrowing against my house. I accept it is technically a sensible idea. You borrow, at a low interest rate secured against your home, and invest. As you say, interest in excess of income earned is tax deductible and you would certainly expect investments to outperform the interest costs.

It makes real technical sense. I am certainly not going to say don't do it, simply because it does make sense. For me it is more emotional than logical. I want my home to be "my castle", hence no debt against it. That decision I will leave to you.

But, yes, with rates this low, you are likely to do better investing outside your offset account. This is riskier, but that is the nature of investment. We tend to get better long-term returns when we take risk.

I would not be against the idea of adding to a low-cost indexed share fund providing you take a long-term view and accept the need to hang on when markets do their regular nosedives.

Before investing further, Lily and her partner should …

Bring the money home

Q My partner (34) and I (27) have recently bought our first property to live in – a one-bedroom unit in Darlinghurst, Sydney, for $746, 000. After our contribution of $171,000 we will borrow $575,000 at 3.39%. Repayments based on a 30-year loan are $2576 a month and we will open an offset account where we will move our savings of $350,000.

We both work full time and I am earning $60,000 a year and my partner $100,000 before tax.

I also have 200,000 euros ($A323,000) in managed funds in France and my partner has 100,000 euros earning 0% in Italy.

Considering we have been waiting a long time before making our first move, we would like to catch up the time wasted and invest most of our savings. We are wondering what our next investment should be and which strategy we should follow.

You guys have made really good progress with your money, Lily. Darlinghurst is an excellent choice for your apartment: near the city, great coffee and food, hard to go wrong buying there. With the recent rate cuts and your big deposit, your mortgage interest rate should be under 3%, so do a quick online shop-around.

I am not unhappy about your 200,000 euros in managed funds in France, although it can be a bit complex from a tax viewpoint. Your partner's money in Italy at zero interest is pretty hopeless, though. Having investments offshore is fine, but I wonder if you might be better off bringing the money home and investing globally from here using low-cost indexed funds or ETFs. If you are here for the long term, I would support bringing your money home.

This can be a complex issue, so seek professional advice before you proceed.

Zelda needs expert advice to help …

Secure daughter's long-term future

Q Our daughter is on a disability support pension and has accumulated some money in a bank account to go towards her future accommodation. She is being penalised because of the interest on that account. Is there an alternative? Or where would we get some financial advice? We are both in our 70s.

I appreciate this is a difficult issue, Zelda. Your daughter's investment income is impacting her disability payments as she saves for future accommodation. I also know that you will be concerned, in particular as you get older, about her future finances and secure accommodation.

With cash providing such low returns, I would like to be able to point out some potentially higher-returning investments, but these are pretty obviously growth assets such as shares and property. I would be unhappy if any adviser recommended these for less than a seven-year time frame, which I think may be too long for your daughter.

More broadly, a professional adviser would be of great value to you in regard to your daughter and your own financial plans. You could ask close friends or your accountant for referrals. Equally, the Financial Planning Association (fpa.com.au) can provide a list of professionally qualified advisers near you.

Q&A

To make up for losing super contributions, Andrew could …

Invest in shares to maintain nest egg

Q I am 34 years old and recently received an opportunity: a five-year contract to move overseas for work (for the same company). My wife will move with me and may not work. We have no children, but it's in the plan to start a family.

I will be receiving my salary in an overseas currency and this means there will be no more super contributions.

We own an investment property valued at $650,000 (with a mortgage, and rent is servicing the loan, which is to be paid off in another 25 years). Our family home is worth $690,000 ($500,000 mortgage). We plan to rent it out, but it will only cover 70% of the mortgage.

Our super is $80,000 combined. In my new job we will be able to save a couple of thousand dollars each month. Our biggest concern is not having super. Should we seek other long-term investments? Is there anything we should be aware of before moving?

Andrew, this is a great opportunity. Frankly, I am not overly fussed about your wealth creation during the time you are gone. You already own two properties and the rent will cover most of the costs there. Depending on where you are going, you may be in a lower-taxed environment.

But here I am no expert. The company you work for is likely to offer assistance, but the whole issue of becoming a non-resident for tax purposes is really important to look at before you go. If your company cannot assist, this is the time when an expert accountant's fees will be worthwhile.

I imagine when you are overseas you will earn at least what you earn now. So my super replacement plan would be to save around 20% of what you earn and invest it in shares. An easy way of doing this is to invest with a major indexed fund provider such as Vanguard or BlackRock. They have low costs and you can make monthly contributions. When you get back you could keep those, and it is quite likely you could add the amount to your super fund as a non-deductible contribution. The main thing is to save a replacement amount to compensate for the lack of super.

I know your experience will benefit your career and your long-term earning potential.

Risk is higher, but with interest rates so low Eric can …

Do better outside the offset

Q I am 29, single and earn about $145,000 a year gross. I have about $36,000 in super, $12,000 in the investment app Raiz and $5000 cash sitting in my offset account.

I own two investment properties: one is worth about $320,000 with a $250,000 mortgage and the other one is worth about $280,000 with a $230,000 mortgage.

I am looking to save for a home in the $400,000-$500,000 range. To build my deposit more efficiently, should I direct my savings towards investments like Raiz or into my offset account? I understand that any earnings from investments will be subject to tax and at my income bracket it is quite high, while in the offset account there is no tax. However, any interest I do pay is tax deductible for investment properties.

Eric, you are in a great financial situation for a 29-year-old. Congratulations.

With interest rates at these levels, saving on your offset account is not so flash. So while I do like diversification, directing your surplus cash to investments outside your offset account makes a lot of sense to me. The only caution here is that, of course, investments such as Raiz are inherently more risky than a very safe offset account.

Fluent

Learning Mandarin is one thing. **Mastering** it is quite another. It takes dedication, time and a deeper understanding. With the wrong inflection you might tell a waiter you would like ‘to sleep’, (rather than order boiled dumplings). Or at a tourism office you might ask where you can see ‘chest hair’ (instead of pandas).

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Fidelity INTERNATIONAL

SMART SPENDING

Destination Bosnia

Past and present ... clockwise, from top, cable car to the mountains; Mostar city's iconic Old Bridge; traditional Bosnian coffee; disused bobsled track.

Six things to do

1. Admire: The "Sarajevo roses", which are small craters formed when mortar shells rained down during the Bosnian War and are now filled with red resin. Although a confronting reminder of the horrors of war, the rose memorials are a way to honour those who lost their lives. About 200 "roses" cover the streets, creating a fragmented pattern that resembles a floral arrangement.

2. Wander: The streets of the old town or *stari grad*, which marks the spot where the city was founded by the Ottoman Empire in the 15th century. There's something for everyone in the cobblestone laneways, with merchants selling everything from coffee to souvenirs.

3. Visit: Stari Most, the iconic Old Bridge in the city of Mostar, which was built in the 16th Century and is considered a famous piece of Balkan Islamic architecture. The peak of the arch is a staggering 25 metres above the freezing water. Since 1664, tradition has dictated that 16-year-old boys must jump from the bridge as a rite of passage. Nowadays, experienced divers jump off a couple of times a day for the benefit of tourists. If you manage to grab a good seat at the popular restaurant below, you will get a perfect view of the divers.

4. Sip: A traditional Bosnian coffee in the old town. The strong black coffee is served with a Turkish delight and sugar cubes. Locals sip coffee through the cubes for the ultimate sugar hit!

5. Catch: The cable car from the centre of Sarajevo to the disused bobsled track in the mountains. Take in the breathtaking view from the cable car, then walk along the bobsled track, which was built for the 1984 Winter Olympics. It was used to transport mortar shells during the war but now the graffiti-adorned track is the perfect spot to explore the hills that surround the city.

6. Capture: The view from the top of the mosque in Mostar. You can walk up the many stairs to the top of the spire for sweeping views of Mostar and the surrounding mountains. Be careful if you suffer from vertigo, though, as the balustrade is only waist height! ELIZA BAVIN

DRIVING PASSION

Make way for the big players

Holden's decision to kill off the iconic Commodore nameplate to concentrate on selling SUVs is symbolic of the changing face of Australia's vehicle market. SUVs accounted for almost half of the country's 1.06 million vehicle sales last year, while passenger car sales slumped to just 30%.

And with cars such as the Holden Astra, Kia Optima, Hyundai Accent, Mitsubishi Lancer, Volkswagen Arteon and Commodore quietly disappearing from showrooms, expect the SUV boom to continue with a diverse range of all-new and updated models arriving fresh for the 2020 model year.

These include the new-generation Land Rover Defender, Subaru Outback and Ford Escape complete with a hybrid version; brand new models such as the Mazda CX-30 and Volkswagen T-Cross and T-Roc crossovers; and the Audi Q3 Sportback. Even Aston Martin is getting into the game with its new DBX, and if the success of the Lamborghini Urus is any guide, it could become the brand's biggest seller.

DAVID BONNICI, WHICHCAR.COM.AU

$29,990-$43,490

Mazda CX-30

The CX-30 bridges the size gap between the CX-3 and CX-5 (the CX-4 name is already used by a Chinese-market model). Due in the first quarter of the year, it's based on the new Mazda 3 and shares its refined ride and polish. The decent standard equipment list includes Android Auto/Apple CarPlay, autonomous emergency braking and active cruise control.

Pros: Practicality; interior finish; driveability.

Cons: Odd door mirror positioning.

mazda.com.au/cars/cx-30

From $28,500*

VW T-Cross

VW finally has finally joined the Aussie small-SUV market. The T-Cross sits 100mm higher off the ground than the Polo hatchback on which it's based and shares its punchy 1.0-litre turbo petrol engine, interior treatment and active safety features. Due in the first quarter, with the bigger, Golf-based T-Roc to follow.

Pros: Flexible interior; fuel economy.

Cons: Smallish boot space.

au.volkswagen.com.au/models/t-cross

* estimated

From $29,990*

Ford Escape

The fourth-generation Escape will touch down this year complete with Ford's first plug-in hybrid for the Australia. With a fresh look inspired by the Mustang, the new Escape will be bigger and more spacious. Upper-spec variants will have head-up display, second-generation park assist and adaptive cruise control.

Pros: Spacious interior; intuitive infotainment.

Cons: Cheap interior surface; smallish boot.

ford.com.au/suv/escape/

* estimated

EXTRAVAGANCE

One for the pros

Apple's pulled out all stops with its newest version of the Mac Pro. At $9999, it's the ultimate machine but go for the souped-up version and you'll be up for a staggering $85,597. Top-of-the line add-ons include a 28-core Intel Xeon processor, 1.5 terabytes of memory, two Radeon Pro Vega II Duo graphics processing units and four terabytes of storage. While it's a splurge for most of us, the Pro is designed really for the pros – film editors and video game developers.

How much: (AUD) $85,957 Where to buy: apple.com

WINE SPOTLIGHT

2017 Blackstone Paddock Margaret River Cabernet Sauvignon $17.99

Pure blackcurrant aromas with a hint of black olive and wild herb; tight, firmish structure yet with fleshiness in the mid-palate, before a long finish. Has cellaring potential yet is attractive drink-ing now. Gold medal at Wine Show of WA. Extraordinary value for a Margaret River cabernet. Exclusive to Aldi.

SPLURGE

2018 Gemtree 'Uncut' Shiraz $30

This biodynamic producer from McLaren Vale produces clean, well-made reds. In 2018 the 'Uncut' Shiraz is plush and vibrant with medium body yet wonderful intensity of black plum and redcurrant flavours. Looking for something unique? You can buy a bottle of the Gemtree Subterra Shiraz ($260) from the cellar door. It spends six months under the soil before bottling. Unique.

PETER FORRESTAL

SMART TECH

Bringing music to our ears

Headphones aren't what they used to be. Heck, even earbuds aren't what they used to be. Once, the whole concept of personal audio was defined by big, bulky earmuffs, inevitably tethered by wires to your music player (they could be pretty chunky, too. These days, the whole operation is much sleeker, to the point where the technology is becoming literally invisible.

In the Spotify era, physical media is largely superseded since millions of songs are streamable anywhere with an internet connection. The wires are gone too, replaced by the effortless convenience of wireless connectivity like Bluetooth. Active noise cancelling is becoming more and more ubiquitous, so you can negate the din and distractions around you, to focus on the sounds you want to hear.

That innovation, among others, is helping to make smaller earbud-style units a better match for traditional on-ear headphones, while clever breakthroughs like Bose's Frames give us an impressive new vision of what "headphones" can actually be. Basically, if you want sound piped into your ears, you've got options.

PETER DOCKRILL

What is it? Bose Frames Alto
How much? $299
Pros: One of those "wow" products, Bose's Frames aren't ordinary headphones. In fact, they're not really headphones, but sunglasses with miniaturised electronics and speakers hidden inside the arms, which channel sound discreetly into your ears and even let you take calls (when paired to your phone). The arms are a little thick, but nobody will ever guess you're secretly chilling to tunes behind these stylish Wayfarer-esque frames.
Cons: Not so great at night.
bose.com.au

What is it? Apple AirPods Pro (pictured)
How much? $399
Pros: Wireless Bluetooth headphones have been well-established for a while, but it wasn't until Apple released its original AirPods in 2016 that wireless earbuds became a familiar sight on city streets everywhere. They've now been one-upped by the AirPods Pro, which also bring active noise cancelling into the mix.
Cons: Some pretty pricey earbuds just got even pricier – but if you want to block out noise without lugging big headphones around, this could be the ticket.
apple.com/au

What is it? Sony WH-1000XM3 Wireless Noise Cancelling Headphones
How much? $395
Pros: If you don't mind the traditional look and feel of larger, on-ear headphones and want a premium set with noise-cancelling built in, Sony's WH-1000XM3 is worth a look. Sony bills the XM3s as having its most advanced noise-cancelling technology, and advanced settings and personalisation features, plus a 30-hour battery to boot.
Cons: Like the features but not the heft? Check out Sony's WF-1000XM3 earbuds.
sony.com.au

GIVE IT UP

DoSomethingNearYou

What is it? DoSomethingNearYou helps find non-profit organisations or community groups in your area and encourages you to make contact with the local branch to become their next member or volunteer.
Where your money goes? This charity is not about where you put your money; rather it's about where you choose to dedicate your time at a local organisation or group. This might be at a nearby Salvos or Vinnies store, or the local Lions Club, historical society, State Emergency Service (SES) or Scouts – just to name a few.

DoSomethingNearYou is run by the DoSomething Foundation, which was established by Planet Ark founders Jon Dee and Pat Cash in association with Tina Jackson, the former executive director of the National Trust of Australia.
How to donate: Visit the website dosomethingnearyou.com.au and type in your postcode or suburb. Then select your area of interest and scroll through the listings where you read about each organisation and what they offer.

WEBFIND

FINDABED.INFO

Here's a place where people with a spare bed or place can connect with those needing a bed for themselves or a place for their animals.

This website started during the bushfire crisis and is a community of volunteers willing to connect people in need. As of January 8, 2020, more than 6500 people had volunteered a place.

DARREN SNYDER

CASE STUDY

Vivek with his wife Sagarika, Meera and Veer.

School is the key to decision on a second property

I live in Sydney with my wife and two young kids. I plan to buy a second home in the next two years, which I assume will cost between $900,000 and $1.2 million. I'm looking to buy in a suburb with a good government school, otherwise I need to pay for a private school, which will cost about $20,000 a year.

Will it be a good plan to buy the second house and make the existing house an investment property? Or pay down the mortgage and close the home loan in, say, the next 10 years (and send the kids to private school)?

Or do we rent in a good suburb until the kids finish school and put the existing property up for rent and buy an apartment as an investment?

How should I proceed?

Vivek

Excellent question, Vivek. It's a common dilemma. It's also complex! Funnily enough, it's not the money part that's complicated. I know mortgage deductibility, capital gains tax and so on can be tricky, but these are not really the big issues here. So let's deal with them first.

Whether you pay down your mortgage or buy an investment property is just about risk and return. Hopefully, you are not paying any more than 3.5% on your mortgage. If you are, shop around and change. But let's use that for our base case. Any money you put into your mortgage should be into an offset account. First, it gives you access to your money when needed. Second, it means you are not paying down your mortgage. If you do turn your family home into an investment, you want the biggest loan on your current home, as the interest will be deductible if it becomes an investment property. You want the smallest possible loan on your new property because it will be non-deductible.

Now we return to the 3.5%. Every dollar you put into your offset account effectively earns 3.5%, but it does so pretty much risk free and tax free. For most taxpayers, that is equal to about 5% from an investment, as unless you can invest in a non-income-earning partner's name, you will pay tax on the return.

So the math is pretty simple. If you think you can earn 5% or more from any investment, it will produce a better outcome than paying down your mortgage.

But here's the rub! Paying down your mortgage is virtually risk free. Any investments will have risk attached. Mind you, history shows that decent shares and well-located property are doing better on average than 5%pa over the long term, but taking on more risk is a personal issue that links to your income, assets and time frame.

On a technical level, I suspect you would do best financially by gearing up on a new investment property, having your kids in a government school and investing the $20,000 a year saved on school fees. But that is not what life is about. We work to provide security and give our family the best opportunities.

Again, this is personal. Many of my friends went to excellent private schools and are good citizens and have done well. A lot of us went to government schools and – guess what? – we are good citizens and have done well. But I feel education is critically important in these complex times. So if I were in your shoes my first focus would be on the best school for my kids. If that is private, fine. Make that decision first and then plan your next move into property.

If a particular government school is your preference, buy a house inside the school boundary and make it your home. The key thing is to put your family first and let your money follow the family decision. Obviously it would be better to have a bigger mortgage on the investment property, but the real issue here is giving your kids the best possible education.

Paul's verdict: The real issue is not money, but your kids' education

Put the family first and let everything else follow that decision

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.

Obsessive mainstream media reports would have you think Sydney and Melbourne are the only places seeing improved property markets, but Brisbane, Adelaide and Canberra are also ready to take it up a notch as local infrastructure projects begin.

Slower economic growth means it's ever harder to find bargain share prices, but there are several sectors and companies you can turn to that will help navigate the low-interest-rate environment.

This year property guru Terry Ryder and Jessica Amir, a shares expert from Bell Direct, showcase where they see the greatest value, revealing their top 50 property hotspots and share buys.

- 5 standout locations, page 38
- 5 standout shares, page 43

STORY **TERRY RYDER**

What's hot in real estate

The most successful property investors in 2020 will be those who think small. For the past six years, including 2019, it's all been about big: the two big cities, their boom, their downturn and their recovery.

Mercifully, 2020 will see the focus move elsewhere. Some of the smaller capital cities will capture attention and there will be increased awareness of regional areas, especially those with economic diversity and less reliance on agriculture.

While 2019 ended with the media obsessing over the size and speed of the recovery in Melbourne and Sydney, the apparent level of growth in the latter months of the year is unsustainable. It reflected a reaction to improved conditions in a climate of low supply – not to mention a media overreaction to short-term data from one research source.

Forecasters have tipped Melbourne and Sydney to lead the nation on price growth in 2020, but most are simply predicting the recent past – extrapolating recent events into the future.

Indeed, some of the media commentary on big city prices late in 2019 was beyond rational, converting a short-term rebound in some of the data into a national sensation.

A more sophisticated approach, which involves looking at underlying economic factors and leading indicators, suggests other places will rise from the pack in 2020, while conditions in Melbourne and Sydney settle down to generate a "normal" market.

Key factors driving markets

The federal election result in May was critical, because it removed the biggest brake on major markets – the fear of Labor's tax policies. Then followed, in rapid succession, the APRA relaxation of lending criteria, tax cuts, measures to help first home buyers and interest rate reductions. Consumer sentiment about real estate improved and the tone of media coverage turned generally positive.

Those are the macro factors, the background against which local markets operate. Real estate markets are essentially driven by local economic events and, at a street level, the pumping markets are those underpinned by economies that are vibrant and generating jobs.

The mainstream media, fed by attention-seeking economists, tend to discuss Australia as a single market, usually extrapolating the situations in Melbourne and Sydney into a national scenario that depicts either runaway booms or unprecedented declines.

Proper analysis shows there are always differences from one city to the next, driven by local conditions – and indeed many different scenarios can play out within a single city. This explains why the previous booms in Sydney and Melbourne coincided with lengthy downturns in Perth and Darwin and relative stagnation in Brisbane and Adelaide.

From 2011 to 2019, Sydney and Melbourne prices had six years of strong rises, followed by two years of reversal (ABS data).

Throughout that period, Perth house

prices had two years of increases, followed by six years of gradual decline. Darwin rose until 2014, then had five years of sharp decreases in its pricing levels. Those cities were at the centre of struggling economies and in stark contrast to Victoria and NSW.

Since 2011, Brisbane has had eight years of gradual increases, with no down years. Adelaide and Canberra have had similar scenarios. These cities are due for bigger things, helped by improvements in their local economies.

What to look for

Australian real estate consumers are particularly poorly informed. Time-poor buyers and sellers have little time for genuine research and get their information by absorbing sound bites and click-bait headlines from the mainstream media.

Most of what consumers absorb relates to median prices and auction clearance rates, both of which are rife with rubbery figures. Most information is about movements in median prices and is generalised in nature (one figure to describe a large city or the entire nation).

This data tells us about the recent past (and figures from one source are often contradicted by those from another), but seldom informs the future.

There are better ways. Consumers can find clues about future price performance by charting vacancy rates, rental movements and sales volumes in targeted locations.

Rental growth, strongly influenced by the level of vacancy rates, is often a key forward indicator of price growth. Sydney had a period of low vacancies and strong rental growth, before embarking on its price boom from 2012 onwards. Hobart, the strongest of the capital cities in recent years, was sparked by its ultra-low vacancies and big rental growth and has had three years of good price performance.

Changes in sales volumes are often a precursor to price patterns. When demand levels change in a market, it takes time for prices to react. Sales activity peaked in both Sydney and Melbourne a long time before it was reflected in price declines in 2018 and early 2019.

Shortages are a key factor

Vacancy rates in most areas across Australia are low. Construction levels for new dwellings dropped sharply in 2019 and vendors have been surprisingly slow to respond to the higher demand that emerged in major markets in the second half of the year. Rising numbers of buyers have been competing for good properties, with listing levels low.

Hobart, Adelaide and Canberra all have vacancy rates around 1% or lower. Melbourne, Brisbane and Perth are all between 2% and 2.5%, with Brisbane and Perth much tighter than they were one or two years ago.

Darwin is gradually improving and only Sydney among the capital cities has areas of oversupply.

Many of the key regional markets throughout Australia have low vacancies also, with rents growing steadily. In Ballarat, in Victoria, vacancies hover around 1.5% in a market that has been attracting demand from both home buyers and investors out of Melbourne. In Mackay, in Queensland, vacancies have dropped from a peak around 9% five years ago to about 1.5% today, helping the city to lead the central Queensland revival in 2019.

Areas with good prospects

The cities where the indicators (including improvements in the local economy and infrastructure spending, as well as vacancy rates and rental trends) point to advances in real estate markets are Brisbane, Adelaide, Canberra and Perth.

There will be opportunities to buy well in Darwin by those willing to take a punt on recovery in the Northern Territory economy.

Melbourne and Sydney will have positive years, with price growth moderating as the year progresses. But these are big markets, so there will be (as always) regional differences. Demand for well-located apartments with reasonable affordability will be strong.

And the forgotten markets will be the regional ones, where astute buyers can find excellent value for money in growth centres, if they know what to look for.

HOW 2019 TURNED OUT

This time last year I wrote: "Most analysts have predicted solid growth in the smaller capital cities, outperformance by specific regional markets and an easing of the Sydney/Melbourne downturns towards the middle the year."

Many of the locations that delivered double-digit price growth in 2019 were regional centres, notably in Victoria and Tasmania. Some regional markets in NSW and Queensland also performed well. Hobart continued to be the capital city leader on price growth and selected markets in Brisbane and Adelaide outperformed. Sydney and Melbourne started to recover after a series of fortunate events in May and June, including the election result and the measures to relax lending.

This time last year I wrote: "There's an expectation that the tougher lending environment will be relaxed this year, nudged by the federal government and some of the major regulators, including the Reserve Bank."

APRA announced it was relaxing its criteria on real estate lending in the week after the May federal election. The federal government launched tax cuts and assistance for young buyers – and the Reserve Bank began to trim the official interest rate.

This time last year I wrote: "The elephant in the room is the federal election. Consumers tend to delay major decisions when a national election looms …"

Real estate consumers, especially investors, went on strike in the early months of 2019. People refuse to make big spending decisions in a climate of uncertainty and Labor's policies on property taxes had many people worried. Once the election was sorted, real estate began to revitalise. The turnaround in major markets began with the election result and built on the series of fortunate events that followed.

This time last year I wrote: "Now, more than ever, it's important to be aware that it's not all about the big cities."

Many of the smaller markets thrived in 2019, including in the early part of the year when the big cities were declining or stagnating. Regional markets like Ballarat in Victoria and the Sunshine Coast in Queensland delivered strong price growth, while Hobart and Canberra led the capital cities

NEW SOUTH WALES

STANDOUT LOCATION:

1 Northern beaches:

This precinct was one of the most resilient amid the Sydney post-boom downturn. Sales activity stayed solid and prices in the apartment markets held up well. Major projects, including the $600 million Northern Beaches Hospital, are generating jobs. The proposed Beaches Link tunnel will make commuting to employment nodes and the Sydney CBD easier.

2019 reviewed

Queanbeyan: Like nearby Canberra, Queanbeyan has low vacancies and demand from buyers and renters is strong. Several Queanbeyan suburbs grew prices by between 5% and 10% .

As vendors increasingly join the party in 2020, some of the heat will come out of auctions and prices towards the upper end of the market. Evidence that the NSW economy is losing some steam will also help to defuse the momentum evident late in 2019.

First home buyers are active in Sydney, notwithstanding the high prices, and there will be a surge in the early months of the year, thanks to the federal assistance scheme. First-timers will also boost momentum in unit markets, given the evidence that many young buyers prefer an apartment lifestyle, in addition to greater affordability.

There was evidence in 2019 of unit markets holding up strongly in suburbs where house prices had dropped markedly. Expect demand to be strong in 2020, nudged by first-timers, downsizing retirees and migrants. Currently there's no supply shortage but that will change as the year rolls on, putting pressure on prices.

I expect the northern beaches to do particularly well while, in the west, suburbs close to the emerging new airport at Badgerys Creek will attract growing interest as work on the new infrastructure unfolds. Infrastructure spending was a key influence in driving Sydney's previous boom.

There's a life in NSW beyond Sydney and the state has many strong regional centres, despite the impact of drought and bushfires. In the previous cycle we saw regional markets close to the city catch the Sydney wave, so I expect to see revitalisation in areas such as the Central Coast, Newcastle/Hunter Valley and Wollongong.

Further afield, Orange, Wagga Wagga, Dubbo and Albury-Wodonga are among the markets I expect to do well.


Northern beaches ... solid sales

VICTORIA

STANDOUT LOCATION:

2 City of Moreland:

This precinct was highly resilient to the post-boom correction, especially the unit markets in suburbs like Brunswick and Coburg. Proximity to the CBD, good transport links and a major education/medical employment hub are among the core factors driving the Moreland market. Apartments remain affordable for first home buyers.

2019 reviewed

Bendigo: Regional Victorian did well, with Bendigo one of the best. Suburbs like Heathcote (up 21%) and East Bendigo (16%) had big price growth. Rents rose, with vacancies below 1.5% in many postcodes.

The elements that drove the previous Melbourne boom – a strong local economy, population growth and infrastructure spending – remain very much in play, Melbourne's upper end came roaring back towards the end of 2019, in the post-election revival.

Unlike Sydney, Melbourne has a tight vacancy situation and that will help keep some pressure on prices. I expect middle-market areas with good real estate bones (infrastructure, public transport, proximity to jobs nodes and good-quality dwellings) and reasonable affordability to attract strong demand. That's particularly so for precincts that offer good alternatives in the apartment market.

The Moreland and Darebin precincts a little north of the Melbourne CBD provide great examples. These areas have character suburbs close to big jobs nodes, with good transport links, plus good affordability in their unit markets.

While Melbourne was having its post-boom correction in the first half of 2019, regional Victoria was charging ahead, with many centres delivering double-digit annual growth in house prices. It's no coincidence that regional Victoria is a national leader on jobs growth and has Australia's lowest jobless rate.

The price growth trend has been rippling out from the capital – through Geelong, Ballarat, Bendigo, Pakenham and Warragul – to reach more distant towns such as Echuca, Shepparton, Wangaratta and Wodonga. There will be further growth in 2020 in the strongest centres like Ballarat and Bendigo.

The affordable towns of the Latrobe Valley centres, headed by Traralgon, will also attract demand from home buyers and investors.

QUEENSLAND

STANDOUT LOCATION:

3 Moreton Bay LGA:

Brisbane is poised to enjoy its time in the spotlight and some of its more affordable precincts will attract first home buyers and investors on a budget. Northern suburbs like Petrie and Lawnton offer attainable houses in an area with excellent facilities and infrastructure. The Redcliffe Peninsula offers an affordable bayside lifestyle boosted by train links to central Brisbane.

2019 reviewed

Townsville: The long-awaited recovery was stalled by floods in February, but by year's end some suburbs were delivering price growth, headed by Cranbrook (14%) and Hermit Park (8%).

Real estate watchers are becoming cynical of forecasters tipping the Brisbane boom, but the city is likely to deliver more in 2020. Analysts have suggested for years it would follow Sydney and Melbourne into a boom, but they failed to understand that Brisbane lacked the fundamental drivers pushing the big city upsurge: a strong local economy, big population influx and major infrastructure spending. High vacancies were another speed bump for Brisbane.

But now many of the ducks are falling into line for the Queensland capital, with south-east Queensland once again leading the nation on net interstate migration and big infrastructure starting to crank up. Housing finance in south-east Queensland is steadily increasing.

Surveys of investor intentions put Brisbane at the top of the list of targets, helped by the affordability comparison. Let's face it, Brisbane is due – and the absorption of most of the previous unit oversupply helps the process.

The middle market in the northern suburbs is an outperformer for Brisbane, helped by attractive pricing, good transport infrastructure and the big Australia TradeCoast jobs nodes around the airport and seaport. The new university campus at Petrie boosts nearby suburbs like Lawnton and Petrie.

The recovery of markets in central Queensland was a feature of 2019, headed by Mackay and Emerald. Now Rockhampton and Gladstone are showing signs of joining in, though investors should remember how volatile resources-related centres can be.

Further north, Townsville is overdue for revival and has a big infrastructure spend in the works.

Meanwhile, the Sunshine Coast continues to be one of the most compelling economic growth stories anywhere in Australia and its property market will provide long-term growth.


Moreton Bay ... on the up

WESTERN AUSTRALIA

STANDOUT LOCATION:

4 City of Melville:

The Perth market shows signs of recovery and one of the standout performers is Melville. Several suburbs have growing buyer activity and some have recorded price growth in the past 12 months. Melville benefits from being close to the major east-west transport corridor linking Perth Airport to the Port of Fremantle. Strong infrastructure spending suggests this market is well placed to grow.

2019 reviewed

Stirling: While the generalised data suggested Perth prices fell further in 2019, many Stirling LGA suburbs delivered moderate growth, headed by Carine (up 6%).

Perth showed clear signs of recovery late in 2019 and is poised to deliver some growth in the new year. Vacancies have steadily reduced and rents are growing again, a clear indicator of future price movements, on the back of WA's economic revival. Evidence of prices fighting back is now being seen in data from SQM Research and CoreLogic.

With the local economy and property market so long in downturn (the market last peaked in 2013), it's easy to forget that Perth historically has been a national leader on growth in population and house prices.

After five years of gradual decline, there are good buying opportunities across the city and forward-thinking investors are already active. Perth house prices remain below the levels of 2010. There are particularly good opportunities to secure properties with zonings that allow a second dwelling to be built.

Perth now has the highest affordability levels of any capital city and first home buyers boosted by cheap finance and government assistance (the state government is offering major incentives for off-the-plan purchases) will find good pickings. The City of Kwinana in the city's south offers houses in the $200,000s, close to major jobs nodes.

Middle-market areas including the LGAs of Stirling, Melville and Joondalup will attract a growing number of buyers.

Outside the state capital, key resources regional centres like Port Hedland and Karratha will continue to grow their prices after finding the bottom of the trough in 2018 – with a long way to go to reach the crazy pricing levels of the mining investment boom.

Port Hedland's median house price rose 15% in 2019, but at $435,000 remains a long way south of the peak levels, which topped $1 million.

SOUTH AUSTRALIA


Adelaide ... attracting attention

STANDOUT LOCATION:

5 City of Marion:

Tonsley Innovation District is now home to 30 research, technology and science businesses, plus a new teaching hospital and university campus. Major transport projects are improving the connectivity between freight hubs and seaports. Marion offers suburbs with houses priced in the $400,000s, plus low vacancy rates.

2019 reviewed

Port Adelaide-Enfield: Adelaide overall moved only moderately, but many Port Adelaide-Enfield suburbs did better. Broadview rose 12%, while others (such as Gilles Plains and Lightsview) managed 6%-7%.

Adelaide is one of the standout markets among capital cities but receives little recognition. Its consistent sales performance is noteworthy and almost two-thirds of its suburbs have had price growth in the past year, led by double-digit rises in some markets.

I see Adelaide as Australia's most underrated market. It keeps delivering good sales activity and above-average results on house prices in selected precincts. It has avoided the boom-bust scenarios seen recently in Melbourne and Sydney and the sharp downturns that have plagued Perth and Darwin.

Around 65% of Adelaide suburbs have experienced growth in their median house prices in the past 12 months, often by more than 5%. The list of places with growth above 10% is dominated by middle-market suburbs. But there are high-growth pockets spread throughout various market sectors and price ranges.

Adelaide will attract growing attention in 2020 and beyond as the impact of major events becomes evident: the rollout of $90 billion in navy vessels and the evolution of the city as the high-tech innovation capital of Australia.

Middle-market precincts not far from the CBD, including West Torrens and Marion, offer tremendous value and will attract investors. These precincts, like many in Adelaide, have low vacancy rates and good rental returns.

The suburbs of Port Adelaide-Enfield will prosper from the construction of the naval vessels and from the relocation of state employees from central Adelaide.

OTHER STATES AND TERRITORIES

Tasmania and the ACT have provided the leading capital city markets in the past 12-18 months. Hobart and Canberra have had the lowest vacancy rates and have led on rental growth, with Hobart also the outstanding city on house price growth, a status it has maintained for the past two years.

The two cities continue to stand out as tight markets with good demand.

Hobart has passed the peak of the current cycle and it was noteworthy that while it continued to lead capital city Australia on price growth in 2019, the rate of increases moderated somewhat.

The opportunity in Hobart is to build new dwellings in a city where vacancies hover around 0.5% and rents are growing at the fastest rate in the nation.

Regional Tasmania has also recorded prolific price growth in the past two years and the state's second city, Launceston, has attracted interest from the mainland, from both investors and home buyers. Like Hobart, these regional markets have mostly passed their peaks, but will carry some growth momentum into the new year.

Canberra is an underrated and often overlooked market that is underpinned by one of the nation's strongest state/territory economies, the highest incomes and the lowest unemployment. Vacancies hover around 1% and rents continue to grow steadily. There's always consistent demand in the Canberra market and price growth will be solid in 2020. The overriding characteristic of Canberra is that it's always steady – it seldom booms and it never busts.


Canberra ... always steady

Markets just over the NSW border around Queanbeyan offer an attractive alternative 15 minutes from central Canberra.

Elsewhere, the Northern Territory has been the basket case of the national economy in recent years and is finding it difficult to generate recovery drivers.

The Darwin market had its last price peak in 2014 and has had five years of significant decline since then, with $100,000 wiped off the value of the typical house.

There were tentative recovery signs late in 2019, with vacancy rates trending in the right direction and indications that price decline is coming to a halt. Sales activity has picked up, with first home buyers taking advantage of low prices, government assistance and cheap finance.

HOTSPOTTING'S TOP 50 LOCATIONS FOR 2020

SUBURB	MUNICIPALITY	STATE	MEDIAN PRICE (FOR HOUSES UNLESS UNITS INDICATED)	GROWTH (%PA) HISTORICAL 1 YEAR	GROWTH (%PA) HISTORICAL 10 YEAR	GROWTH (%PA) FORECAST 3 YEAR	MEDIAN WEEKLY RENT	MEDIAN YIELD
Lilyfield	Inner West	NSW	1,655,000	-2%	7%	20%	$840	2.6%
Dee Why (units)	Northern Beaches	NSW	750,000	-3%	6%	17%	$560	3.9%
Freshwater	Northern Beaches	NSW	2,330,000	-3%	8%	20%	$1400	3.2%
Busby	Liverpool	NSW	560,000	-9%	8%	15%	$390	3.6%
Schofields	Blacktown	NSW	755,000	-9%	7%	17%	$560	3.9%
Parkes	Parkes	NSW	265,000	4%	3%	20%	$320	6.3%
Queanbeyan	Queanbeyan	NSW	515,000	-2%	4%	15%	$475	4.8%
Orange	Orange	NSW	420,000	7%	5%	20%	$380	4.7%
Lavington	Albury	NSW	275,000	4%	2%	15%	$315	6.0%
Brunswick (units)	Moreland	VIC	550,000	11%	3%	20%	$450	4.3%
Coburg	Darebin	VIC	890,000	-6%	6%	22%	$545	3.2%
Northcote (units)	Darebin	VIC	575,000	6%	6%	20%	$440	4.0%
Ascot Vale	Moonee Valley	VIC	1,160,000	1%	7%	17%	$600	2.7%
Deer Park	Brimbank	VIC	545,000	-5%	7%	15%	$380	3.6%
Sebastopol	Ballarat	VIC	300,000	9%	4%	15%	$300	5.2%
Traralgon	Latrobe	VIC	315,000	7%	4%	20%	$320	5.3%
Flora Hill	Bendigo	VIC	355,000	5%	5%	17%	$320	4.7%
Echuca	Campaspe	VIC	375,000	8%	5%	15%	$350	4.8%
Sunrise Beach	Noosa	QLD	855,000	3%	4%	25%	$600	3.7%
Parrearra	Sunshine Coast	QLD	770,000	11%	5%	22%	$560	3.8%
Wurtulla	Sunshine Coast	QLD	650,000	12%	5%	22%	$490	4.0%
Petrie	Moreton Bay	QLD	445,000	1%	2%	20%	$390	4.6%
Nudgee	Brisbane North	QLD	650,000	7%	4%	15%	$550	4.4%
Margate	Moreton Bay	QLD	455,000	2%	3%	15%	$385	4.4%
Andergrove	Mackay	QLD	335,000	4%	1%	20%	$380	6.0%
Kirwan	Townsville	QLD	310,000	4%	0%	15%	$350	5.9%
Yeppoon	Rockhampton	QLD	360,000	11%	1%	15%	$350	5.1%
Clovelly Park	Marion	SA	480,000	3%	3%	20%	$420	4.5%
Mitchell Park	Marion	SA	455,000	4%	3%	20%	$400	4.6%
Ferryden Park	Port Adelaide	SA	440,000	3%	2%	17%	$390	4.6%
Findon	Charles Sturt	SA	505,000	6%	3%	15%	$395	4.1%
Henley Beach South	Charles Sturt	SA	970,000	15%	6%	15%	$495	2.7%
Salisbury	Salisbury	SA	305,000	6%	2%	15%	$310	5.3%
Port Augusta	Port Augusta	SA	145,000	2%	0%	25%	$240	8.6%
Mt Pleasant	Melville	WA	1,175,000	-2%	5%	17%	$620	2.8%
Karrinyup	Stirling	WA	790,000	1%	2%	15%	$500	3.3%
Heathridge	Joondalup	WA	430,000	0%	2%	15%	$370	4.5%
Parmelia	Kwinana	WA	255,000	4%	0%	17%	$280	5.7%
Riverton	Canning	WA	640,000	6%	4%	15%	$395	3.2%
Falcon	Mandurah	WA	370,000	4%	1%	15%	$300	4.2%
Monash	Tuggeranong	ACT	615,000	4%	5%	15%	$540	4.6%
Holt	Belconnen	ACT	510,000	2%	4%	17%	$490	5.0%
Franklin	Gungahlin	ACT	730,000	5%	8%	20%	$625	4.5%
Ngunnawal	Gungahlin	ACT	520,000	4%	4%	15%	$490	4.9%
Theodore	Tuggeranong	ACT	565,000	8%	4%	15%	$495	4.5%
Mowbray	Launceston	TAS	260,000	7%	4%	15%	$310	6.2%
South Launceston	Launceston	TAS	335,000	6%	4%	15%	$350	5.4%
Bridgewater	Brighton	TAS	255,000	13%	4%	17%	$330	6.7%
Glenorchy	Hobart	TAS	380,000	9%	5%	17%	$420	5.7%
Goodwood	Hobart	TAS	340,000	12%	6%	15%	$385	5.8%

SOURCE: HOTSPOTTING AT NOVEMBER 2019.

TOP 50

SHARE BUYS & PROPERTY HOTSPOTS

STORY JESSICA AMIR

Stocks that lead the field

According to the Chinese zodiac, 2020 is the Year of the Rat – a clever, quick-thinking creature seen as a sign of wealth, surplus and often creating success. Before exploring how to sniff out returns, let's take a lead from this resourceful animal's attitude to analyse the emerging macro economic themes, sectors and stocks that have the best potential of outperforming in 2020 and beyond. (See "How they were chosen", page 44).

We know interest rates globally are at record lows, depressing returns of fixed-income assets while also driving up asset prices and pushing equities to all-time highs, as investors are forced to take on more risk to achieve higher returns. You may have read a lot about "lower for longer" with respect to interest rates. And while this is traditionally good for economies and for households, at present it is pointing to an expectation of lower economic growth globally for the short to medium term.

Lower rates are being used by most central banks to encourage business investment and consumer spending to grow their economies. As a result, fixed-income investments will remain suppressed and asset prices are expected to further rise. However, with rates already at such low levels, central banks are running out of ammunition, raising the need for a new approach to boost growth.

Australia's lead indicator for economic growth, real gross domestic product (GPD), trickled lower, to 2.25% in the 2020 financial year, from the estimated 2.75%.

The mid-year economic and fiscal outlook (MYEFO) released on December 16 highlighted that economic growth should claw back up to 2.75% in 2020 and 3% annually by 2021-22, as the federal government ramps up its infrastructure spending. We also know the government is bringing forward $4.2 billion in infrastructure spending, with total transport infrastructure investment standing at more than $100 billion over 10 years. This will benefit companies operating in or exposed to the infrastructure sector.

Based on this situation, there are three key themes to consider.

THE TOP FIVE PICKS

When building an investment portfolio, it's important to diversify across asset classes. Typically the different asset classes are defined as Australian shares, international shares, property, bonds and fixed income, cash and gold. A diversified portfolio will smooth out your returns and ensure some downside protection.

Bell Potter's research has found that over the past 10 years a high-growth portfolio (45% Australian shares, 35% international shares, 10% property, 5% bonds and 5% gold) generated a better return and had less risk (volatility) than a portfolio of just Aussie shares.

With this in mind, when you look at our top 50 picks for 2020, consider where and if the stock would fit into your asset allocation in your Australian share exposure.

However, in singling out just five stocks from Bell Potter's research, we have based them on their expected share price growth, forecast earnings growth and EPS and looked for a spread across different sectors. Our top five are Nickel Mines, Uniti Group, City Chic Collective, Elders and Macquarie Group. These are not ranked in any particular order.

STANDOUT SHARES

1 Nickel Mines (NIC)

Nickel is our preferred commodity exposure as there is a lack of supply following Indonesia's export ban. Nickel Mines is undervalued compared with its peers and continues to grow production and earnings.

Share price

Sectors and stocks that are likely to outperform as the economy slows

In Australia and abroad, fears of a recession are lingering as the international economy grapples with the squeeze of the US-China trade war. Additionally, there are clear signs that we are in a "late cycle" stage of the economy, which means growth is slowing. So it is important to position your investments and your portfolio accordingly.

Historical business cycle analysis tells us that non-discretionary spending sectors, like healthcare, consumer staples and utilities, tend to outperform when economic growth slows. Regardless of the economic cycle or broader market conditions, people still need to eat, turn on power and have access to healthcare.

But how have these "defensive" sectors performed? Healthcare has outperformed Australia's market benchmark index, the S&P/ASX 200, over the 10 years from November 30, 2009 to December 2, 2019. It has risen 401.64% versus the ASX 200's 45.96%. Mean-

HOW THEY WERE CHOSEN

Bell Direct is an online investing platform that is backed by stockbroking firm Bell Potter Securities. We have been awarded the Investment Trends Highest Overall Client Satisfaction award seven years in a row to 2019. Our list of the top 50 stocks to watch in 2020 (see page 47) is based on data that is available on the Bell Direct website and provided by Bell Potter.

The list of top 50 stocks only includes direct Australian equities that can be bought and sold on the ASX and excludes listed products like exchange traded funds, listed investment companies and listed investment trusts.

In deriving the list, we have focused on companies that have attained a buy rating from Bell Potter. These are companies that are likely to generate a total shareholder return of 15% or more over the next 12 months. We have also screened the list to only include companies that have a market size greater than $200 million. It's important to note the list was compiled in mid-December and is based on our recommendations at this time.

Stocks regarded as speculative, which are expected to generate a return of 30% or more, have been excluded from the list. Speculative "buy" investments are either start-up enterprises with nil or only prospective forecast cash flows or are companies that have commenced operations or have been in operation for some time with forecast cash flows and/or stressed balance sheets. Speculative investments can also carry exceptionally higher levels of capital risk and share price volatility. Hence, we have excluded these from our list of top 50 stocks.

The list was prepared as at December 16, 2019 and ranked based on expected total return, with those stocks that are likely to generate the largest return at the top of the list. Importantly, the content is classed as general investment advice.

Research methodology

Bell Potter's team of analysts have comprehensively researched each of the companies mentioned on the list. Undertaking such research can often involve meeting the company's executive teams and exploring their facilities to better understand both the company and the investment opportunity at hand.

The research analyst assesses the ASX listed company's financial performance and its forecasts to derive a valuation of the company and from that a target price for its shares. This is usually based on a discounted cash flow (DCF) analysis of the expected future cash flows of the business.

This base valuation is then adjusted to take into account the analyst's view of the management team's experience as well as the external influences and risks that could impact the firm, such as the competitive landscape, interest rates, regulatory risks, the economic environment, commodity prices and foreign exchange rates as well as seasonal impacts. In addition to this the value may also be adjusted due to dividend history and dividend policy.

Taking all this into account, a target price is derived. This is usually peer reviewed before the research report is published.

Jessica Amir

while, the consumer staples sector has generated a return of 73.86% and the utilities sector 96.74%.

To capture some of these key themes, you could consider tilting your portfolio to these non-discretionary spending sectors, which are likely to continue to outperform in a lower-growth environment. If you wanted to get exposure to the healthcare sector, you could look at a company like Medical Developments International (ASX: MVP), which developed the analgesia drug dubbed the "green whistle". The "whistle" is usually provided as pain relief to patients in emergency situations. The business is expecting to launch in China in 2021, which should result in improved sales. Medical Developments' earnings before interest tax depreciation and amortisations (EBITDA) are tipped to grow, along with its earnings per share (EPS) in 2020 and 2021.

However, if you wanted to consider investing in consumer staples, you could look at the Kiwi dairy company Synlait Milk (SM1), which is set to sell infant formula to China. The company is developing several milk products, such as long-life dairy foods, for the Chinese market and is tipped to generate high returns. Synlait's EBITDA and EPS are set to grow in 2020 and 2021.

Stocks likely to do well when interest rates are low

A key consideration when it comes to investing in the current environment is to take advantage of stocks and sectors that are likely to outperform amid record low interest rates. There are two themes to look at here.

First, consider the sectors that have an inverse relationship with interest rates, like physical sets such as property. When interest rates drop, serviceability on loans increases and pushes property valuations up.

We've seen the listed property sector index (the S&P/ASX 200 A-REIT) gain 21.52% over 2019 to December 2, matching the ASX 200 return, while the property index trades at over 10-year highs and some listed property stocks are trading at

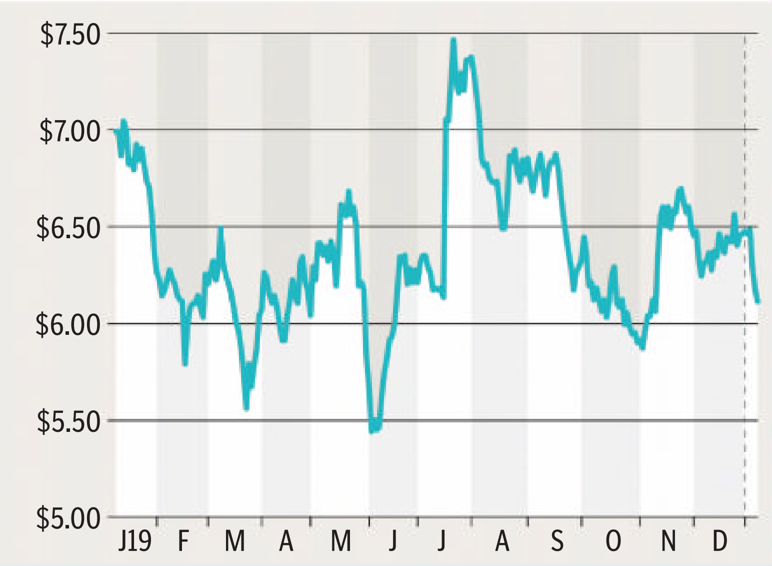
STANDOUT SHARES

2 Uniti Group (UWL)
The telco has rapidly grown over the year. It is strongly profitable and highly cash generative with further acquisitions on the cards, which will ramp up earnings.

Share price

4 Elders (ELD)
The diversified rural, insurance, financial planning and home loan business is set to recover from weather normalisation in 2020 and stronger livestock prices, while also getting an earnings boost following the purchase of Titan, an agricultural fertilisers and chemicals supplier, and Australian Independent Rural Retailers

Share price



3 City Chic Collective (CCX)
A plus-size (size 14+) women's apparel business, City Chic has a strong management team and partners with global major retailers including US-based Macy's, Nordstrom and ASOS. Earnings will ramp up after buying a US cash cow, the e-retailer Avenue Stores.

Share price

5 Macquarie Group (MQG)
Macquarie is bucking the trend in the financials segment, as earnings are expected to ramp up, mainly due to its the lower-risk, higher-return annuity style earnings (60% of its net profit in 1H20).

Share price

all-time highs. We expect two interest rate cuts in 2020, and high-quality property investments or listed REITs, as well as the property index itself, are likely to continue to benefit.

Second, you can't ignore the tech sector, which has gained 135.57% over the past 10 years, also outperforming the ASX200's 45.96% return in the same period. Low interest rates have also reduced the cost of capital and encouraged investment in innovation and technology. This has driven share price growth in a number of technology stocks, most notably what have been called the WAAAX companies – WiseTech Global (WTC), Afterpay (APT), Appen (APX), Altium (ALU) and Xero (XRO). Although many of the stocks in the sector are trading at high price-to-earnings ratios (meaning they are relatively expensive), there are still some good-value stocks in tech that are likely to grow in the low-interest-rate environment.

Afterpay was the first mover and is the dominant player in the buy now, pay later segment. We should point out this company was recently the subject of an independent auditor's report, which was prepared for the financial intelligence watchdog AUSTRAC. The audit found the company culture was strong and its offering should be reclassified as "low risk". This was good news for Afterpay and its shareholders.

Afterpay is also aggressively growing its customers in the US and UK, alongside its Australian business, which is why its EBITDA and earnings per share are expected to grow in 2020 and 2021.

The tried-but-true principle of only investing in companies that you understand

The world's most successful investor, Warren Buffett, has said it loud and clear: "Never invest in a business you cannot understand." Investment great Peter Lynch has also said: "Never invest in an idea you can't illustrate with a crayon."

With this in mind, create a list of the brands and businesses that you know and love – also thinking about the businesses that you interact with on a daily, weekly or monthly basis. For example, maybe you bank with Macquarie (MQG) or eat at Domino's Pizza (DMP), or perhaps you know someone with a newborn who enjoys products from Bubs (BUB) or A2 Milk (A2M).

Having a personal connection with a brand and or its employees can really help you better understand the business and how it operates. By having a closer connection to a company you will be able to make a better assessment of whether it is doing well against its competition. For example, walk down the aisle of a Coles supermarket and compare it with Woolworths. Are the shelves better stocked in one versus the other? Are there more shoppers in one compared with the other? This is a good way to decide which of the two shares you might invest in.

Once you have your list, develop a set of criteria or filters to start figuring out companies you should and shouldn't invest in. Your filters could include only investing in companies that are growing their earnings, are profitable (because not all companies are) or have low debt compared with their business value. You can use Bell Direct's online tool, Strategy Builder, to help you.

Most companies release their financial results every six months. So I'd roll up my sleeves and look under the company's hood. You would want to see if its net profit after tax (NPAT) is growing year on year and if its earnings are growing, too. A rule of thumb is that earnings growth typically drives share price growth. On the flip side, if you are hunting for dividend-paying stocks, look at the dividend history to see if it has paid them consistently. Most companies will generally include their dividend policy in their annual report. This will help you better understand what kind of dividend returns you might enjoy.

Also consider the "intangibles" of the company: is it a leader in its field (is its success repeatable), is it likely to grow, what is its growth opportunities, is it operating in a growth segment of the market and will its product always be needed regardless of the economic conditions?

And, lastly, consider the risks and external factors that are applicable to the company – such as legislation changes, what would happen to the company if interest rates rose, what would happen if commodity prices fell, etc.

The sharemarket is volatile, so a good way to invest in your future is to dollar cost average, which means regularly investing into the market. It's also a great way to minimise the share price volatility risk. Regularly investing into stocks not only evens out market fluctuations and the average price you pay for a share, but it also amplifies the power of compounding returns. It is similar to making regular contributions into your super fund, but instead you're directly investing into a portfolio of companies. **M**

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BELL DIRECT'S TOP 50 STOCKS FOR 2020

NAME	ASX CODE	LAST PRICE ($)	TARGET PRICE ($)	EXPECTED TOTAL RETURN (%)	EBITDA 2020 ($M)	EBITDA 2021 ($M)	EPS GROWTH 2020 (%)	EPS GROWTH 2021 (%)	PE 2020 (X)	PE 2021 (X)	DIV YIELD 2020 (%)
Life360 Inc.	360	2.87	6.70	133.4	-33	-14	30.4	56.0	-15.2	-34.5	0.0
Nickel Mines Limited	NIC	0.65	1.23	90.7	345	470	68.2	28.4	5.3	4.1	0.0
Galaxy Resources Limited	GXY	0.95	1.70	79.9	-34	-20	-2.7	16.5	-8.7	-10.4	0.0
Afterpay Limited	APT	28.70	49.35	72.0	53	120	1,072.0	115.4	205.3	95.3	0.0
Whitehaven Coal Limited	WHC	2.75	4.00	63.6	444	540	-72.8	43.5	18.0	12.6	4.4
Coronado Global Resources Inc.	CRN	2.14	3.50	63.6	803	767	-22.3	-8.9	6.1	6.7	10.2
AMA Group Limited	AMA	1.07	1.65	57.5	69	108	-3.0	59.4	27.6	17.3	2.6
Bubs Australia Limited	BUB	0.96	1.45	51.8	1	8	83.5	359.3	-413.3	159.4	0.0
Orocobre Limited	ORE	2.70	3.80	40.7	12	26	-131.8	95.4	-90.0	-1,965.5	0.0
Rural Funds Group	RFF	1.79	2.38	38.3	56	55	1.6	-2.1	13.3	13.6	6.1
Service Stream Limited	SSM	2.32	3.10	38.1	102	104	1.1	2.8	15.1	14.7	4.3
Senex Energy Limited	SXY	2.32	0.48	37.1	56	97	455.7	202.4	27.7	9.2	0.0
Catapult Group International Ltd	CAT	1.73	2.35	35.8	14	25	56.0	168.3	-59.6	87.2	0.0
Netwealth Group Limited	NWL	7.82	10.50	35.6	67	87	29.7	29.6	40.9	31.5	1.9
Uniti Group Limited	UWL	1.57	2.10	33.8	32	40	194.9	29.7	36.1	27.8	0.0
City Chic Collective Limited	CCX	2.46	3.15	31.1	34	43	31.9	30.7	24.4	18.7	3.1
Janus Henderson Group PLC	JHG	36.80	47.00	30.6	1,006	1,162	4.3	6.1	9.9	9.3	5.7
Helloworld Travel Limited	HLO	4.64	5.85	30.5	88	96	22.3	13.7	12.3	10.8	5.0
Synlait Milk Limited	SM1	8.49	11.00	29.6	193	230	13.6	26.6	16.4	12.9	0.0
Elders Limited	ELD	6.46	8.15	29.3	104	140	8.6	35.3	11.5	8.5	3.1
Emeco Holdings Limited	EHL	2.14	2.75	28.5	244	250	15.9	-20.9	8.5	10.7	0.0
AP Eagers Limited	APE	9.74	12.00	27.0	344	367	28.1	10.6	15.6	14.1	4.1
Lycopodium Limited	LYL	5.27	6.35	26.6	25	28	5.1	9.0	12.1	11.1	6.1
Altium Limited	ALU	34.64	42.50	24.3	120	147	27.0	20.3	49.0	40.7	1.7
Lovisa Holdings Limited	LOV	12.41	15.00	23.7	72	94	11.0	30.2	34.0	26.1	2.9
Appen Limited	APX	22.37	27.50	23.3	121	160	48.8	35.5	35.9	26.5	0.5
Accent Group Limited	AX1	1.67	1.95	22.5	120	133	11.0	11.8	14.9	13.3	5.4
Ive Group Limited	IGL	2.27	2.60	22.0	82	88	4.0	12.9	9.6	8.5	7.4
Westgold Resources Limited	WGX	1.93	2.35	21.8	196	261	480.0	44.2	9.4	6.5	0.0
National Australia Bank Limited	NAB	25.15	28.60	21.6	8,800	9,677	17.0	7.9	11.8	10.9	6.6
Resimac Group Ltd	RMC	1.18	1.40	20.4	65	71	44.5	9.3	10.5	9.6	0.0
Corporate Travel Management Ltd	CTD	19.98	23.50	19.6	165	184	11.3	14.3	21.4	18.7	2.4
Monadelphous Group Limited	MND	17.47	20.30	19.5	125	165	35.6	37.3	24.0	17.5	3.3
Pendal Group Limited	PDL	8.92	10.10	18.6	214	235	6.7	9.3	16.4	15.0	5.4
Australian Agricultural Company Ltd	AAC	1.10	1.30	18.2	19	62	48.8	162.0	-34.9	56.4	0.0
Suncorp Group Limited	SUN	13.19	14.80	17.4	2,051	1,718	29.6	-15.4	11.8	13.9	6.4
Domino's Pizza Enterprises Ltd	DMP	52.25	60.00	14.9	321	368	12.4	14.5	28.7	25.1	2.5
Macquarie Group Limited	MQG	136.31	150.00	13.9	3,878	4,078	-0.4	4.8	15.9	15.1	4.4
Propel Funeral Partners Limited	PFP	3.27	3.60	13.6	31	36	21.5	8.7	19.9	18.3	3.5
Auswide Bank Ltd	ABA	5.76	6.20	13.0	28	29	12.3	5.6	12.6	11.9	6.3
Commonwealth Bank of Australia	CBA	80.06	86.00	12.8	12,253	12,880	-0.4	5.1	16.3	15.5	5.4
Premier Investments Limited	PMV	19.50	20.80	10.4	209	234	12.0	14.3	21.7	18.9	3.8
Select Harvests Limited	SHV	8.59	9.10	9.7	81	105	-20.1	36.3	19.4	14.2	3.7
Insurance Australia Group Ltd	IAG	7.98	8.40	9.3	1,371	1,429	4.7	4.5	19.0	18.2	4.2
Integrated Research Limited	IRI	3.28	3.50	9.2	44	49	10.1	14.0	23.5	20.6	2.5
Mineral Resources Limited	MIN	17.04	18.17	9.2	564	472	16.0	-23.9	13.5	17.7	3.7
Temple & Webster Group Ltd	TPW	2.23	2.40	7.6	2	5	58.9	147.7	192.0	77.5	0.0
QBE Insurance Group Limited	QBE	12.97	13.60	7.2	1,253	1,432	3.3	14.5	15.9	13.9	6.3
Imdex Limited	IMD	1.60	1.62	4.4	61	72	11.6	19.6	20.5	17.1	3.1
Medical Developments International Limited	MVP	7.00	7.15	2.7	4	6	35.1	48.6	303.8	204.5	0.6

2020 vision: think smarter

OVERVIEW JULIA NEWBOULD

We take a sneak peak at some of the changes we can expect in the next 10 years

It's hard to imagine how far we can expect to go unless we look back to see how far we have come in the past decade. Wearable technology such as the smartwatch was released in 2004, with probably the most popular, the Apple Watch, first released in 2015. It is now in its fifth iteration and offers GPS, Apple Pay, banking, menstrual cycle tracking and heart monitoring. Those old enough will remember the watch phone of the 1960s comic book detective Dick Tracy – at the beginning of 2010 it was not a reality for most of us.

Regarding banks, at the beginning of the last decade there were the four pillars plus a few regional banks; today a number of digital neo banks have popped up offering new options to consumers. And in one of the changes to the banking game, Gen-Zers are less likely than previous generations to own a credit card.

In the next decade, banking could take us to facial recognition, allowing us to pay for everything without the use of any device. It could anticipate spending and monitor better deals.

When you look at how we engage with entertainment, we've seen a shift away from television to watching movies on our devices, whenever and wherever we like. Many people no longer watch free-to-air television and the implications are similar to those in publishing (which began to feel the effects around a decade earlier): the cost of producing quality drama is often prohibitive for the networks, forcing them to resort to producing reality TV at a much lower cost.

In the decade ahead, we predict that jobs with repetitive tasks will be first in line to benefit from automation and robotics – and this has already started with the move towards self-serve checkouts, robo financial advice and automated banking. With the estimated number of career changes at five to seven in a lifetime for the average Australian, it might be better to look at employment as a portfolio of skills and experiences.

And how will we get around? As we know, car manufacturers have given us a taste of partially autonomous systems, such as parking, taking over the driving on freeways and emergency braking systems. However, it seems that fully automated cars are a way off, because not only does the technology need to develop, we have to take into account insurances and other implications.

Whether car ownership takes a dive, with car-share options growing, is also still open to speculation.

Here we delve into the future of banking, working and driving.

Open for business: cashless & cardless

Banks

STORY ALEXANDRA CAIN

If pundits are correct, within 15 years most of the banking we do will be cashless and cardless. Transactions will be authorised using everything from facial recognition to fingerprint scanning as convenience and security overcome any privacy concerns.

Big four move over

Futurist Gihan Perera believes that as banking progresses customers are likely to choose a wider range of companies to manage their funds. It will fragment the market challenge of the big four banks' dominance.

Finder co-founder Fred Schebesta also thinks the banking industry will change drastically over the next decade. "I believe banking as we know it could be replaced with apps by 2030. Over the next 10 years, we'll see more neo banks competing with traditional banks. Up Bank and 86 400 are just two players that are disrupting the market today."

Schebesta says open banking – providing customers with the ability to share their information securely – will be a game changer. "Third parties and banks will be able to instantly access data, so we'll see the rise of new personal finance and accounting apps. Businesses will be able to predict what consumers need, and provide automated affordability checks and money-saving prompts."

Alongside this, neo banks will increasingly target very specific customer segments. Existing examples include small business apps Thrive and Spriggy, which targets tweens. These types of new entrants will also make it easier for potential customers to switch financial services providers.

Devices transformed

New technology is likely to revolutionise the way we transact. Digital tap-and-go payments will be replaced by facial recognition payments. This has already been introduced in China by Alipay, whose Dragonfly system allows consumers to scan their face to make payments in-store.

Additionally, Perera believes we'll increasingly make transactions on wearable devices such as smartwatches and we will use less cash and fewer plastic credit cards.

"Open banking will give smart start-ups access to our banking data, so we'll see innovation in things like round-up services such as Raiz, micro-lending and peer-to-peer banking. We'll soon be able to access banking services through Siri and Google Home," he says.

Schebesta thinks we're about to see some groundbreaking innovations that will redefine the industry. "The demise of cash payments and ATM machines is happening here as it's happening all around the world."

Statistics bear this out. According to CNBC, just 2% of the total value of all transactions in Sweden are made with cash.

Back home, Reserve Bank of Australia research shows that cash payments in Australia fell from 70% in 2007 to 37% in 2016. "Over the next decade, we will become a cashless society," predicts Schebesta.

Social banking is likely to be an important part of the future, particularly in the superannuation sector.

The term social banking has two connotations. In the sense in which Schebesta is using the term, it means doing business with a financial services organisation whose purpose is to deliver financial services with a social benefit – for instance, financial institutions whose profits are invested in programs to raise financial literacy among disadvantaged people. Social banking also refers to accessing financial products through social media platforms or search engines such as Google without having to leave the platform or site.

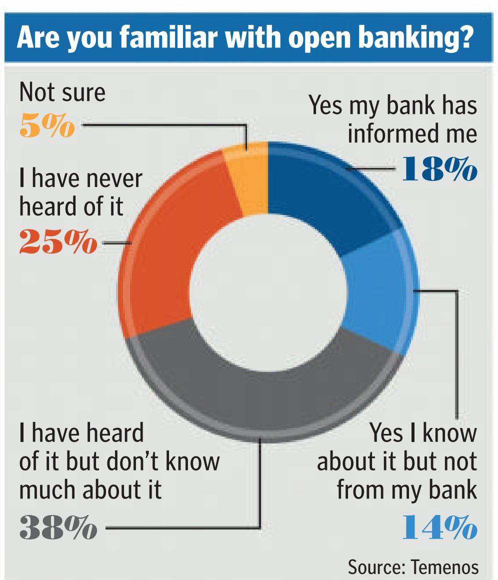
Behind the scenes

Banking and financial transactions will increasingly happen in the background, producing new benefits but also new risks. Our behaviours will also determine how we bank.

"After you finish a meal, the payment will be automatically deducted as you exit the premises. If your energy bill for the month is trending higher than normal, you'll be notified with suggestions on how to cut back on your energy usage. When you are close to finishing a bottle of milk, a new one will be automatically paid for and ordered. You won't make payments, you will just approve them," says futurist Michael Nuciforo.

Amazingly, we will no longer need to apply for a loan or fill out a credit card application form. "It will be completed automatically by looking at your past banking behaviour. Your tax return will be done automatically and completed on a continuous basis. It will be almost impossible to con the tax office," adds Nuciforo.

Much of this future is already here. The great unknown is how quickly many of these innovations will be adopted, which new players will truly thrive and how the big four banks will look in a decade. It will be fascinating to watch this play out.



Source: Temenos, The Future of the Digital Banking Experience in Asia Pacific. Survey of more than 2000 consumers in China, Hong Kong, the Philippines and Australia.

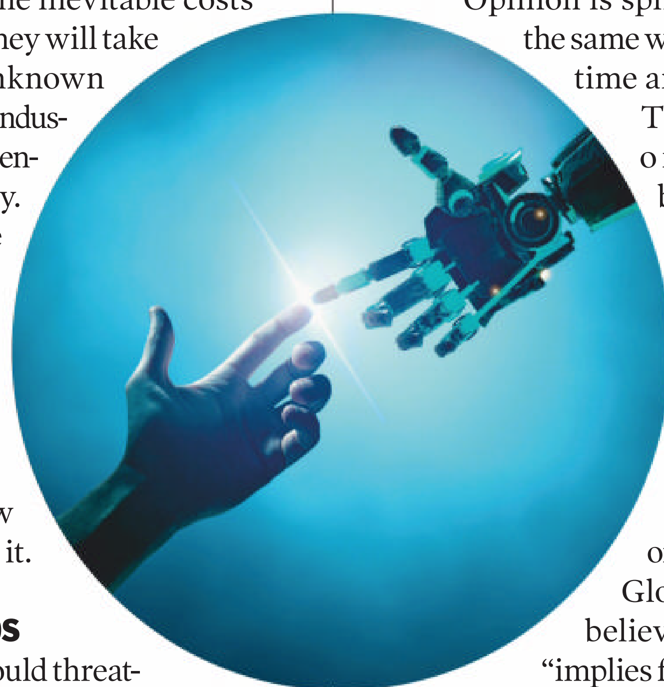
Rise of the machines

Jobs

STORY DAVID THORNTON

Just as those who made a living from horse and cart found themselves in a spot of bother when the Ford Model T was introduced, today's labour force will have to make way for robots and computers that do tasks faster and more efficiently than humans.

These are the inevitable costs of progress. They will take place at an unknown pace and affect industries, ages and genders differently. And there are experts who have thought about how this will play out, what you can do to safeguard your job and how to profit from it.



Gender gaps

Automation could threaten men sooner due to their over-representation in industries that rely on manual labour. By the same token, traditionally female-dominated jobs that are more people-based could be complemented, rather than replaced, by automation.

"Women are more likely to be employed in areas like healthcare and education, where the workforces are 80% and 63% female respectively," says HR consultant Conrad Liveris.

"Those are areas which will have automation on the side, rather than directly, like we see in manufacturing. The workforce there is almost 73% male."

Unresolved economics

Students have long been taught something along these lines: technological progress boosts efficiency, lifting productivity and profits, which in turn leads to higher consumer spending and, in the end, more jobs.

This cycle has been borne out by history. Major technological advancements have never affected wages as a share of national income, a pattern so dependable the economist John Maynard Keynes labelled it "a bit of a miracle".

Opinion is split on whether the same will happen this time around.

There are economists who believe this cycle will sort everything out. Nobel laureate economist Christopher Pissarides and Jacques Bughin, of the McKinsey Global Institute, believe automation "implies faster economic growth, more consumer spending, increased labour demand, and thus greater job creation."

Others aren't so sure.

"The introduction of labour-saving technology will result in lower prices, but it will also reduce consumption by workers who are made redundant," says Robert Skidelsky, professor emeritus of political economy at Warwick University in the UK.

Australia may be in a better position than other countries.

"While many Australian workers will be affected by impending technological change, for most the impact will be less dramatic than the loss of their entire job and livelihood," according to a University of Melbourne study.

"More Australians will be forced to alter how they spend their working hours, as machines become more proficient (and cost-effective) at a wider range of today's human tasks."

Protect your job

Jobs with repetitive tasks are most under threat by automation and robotics. These jobs operate in a so-called "closed-system" because there are a finite number of possible circumstances. Cue self-checkouts at the supermarket and trucks that drive themselves out of open-pit mines.

"What AI cannot do is change systems, so if your job deals with more than one system, you're safe. The core advantage humans have is to jump between jobs and adapt," says futurist Steve Sammartino.

This is somewhat like nature, where for instance birds have adapted to one habitat and fish to another. But put a bird in a tank of water or a fish in an aviary and they won't do so well.

"If you're a bartender that just pours beer, you're in trouble. But if you're a bartender who also manages the books, talks to customers and orders the stock, that's much harder for AI to do," says Sammartino.

He believes people need to think about employment less in terms of singular jobs and more in terms of a portfolio of skills. "In the future, we'll be leveraging our skills across different multiple companies and industries simultaneously. So instead of getting better at the job you already do, focus on building competency at multiple related tasks."

And if you can't beat them, join them. In this year's LinkedIn top emerging jobs report, the top five jobs require automation or artificial intelligence skills.

The report doesn't mince words: "AI is spreading to all organisational areas, from IT to finance and marketing. AI may not be deeply integrated into everything yet, but the trajectory is becoming clear."

i

Top 15 emerging jobs in Australia

- Artificial intelligence specialist
- Cybersecurity specialist
- Marketing automation specialist
- Robotics engineer (software)
- Site reliability engineer
- Customer success specialist
- Data scientist
- Data engineer
- Growth manager
- Chief strategy officer
- Anti-money laundering specialist
- Product owner
- Service designer
- Full stack engineer
- Automation consultant

Source: LinkedIn 2020 Emerging Jobs Report Australia

No, kids, we're not there yet

Cars

STORY TOBY HAGON

Believe the hype and we'll soon be lying back in car seats that look like they've been plucked from the pointy end of a Boeing Dreamliner while sipping a G&T, gesturing in mid-air for the latest blockbuster en route to your next indulgent weekend away – all while using no petrol.

But the transformation of motoring over the next decade is shaping up to a longer road than various futuristic concept cars propose.

Blame it on humans. The unpredictability of people in regular cars – or as pedestrians – is making the driverless dream a programmer's nightmare.

Miklós Kiss, Audi's head of advanced development for automated driving, recently said fully autonomous vehicles are "science fiction" and won't be here for decades. "We were expecting it to be manageable by a specialist group of 10 people," says Kiss. "Now we're thinking we need an industry and university consortium."

Electric dreams ... the Mercedes *Avatar*-inspired concept car, the AVTR, which can drive sideways and can be recycled by composting.

That said, car makers are working on partial autonomous systems, which can take over in certain circumstances, such as on freeways or when parking. Emergency braking systems are common and the systems will get smarter, responding to more scenarios.

That could lower insurance premiums, although don't expect to get rid of coverage altogether. In 2018, about 30% of automotive claims through IAG brands – including NRMA, SGIO and CGU – were for vandalism, theft, glass breakages and storm/flood damage.

In-car entertainment will also transform and cars will become increasingly connected. Already some use artificial intelligence to learn preferences and offer suggestions, such as whether to turn the seat heaters on in cold weather.

Some functionality will be enabled by tech companies, with car makers increasingly leaning on external suppliers. General Motors, Renault, Nissan and Audi are some turning to Google's new Android Automotive operating system, which can control instruments, infotainment systems and other electronics.

As with smartphones, app development will be open to third parties, allowing all manner of options. Leave work and the car could switch on your air-conditioning at home then open the garage door and switch on your house lights. Over-the-air software updates – as pioneered by Tesla – will add features and improve functionality.

Some brands are also considering subscriptions. You may only want heated seats in winter, for example, so you can pay a small fee to unlock that functionality. Car keys will also be scarcer, replaced by smartphone apps that allow digital transfers to friends.

And augmented reality is coming soon, using eye tracking to allow navigation commands to be aligned with the corresponding section of road or a movie to incorporate elements of the real world.

In 2019, Audi teamed with Disney to reveal a system called Holoride, which synchronises virtual reality goggles to the movement of the car; an added side effect are claims it can reduce motion sickness. Jaguar and Land Rover have also flagged a hologram-like 3D display, which could replace some buttons or touchscreens.

Before then, advanced noise-cancelling systems will make cabins quieter. Kia's upcoming Separated Sound Zone allows each occupant to listen to different tunes or make a private phone call.

And every car maker is developing vehicles fully or partially powered by electricity. Advances in battery technology will bring prices down, making them viable alternatives to many regular cars. But engines will still be a big part of cars for decades.

In revealing Mazda's first electric car, the MX-30, research and development boss Ichiro Hirose was quick to cement the long-term future of internal combustion engines (ICE). "When we look at the estimates by various research institutes even in 2030 or 2035, the core [technology] remains ICE, although electrification will increase," says Hirose.

So, yes, there will be immense change by 2030, but don't expect cars to stop looking like cars any time soon. *M*

AWARDS LUNCH

IN THE FRAME

Winners and placegetters in *Money*'s 19th Best of the Best receive their awards

EVENT
MONEY BEST OF THE BEST LUNCH

WHERE
ESTABLISHMENT BALLROOM, SYDNEY

WHEN
NOVEMBER 27, 2019

Fidelity International Australia's Catherine Crichton and Michelle Harris with *Money*'s Natalie Bevilacqua

Award winners include Move Bank, Transport Mutual Credit Union, G&C Mutual Bank and First Choice Credit Union

HAYDEN BROTCHIE

Money reader Elli Kostakidis with Paul Clitheroe

WhistleOut's Kenny McGilvary and Alex Chronos with *Money*'s Michelle Baltazar

Katherine Cardamis and Ramy Gabra from Rabobank, winner of Best SMSF Savings Account (Bank)

Rainmaker Group's Christopher Page was emcee

Money's Julia Newbould and State Street Global Advisors' Meaghan Victor

Macquarie Investment Management's Raj Gohil accepts the Best Investment Manager award from *Money*'s Darren Snyder and Michelle Baltazar

Sunsuper team with their award for Best Value Insurance in Super

Money readers Peter Di Natale and Nellie Zamani

Vera Ma, Ellie Wright and Bret Bidenko from CommSec, winner of Best Feature-Packed Bank Online Brokers

Establishment Ballroom was packed with guests for the awards lunch

Josh Betz and Peter James from Reduce Home Loans, winner of Cheapest flexible home loan (Non-bank)

STORY ANNETTE SAMPSON

Take care of the future

Check your fund's performance and costs to avoid being ripped off

Super is a bargain with the future. We put money aside now and trust that it will be there when we're older. When it works, that's great. But for too many people, at least some of that trust is misplaced.

The Productivity Commission last year found millions of fund members are losing out from flaws in the system, such as having unintended multiple funds and underperforming funds. Just addressing these two problems could collectively save members $3.8 billion a year and give a new job entrant today an extra $533,000 in retirement in 2064. Even a 55-year-old today could be $79,000 better off by addressing these issues.

So where are we being shortchanged and what can we do about it?

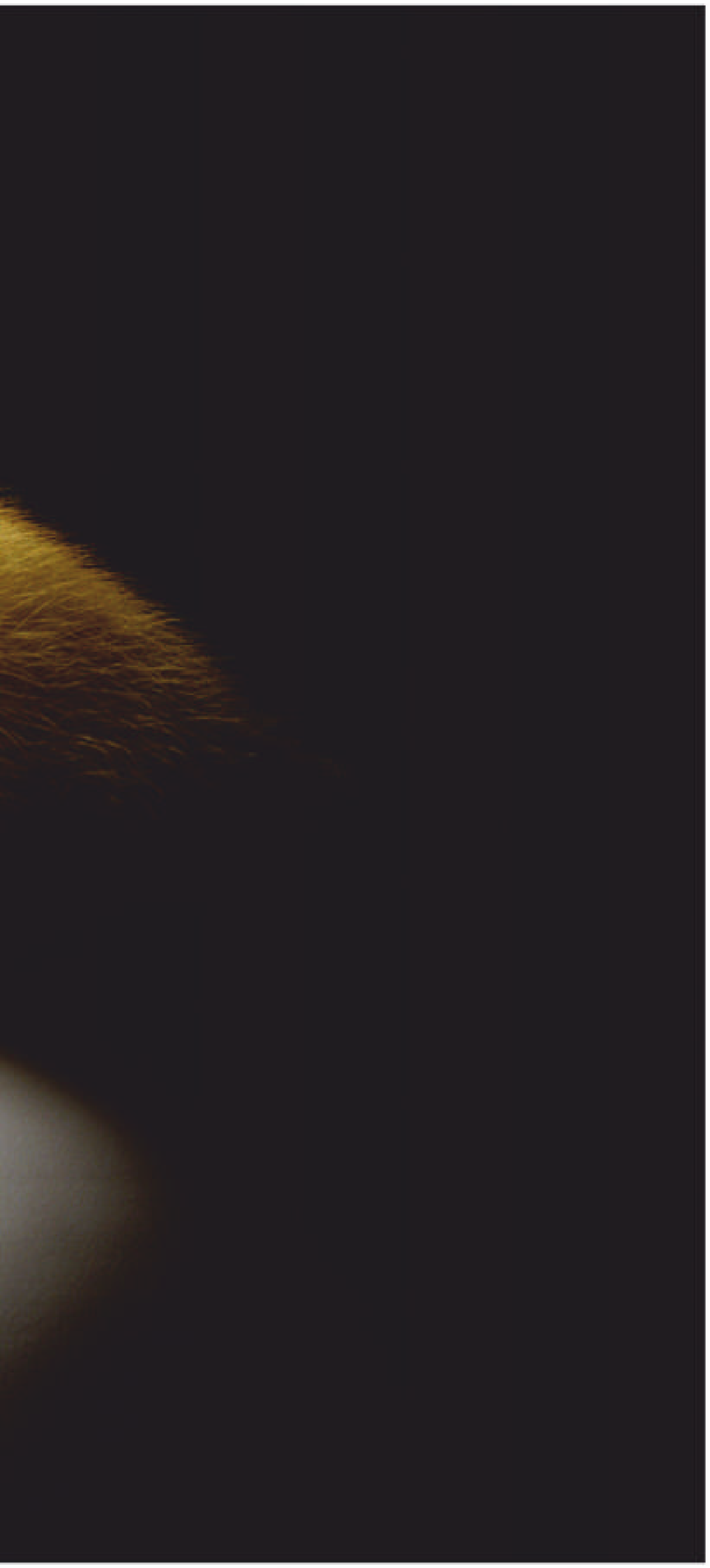
Too many funds

The commission found around a third of super accounts (about 10 million of them) are unintended multiple accounts that erode members' balances by $2.6 billion a year in unnecessary fees and insurance. Efforts have been made by government and the industry to reduce these extra accounts, but many people still have more super accounts than they need.

Xavier O'Halloran, a director of the advocacy group Super Consumers Australia, says recent government laws allowing inactive accounts worth less than $6000 to be automatically consolidated are a good start in addressing this problem. But if you have more than $6000 in a secondary account (maybe from a previous job), you could still be losing out by doubling up on costs.

You can check your super accounts by registering at my.gov.au and clicking on the ATO section. If you then go to the "super" tab you can see details of all your accounts including any lost super the tax office is holding on your behalf. You can then choose which fund you want to transfer your other accounts to and your money should be consolidated within a few days.

However, the Australian Securities and Investments Commission (ASIC) says you should check things such as exit fees and insurance coverage before you switch as you don't want to be worse off from the change. Cath Sharples-Rushbrooke, a certified financial planner with Advice Services, says some older funds may also pay you a defined benefit in the form of an income for the rest of your life,



and you probably wouldn't want to switch and lose that.

ASIC advises against automatically consolidating into your biggest fund. The best option for you may be one of the smaller ones or another fund altogether. And be sure to notify your employer if you are changing your current fund.

Dud performance

Most consumers remain with the fund chosen by their employer, known as their "default fund". But that doesn't mean it's the best one for you – or even a decent fund. The Productivity Commission found at least 1.6 million accounts have ended up in underperforming funds.

O'Halloran says his group's research found more than 170,000 were defaulted into a poorly performing fund in 2017-18 alone and the default system is an "unlucky lottery" for too many Australians. He is urging the government to adopt the commission's recommendation of a "best in show" system that would stop people being defaulted into the dud funds.

Comparing funds isn't easy. MySuper funds (basically default funds) are now required to produce a two-page dashboard of information that makes it easier, but outside the default market O'Halloran says there are more than 40,000 fund options that are not required to do this.

Sharples-Rushbrooke says it is important to compare like with like as fund performance should also reflect the risks taken. A conservative fund isn't going to give you the same long-term returns as a more aggressive fund.

The Australian Prudential Regulation Authority recently produced "heatmaps" which looked at the overall performance of default funds and found that underperformance was evident across all risk profiles. Its data is geared more to pushing funds to improve, but consumers can also use comparison websites to see if their fund's performance stacks up against similar options.

Sharples-Rushbrooke says most people are also automatically put into the balanced option of a default fund, but this may not be appropriate if you're prepared to take more risk for higher returns (particularly if you are young) or want less risk (especially approaching retirement).

"It's important to understand how your money is invested and either talk to your fund or a financial adviser if you're not sure it's right for you," she says.

Fees

The Productivity Commission found an increase of just 0.5% in fees can cost a typical full-time worker around 12% of their account balance (or $100,000) by retirement.

It found an estimated four million member accounts worth around $275 billion were still held in funds with annual fees exceeding 1.5%.

"Super is not like other markets where expensive products generally indicate higher quality," says O'Halloran. "All the recent research has shown if you're paying a high fee, there's a good chance it will erode a lot of your investment returns."

He says the average annual fee is around 1%, so if you're paying more than that chances are you're paying too much.

Insurance

Remember the scandal about banks charging dead people for financial advice? A similar problem occurs where fund members are paying for "zombie" insurance. This typically happens when you have more than one fund that is charging you for income protection insurance, which provides you with income if you're unable to work.

A payout is limited to 75% of your income. So even if you have three income policies, that is the maximum you can claim. The premiums on two of those polices are wasted money. You also generally need to be working to claim on income protection insurance. O'Halloran says some insurers also have restrictive "junk" terms on their policies, which can see up to 60% of claims being rejected.

Sharples-Rushbrooke says members should look at the insurance they're getting through their fund, what they are covered for, the features and benefits versus the cost. With members now able to opt out of insurance, some may be paying for insurance they don't need while others may not have adequate cover. From April this year, insurance won't be provided for new fund members under 25 unless they work in a dangerous job or request it. Funds will also cancel insurance on inactive accounts that haven't received contributions for at least 16 months, or accounts with balances below $6000 unless the member requests otherwise.

She says members should also check who they have nominated to receive the benefit from their fund if they die. Many are unaware that only dependents can receive super death benefits tax-free.

Contributions

Sharples-Rushbrooke says it is a good idea to check regularly that your employer is paying your compulsory super and the amount is correct. The compulsory payments this year are 9.5% of your "ordinary time earnings" including allowances, commissions and some bonuses but not overtime. This should also be shown on your payslip.

She says many people also lose out by not making extra contributions when they are able to. Unfortunately, most people only take a real interest in their superannuation as they near retirement, and by this stage it is much harder to make up lost ground. As many contributions receive concessional tax treatment, it makes sense to get the maximum benefit when you can. *M*

Don't be insulted, my friend

There's an art to offering financial help to someone who's doing it tough

How do you give the gift of financial support to a friend in need without offending them? As Valentine's Day comes around this month, we are reminded how important it is to show love to the ones close to us. Nowadays we are getting much better at expressing love to someone we are in a close relationship with, but many of us struggle to show love to our friends, particularly in the form of a financial gift to help them out when the chips are down.

It's one of the great dilemmas in life: how do you give money to a friend in need without them feeling embarrassed, patronised or belittled? And why is it so hard to talk about?

For most people, simply talking about finances is an emotional hot topic. Money is one of the most sensitive and private subjects. There can be a lot of judgement attached to our finances, and how we use money says a lot about who we are as people. So how do you give a financial gift to a friend in a way that doesn't unintentionally trigger negative emotions?

This was the question that I found myself asking not that long ago when I discovered that a farmer friend of mine was on the brink of collapse. I had to help. It wasn't because he was bad at business; he just had some really bad luck. I knew what he really needed was cash, but before I could contribute there were two problems I could see.

First, he would never accept charity. His attitude – "I take responsibility for my own life" – was so integral to his identity that he would refuse any aid from a friend. To him, accepting a financial gift is an admission of failure, an embarrassment, being identified as unfit to provide for his family.

It's easy to judge this attitude as pride-fuelled or egotistical when you're on the outside looking in. However, most people put in similar circumstances would feel and act in a similar way. It's actually the brain protecting itself. This act of stubborn resilience is often the thin wall between being able to keep on keeping on and total mental collapse under the immense pressure of life. It's survival instinct, and I had no intention of making things worse in my effort to help.

Second, the act of giving money to a friend can fundamentally shift the nature of the bond between you. The basis of any friendship is respect and an equal "power" standing. Money can be the wedge that unsettles the power balance and makes honest conversation stilted and unnatural.

So, how can you give money in a way that doesn't cause offence? Well, it turns out there are some tried and true ways to do this that keeps our psychology intact while meaningfully contributing to a friend's plight.

Phil Slade is 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. He has more than 15 years' industry experience.

Top three ways to give without offending

1. Create space. Instead of giving money directly to the individual, make the target of your gift something external to them. In the case of my farmer friend, it was contributing money to support his livestock, or it could be paying for kids' music lessons or sporting memberships. By not contributing to the individual directly, you can frame it as if it's you who is receiving the benefit because you're doing something meaningful that made you feel good.

2. Pay it forward. Agree to give them some money, on the proviso that they "pay it forward" to someone else in need when they are able. This gives them an increased feeling of control and feels less like pity.

3. The anonymous letter. For me growing up in a in a country Baptist church this was often done by giving cash in an envelope to the minister, who then passed it on anonymously to the family. In an ever-digital age, there is still nothing quite like opening an envelope to find some money has been gifted to you.

For some people a small contribution often feels simply like a "band aid" solution, and not actually helping address the problem. But this isn't about solving a problem; this is about showing love to a friend in need in a tangible way.

Finally, it's worth pointing out that giving on a loan basis rarely works out between friends. If you want to respond to a friend in need, do it without a view to getting it back. In this season of love, let goodwill and karma be enough payback in of itself.

Au pair to the rescue

At-home childcare could be a good option for some parents

A friend of mine, Emily, is weighing up whether to replace her kids' childcare with an in-home carer such as a nanny or an au pair.

No, Emily isn't a high income earner with a flash house and separate accommodation. She is a hardworking, exhausted mother who needs help bringing up her two young boys. Emily and her husband David have no family in Sydney to help them and they work long hours, often travelling.

They currently hire a student to pick up the kids from daycare and feed them an early dinner, but this arrangement can be unreliable. Emily hopes an au pair or nanny will ease the family's stress levels and everyone, especially the kids, will be happier.

Emily and David spend about $1200 a week on childcare and pick-ups. Can they afford a nanny or au pair? And will their kids get quality care?

Typically nannies tend to have some childcare training and experience in looking after kids. They can either live with the family or outside. Their hourly rate ranges from $25 to $40.

Au pairs are young foreigners – mostly women – who visit Australia on a working holiday visa. They come from all around the world, including Germany, England, Ireland, Korea, Japan, Italy and France. They want a local family experience and often wish to improve their English. Backpackers typically stay with a family for two to six months, while students stay longer. It is not known how many au pairs are in Australia, but some estimates are about 10,000 each year.

Emily can't afford a top-end, experienced nanny who doesn't live with them. To make in-home care financially viable, she would offer the spare bedroom together with board. An au pair could be the best option.

According to the website aupairmeup.com, au pairs typically help with such things as getting children up, dressed and bathed; preparing meals; taking

children to and from school or other activities; looking after them as required; helping with homework; and assisting with household chores, including cleaning, grocery shopping, laundry and ironing.

According to Fair Work Australia, the Miscellaneous Award covers au pairs, and Emily must pay the minimum wage of $19.47 an hour or $740.80 for a 38-hour week. Any overtime is $29.24 for the first three hours and $38.98 after that. If the au pair works between 7pm and 7am or on a Saturday, the rate is $23.39. On Sunday it's $29.24 and any overtime is $29.24 for the first three hours and $38.98 after that.

Emily can hire an au pair directly or use an agency, which will charge a fee, typically $500 to $1500, depending on the length of time. The advantage of an agency is that it runs background checks on the au pair's experience and referrals, as well as requiring a first aid qualification. Also it can provide back-up care or a replacement if there is a problem.

Given the minimum wage is $740.80 and Emily will need the au pair to work more like 45 hours a week, she estimates she will pay another $244. This total (about $985) would be reduced to $735 after deducting food, board and utilities, making it about $38,200 a year.

Emily will also need to pay superannuation and tax because she is regarded as an employer. She will withhold 15% of the au pair's salary and pay 9.5% into the au pair's super fund.

While Emily receives a government childcare subsidy for her kids' daycare, there isn't one for unqualified au pairs. Emily and David earn $215,000 and receive a childcare subsidy of $20,379. After the subsidy, childcare costs them $42,021 a year. There is a subsidy known as the In Home Care program for nannies under specific circumstances that include parents or carers working non-standard or variable hours; families in geographically isolated areas with little approved childcare available; and if the family is experiencing challenging or complex situations. (See education.gov.au/in-home-care.)

All this means that Emily and David would be about $3800 better off financially with an au pair. But they potentially would also have less stress and more flexibility in their lives, which is also valuable.

Au pairs are typically young and it is a big adjustment for them to live with another family. They often get homesick. Their cooking skills may be basic.

Families also have to adjust to having someone else in their home, particularly if the au pair doesn't go out much. But there are plenty of examples of families bonding with their au pairs and remaining in contact even when the kids have grown up.

To make sure the au pair understands what is expected, draw up an agreement, outlining the hours, the duties, the pay and the conditions of termination.

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

Cushion the shock

A financial emergency can strike at any moment, but you don't have to deal with it alone

In July 2010, the federal government passed a new law designed to help people who are going through tough times. Under Section 72-75 of the National Credit Code, an individual who is struggling to make ends meet due to a change in their personal situation can re-negotiate their mortgage and credit payments with their bank.

On grounds of financial hardship, this law protects the debtor from getting sued or incurring penalties for breach of their credit contract.

While everyone knows what can cause financial hardship (things such as job loss, illness, natural disasters), the details behind this important reform are little understood. At the very least, it means that since 2010 banks are required by law not to list the matter on the debtor's credit report. This is important because it would have otherwise made it harder to borrow money in the future. The law also prevents banks from charging additional default fees and default interest payments as long as the debtor complies with the new and temporary arrangement.

The keyword here is temporary. Arrangements usually last anywhere between several weeks to a few months, depending on the situation. Financial hardship reforms were introduced just over a year after the Black Saturday bushfires in 2009, when more than 3500 buildings were destroyed, including 2100 homes.

Unfortunately, the latest bushfire season has taken an equally devastating emotional and financial toll on thousands of displaced and dispossessed individuals, this time not just in Victoria but up and down the eastern seaboard and across the country.

During this time, it is worth remembering the consumer rights set in place 10 years ago for such a major crisis. The big four and the regional banks have stepped up this time with more concessions and financial support, including temporary accommodation for those who have lost their homes. Some are also eligible for a few thousand dollars, such as community volunteers, banking staff who are directly affected, fire services staff and volunteers.

Banking contacts for financial hardship inquiries

Bank	Phone number
ANZ	1800 252 845
BOQ	1800 079 866
Bankwest	1300 769 173
Bendigo & Adelaide	1300 652 146
Citibank	1800 722 879
CBA	1300 720 814
ING	1300 349 166
ME	1300 500 520
MyState	138 001
NAB	1800 701 599
Rural Bank	1300 660 115
St.George	1800 629 795
Suncorp	1800 225 223
Westpac	1800 067 497

Source: Australian Banking Association website. Fore more information see ausbanking.org.au/policy/customers/financial-hardship

There's a range of interim arrangements that individuals and businesses can negotiate with their bank on grounds of financial hardship. They are also available as part of an insurance claim depending on the bank. For example, most banks have announced an emergency assistance package for people impacted by bushfires. According to the Australian Banking Association, banks should be able to:

- Reschedule loan repayments to a later date;
- Waive fees and charges, including break costs on early redemption of farm management deposits;
- Get a debt consolidation loan to manage repayments;
- Restructure existing loans free of the usual establishment fees;
- Defer interest payments on a case-by-case basis;
- Offer additional finance to help cover cash flow shortages;
- Defer credit card payments;
- Increase emergency credit card limits.

For insurance claims and financial counselling, the Financial Rights Legal Centre (financialrights.org.au) and National Debt Helpline (1800 007 007) can also help.

A word of caution. The latest legislation prevents banks from listing a financial hardship arrangement in their borrower's credit report. However, there are early discussions about possible changes from 2021 onwards (so this won't affect this year's borrowers for the time being).

There are also new rules that could make it legal for banks to share financial hardship data (with the borrower's approval). This could disadvantage consumers in the future and there are not-for-profit organisations, such as the Financial Rights Legal Centre, that are voicing their concerns to the government about these proposals.

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.*

STORY NICOLA FIELD

Drought and bushfires are a wake-up call to rethink our garden spaces and make them work for us and ease the load – environmentally and financially

It's quite easy being green

Reducing our burden on the planet and cutting costs has never been so vital. With a few clever strategies you can save water, power and money, and turn your outdoor space into a sustainable budget-friendly environment.

1 Go for grey power

Recycling household water is a great way to keep your garden well hydrated and slash bills at the same time. Greywater systems store water from showers, baths, basins and washing machines for use on the garden or for flushing toilets.

Australian households produce an average of 340 litres of greywater each day. It's an ideal source of year-round irrigation and will cut water bills. The best bit? Greywater is nutrient rich, and your plants will likely love it.

Check your council for greywater restrictions that may apply in your area. If you get the all-clear, greywater systems can start in price from $650, though the cost can rise to several thousand dollars for systems with a high level of filtration.

2 Plant a tree, cut power bills

Planting shade trees, especially on the western side of your home, can lower interior temperatures through passive cooling, reducing the need for power-hungry air-conditioning.

The problem is that as lot sizes shrink, there isn't always space for generous shade trees in modern backyards. An alternative can be to plant trees in the nature strip outside your home. It can make a significant difference to internal temperatures – and the value of your property.

The Cool Streets project under way in western Sydney found that street trees have the potential to cut household power bills by up to $400 annually. It's all about combatting the "heat island" effect where temperatures rise when homes are surrounded by heat-reflecting concrete and bitumen rather than natural vegetation.

The rules around planting trees on nature strips vary between councils. Always consult your local government authority before adding some greenery, though you could be pleasantly surprised. Many councils run "free tree" programs where street trees can be planted at no cost to households. Some, like Brisbane City Council, give away native trees and shrubs for planting in your own garden – not just the council strip.

3 Make your own mulch

Mulch is to garden plants what insulation is to home comfort. It keeps the soil cool and moist and cuts water evaporation by around 25%. That means the potential to trim garden water bills by a quarter.

Even better, mulch can be extremely budget-friendly. Raked up leaves, lawn clippings (provided your lawn is weed free) and torn up newspapers all work well as organic mulch. If you're thinking of using heavy-duty black plastic to reduce evaporation, bear in mind that rainwater can't permeate plastic, so your plants will miss out on a natural soaking.

4 Grow your own greens

No matter whether you live in a high-rise apartment or a suburban home – or if you rent rather than own – your outdoor space can be used to provide fresh produce.

Australian households spend an average of $15 to $19 each week on veggies. That's almost $1000 annually. Already, one in two households grows a few veggies, and a survey by the Australia Institute found nine in 10 food-gardening households say they save money. The savings are only likely to increase as climate change puts pressure on the cost of mass-produced fruit and veg.

Happily, a wide variety of vegetables are super-easy to grow. If you're a beginner, try fail-safes like spinach, beetroot, broccoli and cauliflower. Cherry tomatoes, lettuce and silverbeet are well suited to high rise living.

Six-cell punnets of seedlings cost around $8 from nurseries and hardware stores. Allow a couple of extra bucks for bags of potting mix if you're in a unit, though there may be no need to outlay money on planter tubs. Styrofoam boxes, which are great for growing herbs and veggies, are often advertised for free on classified sites such as Gumtree.

5 Show your soil some love

Keeping your garden healthy doesn't have to mean spending a fortune on fertiliser. Composting kitchen scraps and garden waste can mean a 100% saving on fertiliser as well as diverting waste from landfills. In fact, Better Health Victoria advises households against using chemical fertilisers on backyard vegetable gardens.

Building a backyard compost heap from vegetable scraps, lawn clippings and garden debris like leaves and twigs can cost nothing at all. In tight spaces, a compost bin can be a more compact option. Purpose-built bins are priced from around $85, but you may be able to do better. The social enterprise Compost Revolution has partnered with councils across Australia to offer composting gear subsidised at up to 80% off retail prices. Get in touch with your council to see what's up for grabs.

6 Add a water feature

Research from Europe shows that fountains in city parks can reduce surrounding temperatures by up to three degrees, with the lower temps felt as much as 30 metres away.

It's possible to replicate the same passive cooling effect in your home by installing a garden pond or water feature outside windows or in courtyards. It works because when water evaporates it draws heat from the surrounding air to provide a natural cooling effect.

While the sky can be the limit for the cost of water features, they typically start at about $150. Choose a unit with a solar-powered pump to avoid adding to your electricity bill.

7 Cut the cost of outdoor lighting

Lighting accounts for around 10% of the average home electricity budget, so exterior lighting may only be a small fraction of your total power bill. Even so, installing solar lights can produce long-term savings. The catch is that quality solar lights aren't cheap.

"The storage capacity of solar garden lights has improved significantly, but stake lights costing a few dollars don't offer lasting value," says licensed electrician Mike Terrell. "You really need to spend upwards of around $30 per light – preferably aiming for LED globes – to get a product that is durable and will provide a decent level of illumination."

On the plus side, solar lights have no wiring as PV cells are usually built into the casing, which means they can be easily installed and moved around without the need for a tradie.

Terrell suggests you check with the retailer whether replacement bulbs or batteries are available. Some units do not provide replacement options. *M*

Rain, rain, come back again

Australian households collectively spend over $5 billion on water each year. As our urban populations grow, water bills look set to rise. Already Perth residents can pay up to $4.55 per thousand litres of water. In Sydney, the opening of the Kurnell desalination plant has pushed water rates up from $2.11 to $2.24 per kilolitre.

Harvesting natural rainwater is a smart solution.

The average suburban roof has the potential to capture around 100,000 litres of rainwater annually. This assumes yearly rainfall of 500mm, and even our driest state capital, Adelaide, meets this target, receiving around 551mm in annual rainfall.

It makes a backyard rainwater tank a money-saving investment, especially as a quarter of household water is used on gardens.

Installing a rainwater tank does involve a capital outlay. A 5000-litre tank can cost around $898 from major hardware suppliers. Allow about $100 for fittings, and from $200 for a pump if you want to do more than gravity-feed water to garden beds.

This cost can often be recouped through council rebates. As a guide, Rous County Council in northern NSW provides a rebate of $800 to residents who install a 5000-litre tank, with an extra $620 if it's connected to household toilets and a further $550 if the tank is hooked up to a washing machine. Check your council to see if any rebates are available.

"Installing solar lights can produce long-term savings"

The future of A-REITS

A comprehensive report provides plenty of food for thought for potential investors

Investors who have put their faith in Australian real estate investment trusts (A-REITs) have done well over the past few years. Performance of the sector was up 24.86% in the year to November as measured by the S&P/ASX 300 A-REIT index. Longer-term returns are also sound, 13.58% a year over three years and 13.17% a year over five.

But behind the headline performance there are winners and losers among the funds. For example, based solely on price performance the Charter Hall Group (CHC) is up 47% for the year to date (December 16), whereas the Scentre Group (SCG) is down 5.3%.

For investors looking for A-REITs that will outperform in the future, a comprehensive Australian property sector report from investment bank Morgan Stanley raises some interesting themes that it says will dictate future performance in the sector.

"We prefer manufacturers over collectors, creators over owners, and we are selective with value," says the *Open for Inspection – Identifying the Best Investments* report, by equity analysts Simon Chan and Lauren Berry.

Based on these themes, the report lists its top 14 A-REITs for the future including price targets. The top five are listed in the table.

The Stockland Group (SGP) is the number one pick for growth. It's one of the largest diversified property groups in Australia – owning, developing and managing a large portfolio of retail town centres, workplace and logistics assets, residential communities and retirement living villages.

Stockland has performed broadly in line with the industry over the past 18 months, despite being hampered by residential sector headwinds, and is now due for an upward re-rating, according to the report.

"We see SGP as the most interesting stock in our universe given the heavy negative sentiment against its retail assets (40% of earnings) and the weak (but bottomed) residential segment (35% of earnings). With the stock effectively at trough earnings in FY 20, we believe the time to be more bullish

The Top 5

STOCK	PRICE TARGET	DPS YIELD	TOTAL RETURN
SGP	$5.50	5.8%	20.9%
GMG	$16.05	2.1%	14.2%
CHC	$12.70	3.1%	11.6%
LLC	$19.90	3.7%	13.7%
MGR	$3.45	3.8%	12.3%

towards SGP is now, with a 12-18-month forward-looking view," the report says.

The Goodman Group (GMG) is the second pick. It's also ranked No. 1 in the BDO Australia Top 10 A-REITs for 2019, achieving a total shareholder return of 59% over one year and 123% over three years. The Goodman Group specialises in buying and developing warehouses and distribution facilities globally for online retailers, benefitting from the e-commerce boom, with key clients including Walmart and Amazon.

Morgan Stanley rates the company as one of the creators of real estate – a group that also includes other top-five placegetters Lendlease (LLC) and Mirvac (MGR) – where the core business is about exploiting the spread between construction costs and values.

Describing it as the "epitome of the new-age real estate company", the report says the Goodman Group focuses on sourcing land, building assets through development (38% of income), collecting rent (30% of income) and earning management fees.

Another market darling, Charter Hall is No. 3 on the Morgan Stanley list and ranked No. 2 in the BDO Top 10, returning shareholders 71% over one year and 133% over three. It's categorised as an earnings manufacturer by Morgan Stanley, a trend that has evolved over the past five years to a pipeline that now spans $6.5 billion, of which 60% is in office.

"As a property fund manager, the company has proven its ability to raise funds and source assets to boost funds under management over the past five years from $12 billion to $35 billion," says the report.

Lendlease, a multinational construction, property and infrastructure company, is fourth on the Morgan Stanley list. And along with Stockland, it does not rank in the BDO Top 10. Morgan Stanley sees the company as both a creator of real estate and an earnings manufacturer.

"Lendlease's decision to exit the engineering and services business and focus on its core strengths of urban development, regeneration and property construction/creation is appealing and, when properly executed, could lead to a multiples re-rate," says the report.

Mirvac rounds out the Morgan Stanley top five and ranks No. 8 in BDO's Top 10. It's also classified as both a creator of real estate and an earnings manufacturer. The report says: "We like the company's strategy of earning profits from every facet of its expertise, from asset creation (development profits), operations (management fee and rent) and residential development – especially at a time when asset values are expensive."

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.*

Companies or funds that I invest in behave unethically

Reputations and returns are increasingly at risk

FINANCIAL IMPLICATIONS

Evidence is mounting that poor corporate behaviour doesn't just leave a nasty taste in your mouth. It also affects investment returns.

A study by the Responsible Investment Association Australasia found super funds that engage in responsible investment outperform other funds over one, three and five years.

The RIAA looked at 54 of the largest MySuper funds. It found 34 had some form of responsible investment guidelines and they earned 8.14%pa over the past five years compared with 7.7% for the remainder. Comparable figures over the past three years were 9.06% versus 8.65%, and over the year to June 30, 2019, 7.33% versus 7.31%.

The study found just over half of all professionally managed funds in Australia now employ some sort of responsible investment strategies and they have been beefing up their resources in this area in recent years.

The rationale is simple. The report says there is a growing acceptance that environmental, social and governance factors are an integral part of investment as they affect valuations and returns. Consumers are more interested in where their money is invested, and finance regulators are also talking about the risks in areas such as climate change.

In December, former banking royal commissioner Kenneth Hayne warned that directors could face legal action if they did not deal properly with the risks of climate change, and the Australian Securities and Investments Commission launched a surveillance program to ensure our biggest companies are dealing with climate risks.

Add the upheaval, investment shocks and potential financial consequences of recent disclosures that two of our biggest banks, Commonwealth and Westpac, had systematically allowed breaches of the law (Commonwealth in relation to money laundering, Westpac in connection with overseas transactions) and it becomes clear we need to think about how the companies we invest in behave.

LEGAL ACTIONS

Columbia University's Sabin Centre for Climate Change Law has logged more than 1000 climate legal cases around the world. But in Australia, Melbourne Law School says it can be difficult to launch climate actions because we have no civil rights guaranteed in the constitution, and no federal laws that control emissions. However, last year the NSW Land and Environment Court ruled against a proposed new open-cut coal mine, citing the impact on the social and environmental welfare of the nearby community as one factor in its decision.

Activists are also using corporate law to argue that companies need to disclose climate risks posed to their customers and shareholders. In 2017, Environmental Justice Australia filed court proceedings against Commonwealth Bank, prompting it to disclose climate risk in its annual reports, and Melbourne Law School reports that Environmental Justice has taken up the case of a super fund member suing his fund for, he claims, failing to protect his investments from climate change risk.

NAVIGATING THE MAZE

The Responsible Investment Association found more than half our major super funds now offer responsible or ethical investment options. However, "ethical" can mean different things to different funds. Many have so-called negative screens that prohibit investment in things like tobacco, arms and fossil fuels while others may take a more proactive approach and include "good" companies.

If you're considering an ethical investment, read the product disclosure statement carefully to see how your money will be invested, as definitions vary widely. Most major super funds now have overall environmental, social and governance (ESG) guidelines, which should be available on their website.

Similarly, listed companies and other investments are under pressure to disclose their ESG guidelines and the risk to their business of things such as climate change. And as we've seen with annual general meetings for companies like Westpac and Commonwealth Bank, shareholders can pressure directors when they have concerns about the company's behaviour.

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.*

DID YOU KNOW?

In California, crab fishermen are suing oil and gas companies for climate-induced damage to marine areas.

BEST-CASE SCENARIO

Businesses have moved to embrace the need to manage issues like governance and climate change – in the latter area, even ahead of government. Pressure from shareholders to maintain high ethical standards can only accelerate this trend.

WORST-CASE SCENARIO

Where companies put profits ahead of ethical behaviour, the legal, reputational and financial consequences will become increasingly damaging.

THE WILD CARD

For investors, the wild card is the risk of bad behaviour coming to light. While the risks in areas such as climate change are largely foreseeable, poor corporate behaviour in other areas is not always easy to identify until it becomes public.

RETIREMENT

Retirement without surprises

YOUR RETIREMENT INCOME STREAM SHOULD BE FLEXIBLE, SO YOU AREN'T BLIND-SIDED BY SURPRISE COSTS WHEN YOU'VE STOPPED WORKING. **QSUPER WRITES**

It can be tricky to estimate your future living costs. Heading into retirement, your lifestyle and behaviours may change, impacting your expenses.

Without the need to drive to work, you could make savings on car payments, insurance, maintenance, and fuel costs. If your mortgage is paid off, you may also assume you will have minimal housing costs. But as homes age they tend to require additional maintenance and repairs. Then there's rising council rates, and your power and other utilities bills may just go up because you may spend more time at home.

Even for the best prepared, life still has a way of throwing in a few surprises.

How much will I need?

Fortunately, the Association of Superannuation Funds of Australia's (ASFA) Retirement Standard has done the heavy lifting on calculating retirement living costs. Based on September 2019 quarterly figures, ASFA calculates that to have a 'comfortable' retirement, single people aged 65 will need $545,000 in retirement savings, and couples will need $640,000. That means an annual budget of $43,787 for singles and $61,786 a year for couples to cover the bills.

But you may still need extra flexibility when life deals you something unexpected.

When you have stopped working, you may get this confidence when your superannuation income stream allows you to control how much and how often you are paid, and allows you to withdraw extra money at any time.

This kind of account, such as QSuper's award-winning Retirement Income account, also means your savings can continue to grow giving you the benefits of tax-free investment earnings and no tax on payments or withdrawals after you turn 60.

Uncover the surprises

Here are three costs to retirement that even the best planners may not be prepared for:

1. Above-inflation price increases

In retirement, increases in the price of many necessities can prove significant. Drought, bushfires, or other natural events may cause the prices of some foods to skyrocket. Power prices, petrol prices and private health insurance costs may continue to climb.

2. Boomerang kids

Between studying longer, delaying marriage, or just struggling to find their way into the housing market, more young people are choosing to stay at home and live with their parents in their early adulthood. Even if it's not kids staying at home, you may well be called on to help financially for the kids' life events like weddings, the birth of children, divorces or health issues.

3. Unforeseen medical expenses

While Australians have high life expectancy, they also have among the highest number of years spent in ill-health compared with other OECD countries. So, while you may retire in great physical shape, one of the most important financial needs in retirement can become medical costs and aged care – all of which reinforces the merits of using a trusted, well-performing Retirement Income account. At QSuper, the retirement income product – winner of *Money's* 2020 Best Balanced Pension Product – was designed to ensure that even though you may have stopped working, your account has not. Your money remains invested and your savings continue to grow, all the while providing an income stream to deal with life's usual demands, and the surprises as well.

To find out more about QSuper's income account visit qsuper.com.au

Young adults can get set for life

Modest savings from part-time work have plenty of time to grow

Many young adults juggle part-time work with different employers while studying, eventually landing up with several inactive default super accounts. The fees in each eat away at the small amounts of money sitting there.

But there's good news on this front and it will hopefully encourage young adults to focus more enthusiastically on their savings and monitor how their fund is performing.

Last year the federal government introduced a package of reforms entitled Protecting Your Super. Accounts under $6000 that are inactive for over 16 months will be transferred to the tax office for consolidation with the member's active account; fees on small accounts are now capped at 3% a year; and exit fees, which acted as a disincentive to consolidate, are banned.

And from April 1 this year, life insurance will no longer be automatically given to members under 25. If they want the cover, they will have to opt in, rather than the other way around. Often young members without dependents can do without the insurance – and the premiums.

"The reforms mean young people can't be charged more than a maximum of 3% a year, but this is still a lot of money," says Jason Ross, head of superannuation research at Rainmaker, publisher of *Money*. This means people still need to pay attention to their total annual costs.

While a 1% difference doesn't sound much, it can have a large impact on your balance over time – up to 20% over 30 years, according to the Australian Securities and Investments Commission. So which default funds are best for young adults?

Money's 2020 gold award winner for the Best Value Super Fund for Young People is ANZ Smart Choice. The fund earned 9.25% a year over the past three years (on a typical low-balance account of $6000 for someone under 25). Also in the top five were Media Super (8.92%), Equipsuper (8.81%), AustralianSuper (8.82%) and Sunsuper (9.12%).

"Fees are important and investment performance is obviously critically important," says David Callan, the head of product development and platform strategy at ANZ. "Our fees are some of the lowest in the market."

Super is a long-term investment, he says, so nurturing it from the beginning is important. "If you are looking at someone in the workforce now, with potentially 40 years of employment ahead of them, the smart things they can do right now will have a significant impact on their future outcomes."

Invest for growth

The top five in *Money's* 2020 award for Best Value Super Fund for Young People are a mix of the two types of MySuper default products.

ANZ Smart Choice and Sunsuper for Life are lifecycle funds. These have an investment strategy that is age based: they invest more aggressively for growth while members are young and become progressively more defensive as they near retirement.

Media Super, Equipsuper and AustralianSuper are balanced funds. The investment strategy remains the same regardless of a member's age, with the asset allocation taking care of investment risk.

Wealthadvice's Marisa Broome says lifecycle funds work really well. "A young person should be in a high-growth fund to start. They can't access their money until they are 60, so they have 40-plus years of investing to kick through the volatility that takes place."

Some funds have already acted on the life insurance changes. Media Super and AustralianSuper make cover optional for members under 25, which means they aren't paying fees unnecessarily before the April 1 deadline.

Tax office data shows people have an average of two to three super accounts.

"If you have three super accounts you are probably paying three sets of admin fees, investment fees and insurance costs. You really want to avoid those multiple sets of fees. Fees can make an enormous difference to your retirement balance.

"Subject to a member providing an explicit consent, we'll complete a search for them and show them where all their other super is and whether the other accounts have insurance. We'll advise them about all the things they need to think about if they are consolidating accounts, and that they may lose insurance cover.

"Having the capability, in a digital way, people can gain access to the right information and take action as they see fit and make an appropriate decision."

Certified financial planner Marisa Broome, principal of Wealthadvice, says the benefits of engaging with super early are enormous. She urges young adults to check their statements carefully and figure out if they are in the right fund or not.

"The truth is that if they think about it at the very beginning when they first start, then at the end of the day they won't have to think about it all the time because it will be there for them, properly set up."

She says if you are in the right fund with the right bells and whistles, you'll end up not having to think about it as life goes on. It will just accumulate there for you.

"Taking a little bit of interest at the beginning will save you so much money on the way through, and it actually does guarantee you a good-quality retirement."

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

Battered by the banks

Income investors need to overcome their obsession with franked dividends and focus more on growth

I know a lot of you have big holdings in banks for income, but it has, in hindsight, been one of the biggest Australian investment mistakes of the past five years.

In that time, as you know, the banks have been pummelled. It all started with a Commonwealth Bank rights issue in March 2015, which led to $12.4 billion worth of bank sector capital raisings by year end. That first CBA issue marked the peak of the sector.

After that initial bout of indigestion came a series of negative waves starting with those unnecessarily prudent APRA-led “restrictive lending practices” in 2017, now repealed. They kicked off a slowdown in the bank sector’s lifeblood, the housing market, and as credit lending slowed, and as Labor’s Bill Shorten threatened measures to pique the investment lending market, we saw the first bank sector earnings downgrades in years.

Then came the royal commission, which started with a discovery process that paralysed department after department, involving thousands of employees who were rendered unproductive and demoralised by millions of wasted hours in front of a photocopier finding, scanning and printing documents. With the royal commission itself came the loss of reputation, the brand damage, the destruction of their wealth management brands and businesses, asset sales, business restructuring, more employee demoralisation and more earnings downgrades.

And then in November, just when the sector was getting back into uptrend, the AUSTRAC revelations cratered Westpac by 14.7% in a month, with ANZ and NAB both down 11% in a month. (CBA survived, up 0.3% in November, having already been through the AUSTRAC fiasco.)

All in all, since the March 2015 sector peak, when Commonwealth Bank announced the first of the 2015 rights issues, the sector is down 27.7% against the All Ordinaries, which is up 14.8%. Including dividends, the total return from the All Ordinaries Index is up 42.51% since March 2015 with the total return of CBA, Westpac, NAB and ANZ individually underperforming the index by 34%, 59.1%, 47.2% and 52.9% respectively.

Despite this underperformance, most fund managers, intimidated by the fact that the banks formed 25% of most benchmarks, didn’t sell. They didn’t sell because they like to hug their benchmark and getting a big sector like the banks wrong is suicide. So they sat with neutral holdings.

And retirees didn’t sell because no one ever told them to. Few advisers would, could or will ever advise retirees to sell their banks. They are an Australian institution, an oligopoly, and they’ll be all right in the end. Won’t they?

On top of that, the advice industry sees it as a value add to collect franking credits for clients, and that’s what the banks are used for. Getting a refund is clever, taking money off the tax office an astute strategy, surely. But for the past four years, chasing a franking credit refund through banks has been a mistake. The credit still arrived, but the loss of capital more than matched it.

And there are other reasons retirees do not sell. Some boringly call themselves long-term investors with a blinkered “buy and hold forever” approach. Some are wealthy enough not to need to sell, so underperformance is not their concern. And others do not sell because they cannot find investments with similar yields, because they would rather lose money than pay the government capital gains tax and because they have shut their eyes to the loss of capital, consoling themselves that they don’t care what the share price is because they are never going to sell and “it’s my kids’ problem”.

But the truth of the matter is that a dollar is a dollar whether it comes from dividends, a cash refund from the tax office or a capital gain, and while I wouldn’t want to burst the bubble of the traditional yield-reliant retiree, chasing income stocks has not only cost money because of the banks but will continue to cost you money because it corrals you into mature companies with few growth options and nothing better to do than return money to shareholders. And then there’s the opportunity cost of not holding quality growth companies with high returns on equity because of their low yields.

CSL, for instance, has returned 216.9% since the bank sector peak in March 2015, Aristocrat Leisure 315%, Cochlear 175.8%, Treasury Wine Estates 296%, ResMed 156%, ASX 127%, Woolworths 60.7% and Wesfarmers 70.6%, to name a few. And none of these companies yield more than the market average. CSL has a yield of 0.8%. Meanwhile, they continue to earn a 32%

> **Chasing income stocks corrals you into mature companies with few growth options and nothing better to do than return money to shareholders**

return on equity and reinvest their profits at 32% for a far superior total return than anything available from high-yielding stocks.

In the US they will tell you that bonds are for income and equities are for growth. That culture is why the US market yields 2.5% while Australia yields 4.5% plus franking, or around 5.89% on average – because some Australian chief executives pander to the siren-like obsession of their Australian shareholders with fully franked yields.

But with term deposits paying around 1% it just doesn't make sense for companies to give money back to a shareholder who earns 1%, not when the company's return on equity is 20%. Far better they keep it and reinvest it at 20%.

The American culture is to reinvest for growth all the time, which is why Microsoft and Berkshire Hathaway resisted paying dividends for decades. In the US paying a dividend is seen as failure, the sign of a company lacking ideas and ambition.

The bottom line is that if you are investing in equities to provide an income, you would be better off focusing on total return rather than dividend yield. Yields, franking and the cash refund are distracting you from the best stocks in the market.

Of course, you will have to sell shares to buy the groceries, but if you can get your head around that little conundrum you'll be eating smashed avocado for breakfast and going to bed dunking chocolate, not plain, digestives.

Marcus Padley is the author of the daily stockmarket newsletter Marcus Today. *For a free trial of the newsletter, go to marcustoday.com.au.*

STORY GREG HOFFMAN

Steps in the right direction

Spurred by his interest in Nike sportswear, a 12-year-old becomes an unlikely role model for all investors

Early in the new year my family swapped the smoke-filled air of our Blue Mountains home for the smoke-filled air of the Hunter Valley to spend a few days with several friends and their families. The kids loved the constant presence of kangaroos while the adults tried to smile, knowing the animals' presence was most likely caused by their habitat being devastated by nearby bushfires.

At one stage several of us were playing cricket with a family of roos cautiously observing from fine leg. As the younger ones were batting, the adults and older kids would shorten the length of the pitch, the bowlers would switch to a gentle underarm action, the fielders would come in close and many catches were deliberately missed or dropped to allow the littlies a chance to get a feel for the game and build confidence.

Quite naturally, the learning environment was adjusted for each kid's age and ability. They were set up for an appropriately challenging but not impossible level of difficulty that allowed them to experience some early success.

SHOWING AN INTEREST

As we chatted and played, it became obvious that my farmer friend's 12-year-old son has a strong interest in investing and business and bears an entrepreneurial streak. We talked about how the sharemarket allows you the opportunity to share in the value created by thousands of companies around the world and how it's a good idea to stick to investing in what you understand.

That's all true as far as it goes but, really, how helpful is it for a child?

Unlike backyard cricket, it's difficult to simplify and adjust the sharemarket to allow kids to sequentially acquire the necessary skills and master the many concepts required for success.

A kid can immediately feel and see when they connect the bat sweetly with a cricket ball. The feedback is clear and immediate. These conditions create what academics call a "kind" learning environment. In such circumstances, humans can build skills and intuition quickly with well designed, progressive exercises and "game time".

Unfortunately, investing takes place in a "wicked" learning environment. Feedback is usually delayed and indirect. And because so many aspects are interconnected, it's difficult to break it down into its constituent parts.

From about nine years of age I had a project book of about a dozen companies that I followed and I still remember many of them (Boral, BTR Nylex, Memtec, MIM and James Hardie among them). My father had chosen a diversified group of stocks for me to follow, so I didn't have much personal connection to them.

Still, I enjoyed charting the companies' share price movements (by hand on graph paper) and cutting out relevant articles from the newspaper. My parents were proud to see me taking this interest but, truthfully, it didn't help me understand much about investing.

All of that was in the back of my mind as my recent conversation unfolded. My friend asked his son if there were any brands he felt were going to do well over the next few years. The implicit assumption was that a growing business should translate into a growing share price (not always the case, unfortunately).

The boy mentioned that Nike had recently signed sponsorship deals with some impressive sportspeople and that a particular computer game company was due to release a new version of a blockbuster game. A number of things flashed through my mind as he answered.

One was whether there was any significant correlation between any single sportsperson's performance and the share price of their sponsors. Another was how to explain that the sharemarket is an expectations game. A new computer game might sell a million copies, but if investors were expecting 1.2 million copies to be sold, then the share price might fall.

> Without realising it, this primary school student was exploring ideas that some first-year uni students struggle with

My mind began rolling through the complexities and I imagined a disappointed 12-year-old scratching his head when a computer game broke sales records but the company's share price fell. Or when a marquee athlete had a great season but the sponsor's share price dropped. The resulting confusion might well discourage him.

That's when I realised the cart was before the horse.

BETTER PERSPECTIVE

Teaching this boy about investing by asking him to follow share price movements would be like him trying to teach me about running a sheep farm by asking me to simply follow the price of lambs or farm land. It's absurd.

Lesson one, then, is that a share represents part-ownership in a business. And with that perspective, it's clear that a deeper understanding of business is called for.

If my 12-year-old friend can begin to develop that knowledge, then he'll not only be ahead of his peers but also many adults who don't know much more about shares than what they hear on the nightly news. And if that's what you're going off, it's easy to be seduced into thinking that short-term share price movements are the main game.

So I started asking him about the economics of sheep farming. We discussed the purchasing of ewes for breeding, paying the auctioneer, transport costs, feed costs, how many times a year the ewes should be "joined" with a ram, pregnancy testing, yield and the costs involved once the lambs are born and so on.

Without realising it, this primary school student was beginning to explore ideas that some first-year university students struggle with: concepts like cash flow profiling, working capital, unit economics, operating expenses versus capital expenditure and depreciation.

I can't imagine trying to sit him down with a textbook to learn such matters from pure theory, yet just 30 minutes into our back-of-the-envelope farm exercise these issues were springing to life and his curious mind was eagerly chasing them down.

Making the jump back to his interest in sportspeople and Nike, long before looking at the share price he should read *Shoe Dog* by Nike founder Phil Knight. In that he'll learn about how the business was developed and financed and why Nike began sponsoring athletes and sportspeople in the first place.

If he enjoys that book and wants to deepen his understanding, he can then find Nike's annual reports online. Then he'll realise that he's going to need a basic knowledge of accounting. My hope is that, as with our initial conversation, this realisation will frame the task of learning accounting in positive terms. The benefit of being able to read Nike's financial statements may drive him to enthusiastically embrace that next learning challenge, which others might see as boring.

From there, he could follow his interest in many different directions. Perhaps he'll be fascinated by the sector and go and research competitors like Adidas, ASICS or Under Armour. Or maybe he'll get hooked on business biographies and go chasing more stories of successful entrepreneurs or investors.

In trying to teach my young friend a few things about business, his eager responses taught me something even more valuable. Encouraged and guided in the right way, an inspired, curious mind will lead itself to knowledge. That's a powerful lesson for both kids and adults alike.

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).

SECTOR SMALL CAPS

When patience pays off

The four stages of a start-up's life cycle provide rewarding possibilities

Investing in smaller companies is a well-trodden path to long-term wealth. Capturing growth as a company emerges from a start-up with an entrepreneurial approach to governance through to an established business with a board of experienced and independent directors can be richly rewarding.

We believe there are four stages to a small company's life cycle. Beginning with the "early" stage, the product or service being offered is classed as disruptive and the governance entrepreneurial. Less than 1% of our portfolio is dedicated to these opportunities. Following the early stage is the "emerging" stage with the product or service being commercialised. We would invest between 1% and 3% of our small companies portfolio in these candidates.

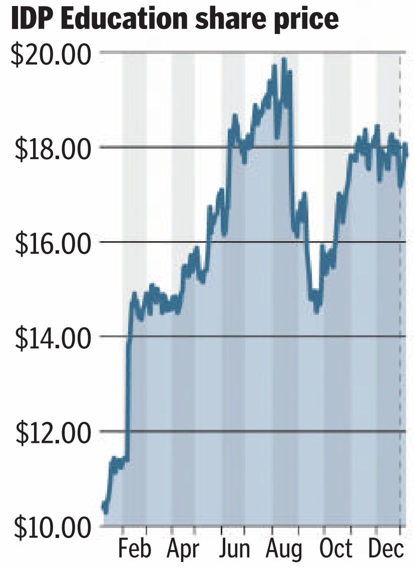
As a company's product or service is proven we describe the business as "developed" and can invest between 2% and 5% of the portfolio. And once the proven product or service is sustainable, we describe the company as "core" and up to 7% can be invested. All the while the governance of the company is moving from entrepreneurial through to established, and not only do its earnings grow but the market's confidence in its prospects does as well.

"Ten baggers" (shares that grow tenfold in a given time frame) are not uncommon and all that is required is patience, provided of course the right candidate has been selected. In this month's column, we examine three companies held in our small companies fund, acknowledging there is generally higher volatility among small companies and therefore an element of risk.

Roger Montgomery is the founder and CIO at the Montgomery Fund. For his book, Value.able, *see rogermontgomery.com.*

Contact Energy share price

IDP Education share price



Adairs share price

1 Contact Energy

ASX code CEN
Price $6.98
52wk ▲ $8.45
52wk ▼ $5.59
Mkt cap $4.98bn
Dividend 35¢
Dividend yield 5%
PE ratio 15

BUY

Contact Energy is a New Zealand electricity generator and retailer. In NZ, electricity generation is largely renewable and the transport and manufacturing sectors are swapping carbon-intensive engines and boilers for electric, which provides a multi-year growth opportunity for Contact. An investor benefits from both yield and growth, harvesting stable cash flows with the addition of fully funded growth optionality that could double the dividend in a decade. The company carefully manages its investment, and with steady and predictable demand growth strong dividend payouts are expected.

2 IDP Education

ASX code IEL
Price $18.38
52wk ▲ $19.84
52wk ▼ $9.88
Mkt cap $4.68bn
Dividend 19.5¢
Dividend yield 1.1%
PE ratio 70

BUY

IDP Education is a high-quality, capital-light business with strong returns, providing student placement and English language testing services. It is the leading placement agent for Australian universities with 25% market share, and, importantly, it is 49% owned by universities. IDP's defensive-style growth comes from rising Asian demand for international education and its expansion into the UK and Canada. We estimate intrinsic value at $25 a share, and possible catalysts for a share price re-rating include faster student volume growth and regional penetration.

3 Adairs

ASX code ADH
Price $2.34
52wk ▲ $2.52
52wk ▼ $1.25
Mkt cap $394m
Dividend 14.5c
Dividend yield 6%
PE ratio 13

BUY

With a market cap approaching $400 million, Adairs generates annual sales of around $370 million (before the recent Mocka acquisition) from its 170 physical stores across Australia and New Zealand. Bed linen is the key driver of foot traffic. Growth has centred on new store roll-out, store upsizing, range expansion, online and loyalty. Adairs was trading at a cheap seven times forecast EBIT before buying Mocka, an online retailer, which has the potential to double over the next five years. The market values similar capital-light, highly scalable online businesses growing at 20% a year on around 15-20 times EBIT.

Prices as at close of ASX business, 10-January 2020.

Sting in the savings tale

Weak consumption continues to thwart the Reserve Bank's dreams of economic recovery

A dollar saved might be a dollar earned ... but not if everyone is saving, for there'll be nobody left to do the spending that somebody else would be earning.

This, ladies and gents, is the moral of the passage from *The Fable of the Bees*, written by Bernard Mandeville in the early 18th century – the passage that John Maynard Keynes himself cited when he gave us the paradox of thrift.

This is what the Reserve Bank of Australia alludes to in its recent policy statements: "The main domestic uncertainty continues to be the outlook for consumption."

This is also what the September quarter national accounts underscored when they revealed that despite the 2.5% quarterly increase in household disposable income in the third quarter of 2019 (from a mere 0.3% in the June quarter), household consumption rose 0.1% over the three months to its slowest pace since the December quarter of 2008 (GFC days). According to the Australian Bureau of Statistics, this was "driven by a decline in income tax payable, which was impacted by the introduction of the low and middle income tax offset".

Where did the dividends from the federal government's tax offset and from reduced mortgage repayments go? They were saved! The household savings ratio jumped to 4.8% in the September quarter – the highest in 10 quarters and up from 2.7% in the previous quarter.

But, hey, that was the "ghost of Christmas (er, quarter) past". Reserve Bank governor Philip Lowe is still thinking happy thoughts – that of a "gentle turning point" in the economy. After all, Australian economic growth improved from 1.6% in the year to the second quarter to 1.7% in the third.

However, the latest retail sales report indicates that the fourth quarter economy is starting weaker than the third.

Australian retail sales showed no growth in October, down from a 0.2% increase in the previous month and expectations for a 0.3% gain. Year-on-year retail sales growth slowed from 2.5% in September to 2.1% in October – the slowest annual growth rate in two years.

Given Australian households' high level of indebtedness – 187% of disposable income (as at the September 2019 quarter) – it's highly likely that further interest rate reductions and/or tax cuts would be saved and used to service this debt.

Worse, the more the RBA provides monetary accommodation, the more anxious we all become and the more we save for that "rainy day". That increased saving, in turn, sets off (or has already) a vicious circle of weak consumer spending, reduced business revenues/profits, lessened business investment on equipment and building and structures and staff – and that will lead to higher unemployment, weaker consumer spending, etc.

Weak consumer spending also leads to heavy discounting as businesses try to preserve their market share, in turn putting downward pressure on inflation and inflation expectations, which encourages a further reduction in spending – prices would be the same or lower in the future anyway.

There's also that Catch-22 situation where consumer spending won't accelerate because wages growth remains lacklustre, but businesses aren't able to increase pay packets because their profits are tempered (even reduced) by weak or weakening consumer spending.

While it's easy, so easy, for the government and the RBA to coax Australians to go forth and spend, each individual reality – tepid or no wages growth, anxiety over unemployment, high debt levels, reduced income for pensioners (due to low interest rates) and expectations of lower consumer prices – calls for every dollar earned to be saved.

Benjamin Ong is chief economist at Rainmaker Information.

SECTOR DISCRETIONARY RETAIL

Real growth in a virtual world

It's tough in retailing, so it pays to offer customers something different

In this issue last year, we kicked off a new series aimed at finding the Best in Breed investments in each broad ASX sector (plus a couple of bonus ideas). When I put pen to paper, there was no inkling that 2019 would be one of the best years in recent history, or that the return would be 2.5 to three times the average annual gain. It's a reminder of the folly of trying to guess where the market is heading.

Instead, we focused on finding the best businesses on the basis that, over time, the cream tends to rise (as long as prices aren't too silly). It's an approach I'm confident will bear scrutiny over the long term, so we're going to do the same again this year – taking another look at the company groupings on the ASX, with the intention of finding the highest quality options. Sometimes that'll be the same company as last year and, if so, we'll give you a runner-up to add to your watchlist. In other cases, changes in quality, the competitive environment or new options will see us change our choice.

So, to the first category: consumer discretionary stocks. These are the businesses that consumers are under no compulsion to buy from – they don't sell food or essential services – and that need to tickle our fancy with convenience, fashion, price or promotions (among others).

This is a tough category to operate in – fiercely competitive and precious little in the way of barriers to entry for would-be competitors. You're not only fighting against them, but against consumer apathy and the myriad other ways a potential customer can spend their time and money.

In this category, we're looking for a retailer that offers something different, ideally something that has a sustainable competitive advantage. Unless you're investing purely on business (or share price) momentum, you want to have a pretty good feeling for why the company is likely to continue to not only survive, but thrive. And given the tiny margins these businesses tend to operate on, it's a brave investor who buys shares in a company with a shrinking top line, because falling sales almost always wreak havoc on – and sometimes completely obliterate – profits.

Best in Breed's tip

SECTOR	STOCK	ASX CODE
Discretionary retail	Kogan	KGN

Last year's pick, Premier Investments (ASX: PMV), has done nothing wrong. The purveyor of jeans, pyjamas and kids' stationery continues to thrive, confounding both the economy and its doubters. But this year we're switching the order and giving the gong to last year's runner-up, Kogan (KGN). Far from being belted by the arrival of Amazon and the decline of its grey market imports of Apple products, the local innovator continues to grow in two very important ways. First, as evidence of its appeal the company is adding new customers at a double-digit percentage clip, year on year. We can try to rationalise anything, but when there are more people walking through the company's virtual doors the appeal is there in black and white.

Second, the beauty of online retail is the ability to expand "shelf space" infinitely – something Kogan has continued to do over the past 12 months. Few retailers offer everything from superannuation to pet insurance, but Kogan does. And as long as it keeps costs low and makes sure each new category is likely to be profitable, there's no reason for it not to.

Foolish takeaway

The accepted wisdom was Amazon would sweep all before it launched in Australia. I still think Amazon will be a long-term winner here, but it's not a winner-takes-all market and Kogan deserves its place atop this category.

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).

Three lessons from two failures

When the share price goes down instead of up, a post mortem can be revealing

STORY GRAHAM WITCOMB

It is impossible to be an investor and not make mistakes. The aim should be to reduce rather than eliminate them. Because humans learn more from failure than success, this requires a painful examination of what went wrong, starting with a question: How can you tell whether an investing decision was wrong?

Between our 2014 upgrade to buy and August's downgrade to sell, the share price of IVF provider Virtus halved and Monash IVF's dropped 43%.

It seems a convincing argument, until you know that since first recommending Sydney Airport as a buy when it listed in 2002, there have been three share price declines of 20% or more and the stock was underwater for six years. Having never sold it, we've enjoyed a ninefold increase in share price since.

Share price performance is one thing; business performance is quite another. The difference between Sydney Airport and our IVF providers is that the latter haven't unfolded as we expected, in terms of their share prices and their underlying businesses.

So where did we go wrong and what did we learn?

1 THERE'S MORE TO STOCK PICKING THAN VALUATION

When we upgraded Virtus and Monash we believed the stocks to be trading at a discount to their intrinsic value. Both were (and continue to be) highly cash-generative with dominant market positions. And they look cheap, trading on an unassuming price-earnings ratio of 13 and juicy dividend yields above 5%. A private buyer paid higher multiples for smaller competitor Genea in 2018.

The trouble is that our predictions kept falling short of reality. We had to revise down our estimates for growth in IVF cycles several times while budget clinics have started to cannibalise the premium ones. And growing diagnostics revenue, which should have boosted margins, was offset by regular "one-off" costs that would somehow depress them.

If your valuation says "buy" but the company keeps handing you nasty surprises, that "too good to be true" feeling is probably correct. Successful investing is an art; conventional valuation measures mistakenly try to turn it into a science.

2 DEMAND A MARGIN OF SAFETY

Virtus's net profit was $31 million in 2014. Last year is was $29 million – a decline but hardly a disaster. Virtus's waning share price over that time wasn't due to a major change in earnings but a change in what investors were willing to pay for those earnings. Virtus's PE ratio has almost halved over the period. Similarly, our estimate of intrinsic value fell as Virtus slid from "high quality, good growth" to "medium quality, low growth".

There's nothing wrong with paying up for good businesses. But as the gap between your purchase price and the stock's intrinsic value narrows, you remove one of your key advantages – room for error. That margin of safety, as it is known, is necessary not only for errors in analysis but to cushion you from the unknowable mood of future investors. In retrospect, the margin of safety on offer at the time of our purchase wasn't high enough.

3 IT'S NOT SPECIAL BECAUSE YOU OWN IT

Many psychological biases encourage us to pay too much for stocks. If we had to pick one at play in this story it would be the "endowment effect" – our tendency to value something we own more highly than its market value.

Once a stock is in our possession it becomes "our" stock and we perceive it as special. Thinking like business owners, rather than speculators, gives you an edge when purchasing, but it can make selling more difficult – there'll always be this voice telling you to hold on a little longer until your business's "true value" is recognised by everyone else.

Even with the benefit of hindsight, our initial upgrades of Virtus and Monash – and the following dozen recommendations, in fact – don't feel like a mistake. The same rigorous research and patience we employed here have led to far more winners than losers among our other recommendations.

The big mistake was in our inability to let go as the facts started to change. When the IVF market started to cool and competitors began to nip, we could always point to wonderful business models, declining fertility rates and a cash cow oligopoly. And we did. This was the endowment effect in action.

On some measures, Virtus and Monash continue to look undervalued, as they have for years. We think it's best to now move on and focus on new opportunities. As the saying goes, "you don't have to make it back the way you lost it".

Graham Witcomb is a senior analyst at Intelligent Investor.

YOUR GUIDE TO MANAGED FUNDS DATA

DATABANK

The tables on these pages contain data and information to help you compare managed funds, which are pooled funds managed professionally by investment experts.

Managed funds displayed in these tables are multi-sector or asset class specific. Multi-sector managed funds invest across a diversified mix of asset types spanning equities, property, bonds, cash, infrastructure, private equity and alternatives.

Managed funds are normally set up as unit trusts. You may be able to invest in them directly or through a platform.

Top 5 Multi Sector funds by size

Name	APIR code	Mngmnt fee (%pa)	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Vanguard Growth Index Fund	VAN0110AU	0.36%	20/11/2002	$4,785m	18.2%	17	8.9%	15
QIC Growth Fund	QIC0002AU	0.50%	6/03/2002	$4,605m	12.0%	52	6.5%	39
Vanguard Balanced Index Fund	VAN0108AU	0.34%	20/11/2002	$4,223m	15.8%	27	7.6%	28
Vanguard High Growth Index Fund	VAN0111AU	0.37%	20/11/2002	$2,545m	20.7%	6	10.2%	7
Vanguard Conservative Index Fund	VAN0109AU	0.33%	20/11/2002	$1,914m	12.5%	48	6.1%	45
AVERAGE*		0.75%		$561m	14.0%	80	7.0%	71

Top 5 Australian Equities funds by size

Name	APIR code	Mngmnt fee (%pa)	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Vanguard Australian Shares Index Fund	VAN0002AU	0.18%	30/06/1997	$11,906m	25.8%	37	9.9%	48
Fidelity Australian Equities Fund	FID0008AU	0.85%	30/06/2003	$6,084m	24.4%	50	10.2%	42
Investors Mutual Australian Share Fund	IML0002AU	0.99%	30/06/1998	$2,936m	17.6%	97	8.1%	76
Dimensional Australian Core Equity	DFA0003AU	0.31%	3/07/2006	$2,724m	22.9%	61	10.8%	30
Bennelong ex-20 Australian Equities Fund	BFL0004AU	0.95%	2/11/2009	$2,653m	23.3%	57	15.5%	6
AVERAGE*		0.79%		$594m	22.8%	113	10.0%	101

Top 5 International Equities funds by size

Name	APIR code	Mngmnt fee (%pa)	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Vanguard International Shares Index Fund	VAN0003AU	0.18%	30/06/1997	$14,767m	23.8%	41	13.2%	29
Magellan Global Fund	MGE0001AU	1.35%	1/07/2007	$11,180m	26.3%	22	15.0%	14
MFS Global Equity Trust	MIA0001AU	0.77%	24/04/1997	$6,306m	27.5%	19	14.2%	21
Antipodes Global Fund	IOF0045AU	1.20%	31/07/1994	$4,129m	9.4%	124	6.9%	84
iShares Wholesale International Equity Index Fund	BGL0104AU	0.20%	31/10/1999	$4,006m	23.8%	43	13.4%	27
AVERAGE*		0.93%		$721m	21.2%	127	12.2%	87

Top 5 Multi Sector funds by 5-year return %pa

Name	APIR code	Mngmnt fee (%pa)	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Fiducian Ultra Growth Fund	FPS0014AU	1.63%	1/09/2008	$185m	19.4%	11	11.2%	1
Perpetual Split Growth Fund	PER0066AU	1.16%	31/03/1999	$48m	19.3%	13	10.4%	2
Legg Mason Martin Currie Divers Income	SSB0063AU	0.80%	30/05/2014	$17m	19.4%	12	10.4%	3
Fiducian Growth Fund	FPS0004AU	1.29%	1/02/1997	$127m	21.4%	3	10.3%	4
IOOF MultiMix Growth Trust	IOF0097AU	0.98%	29/04/2008	$657m	20.3%	7	10.3%	5
AVERAGE*		0.75%		$561m	14.0%	80	7.0%	71

Source: Rainmaker Information. Data sourced as at November 30, 2019. *Numbers stated here depict averages, other than the Rank column, which is the total number of funds in the category. For any queries on these tables, please contact info@rainmaker.com.au.

These products may be recommended to you by a financial adviser.

The performance results displayed are the annualised investment returns each managed fund has delivered after taking into account taxes paid by the unit trust and investment fees.

Research was prepared by Rainmaker Information and for more information see **www.rainmaker.com.au**

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DATABANK

Top 5 Australian Equities funds by 5-year return %pa

Name	APIR code	Mngmnt fee (%pa)	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Bennelong Concentrated Aust Equities	BFL0002AU	0.85%	30/01/2009	$831m	27.8%	16	19.0%	1
Selector Australian Equities Fund	DDH0002AU	1.18%	7/12/2004	$6m	35.7%	1	17.7%	2
Fidelity Future Leaders Fund	FID0026AU	1.20%	22/07/2013	$327m	28.7%	12	17.3%	3
Macquarie Australian Shares Fund	MAQ0443AU	0.60%	28/11/2005	$124m	26.0%	33	16.8%	4
SGH Australia Plus Fund	ETL0383AU	0.70%	8/10/2013	$9m	17.8%	94	16.2%	5
AVERAGE*		0.79%		$594m	22.8%	113	10.0%	101

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	1.15%	1/06/2014	$155m	28.1%	11	20.3%	1
Fiducian Technology Fund	FPS0010AU	1.36%	1/05/2000	$113m	29.9%	7	19.2%	2
Evans and Partners International Fund	ETL0390AU	1.25%	18/02/2014	$54m	39.7%	1	17.6%	3
Franklin Global Growth Fund	FRT0009AU	1.13%	1/10/2008	$216m	28.9%	9	16.6%	4
Walter Scott Global Equity Fund	MAQ0410AU	1.28%	28/02/2005	$3,565m	27.1%	20	16.1%	5
AVERAGE*		0.93%		$721m	21.2%	127	12.2%	87

Top 5 funds by 1-year performance

Name	APIR code	Mngmnt fee (%pa)	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
Evans and Partners International Fund	ETL0390AU	1.25%	18/02/2014	$54m	39.7%	1	17.6%	4
Selector Australian Equities Fund	DDH0002AU	1.18%	7/12/2004	$6m	35.7%	2	17.7%	3
BlackRock Australian Share Fund	PWA0823AU	0.95%	31/12/1993	$85m	31.6%	3	10.5%	103
4D Global Infrastructure Fund	BFL0019AU	0.95%	7/03/2016	$44m	31.1%	4		
Zurich Unhedged Global Growth Share Fund	ZUR0581AU	0.98%	31/08/2009	$383m	30.3%	5	14.8%	21
AVERAGE*		0.83%		$643m	19.9%	316	9.9%	257

Bottom 5 funds by 1-year performance

Name	APIR code	Mngmnt fee (%pa)	Start date	Size ($m)	1-year return	1-year rank	5-year return (%pa)	5-year rank
MLC Inflation Plus - Conservative Portfolio	MLC0921AU	0.75%	1/10/2013	$277m	4.9%	316	3.6%	256
INVESCO Global Targeted Returns Fund	GTU0109AU	0.95%	28/02/2015	$1,727m	5.4%	315		
Schroder Real Return CPI Plus 3.5%	SCH0096AU	0.60%	31/05/2015	$39m	6.7%	314		
MLC Wholesale Horizon 2 Income Portfolio	MLC0670AU	0.90%	5/12/2005	$386m	6.8%	313	4.0%	254
Allan Gray Australia Stable Fund	ETL0273AU	0.25%	30/06/2011	$347m	7.5%	312	6.3%	221
AVERAGE*		0.83%		$643m	19.9%	316	9.9%	257

WHAT THEY MEAN

Performance after investment fees. Investment returns after investment fees annualised to describe each fund's returns per annum. But if your managed fund achieves a high return and charges you an extra "performance fee", Rainmaker has not taken this into account. Past performance is not an indicator of future performance.

Rank. Funds are ranked against all managed funds in each segment, not just those included in each table.

Indices and averages. Arithmetic average investment returns or average fees for all fund investment options within each category, that is, not fund size weighted.

YOUR GUIDE TO SUPER DATA

The table on this page contains data and information to help you compare superannuation funds. It showcases MySuper investment options offered by some of Australia's biggest super funds.

MySuper options are default superannuation products that employees choose or are allocated by their employers.

The performance results displayed are the annualised investment returns each MySuper option has delivered after taking account of all taxes and fees. Past performance is no indicator of future performance.

The table also lists each fund's SelectingSuper Fund Quality Rating. Funds that achieve these quality standards are designated AAA. Research was prepared by Rainmaker Information, which publishes *Money* magazine. For more info, see **www.selectingsuper.com.au**.

Top performing super funds: Top 20 MySuper – November 30, 2019

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
UniSuper – Balanced	Industry	S	18.5%	1	10.9%	1	9.3%	3	AAA
AustralianSuper – Balanced	Industry	S	15.2%	10	10.9%	2	9.4%	2	AAA
LGS Accumulation Scheme – High Growth	Industry	LC	15.3%	9	10.8%	3	9.3%	4	AAA
HOSTPLUS – Balanced	Industry	S	13.4%	30	10.5%	4	9.5%	1	AAA
Telstra Super Corporate Plus – MySuper Growth	Corporate	LC	16.2%	7	10.5%	5	8.6%	11	AAA
Qantas Super Gateway – Glidepath Take-Off	Corporate	LC	14.1%	21	10.4%	6			Not Yet Rated
BT Business Super – MySuper 1970s LifeStage Fund	Retail	LC	17.0%	3	10.3%	7	8.0%	26	Not Yet Rated
Sunsuper Super Savings – Lifecycle Balanced Pool	Industry	LC	14.0%	22	10.2%	8	8.9%	8	AAA
First State Super Employer – Growth	Industry	LC	14.3%	18	10.2%	9	8.4%	14	AAA
BT LS Employer – BT MySuper Lifestage 1970s	Retail	LC	17.0%	4	10.1%	10	7.5%	38	Not Yet Rated
Media Super – Balanced	Industry	S	13.9%	23	10.1%	11	8.6%	12	AAA
Mercy Super – MySuper Balanced	Corporate	S	14.7%	15	10.1%	12	8.8%	10	AAA
QSuper Accumulation – Lifetime Aspire 1	Government	LC	14.9%	13	10.1%	13	9.3%	5	AAA
Mercer CS – Mercer SmartPath 1974-1978	Retail	LC	16.2%	8	10.0%	14	8.0%	27	AAA
Mine Super – Aggressive	Industry	LC	16.5%	6	10.0%	15	8.3%	16	AAA
Cbus Industry Super – Growth (Cbus MySuper)	Industry	S	13.5%	27	9.9%	16	9.1%	6	AAA
Australian Ethical Super Employer – Balanced (accumulation)	Retail	S	16.7%	5	9.8%	17	8.2%	22	Not Yet Rated
Vision Super Saver – Balanced Growth	Industry	S	13.1%	34	9.7%	18	8.3%	19	AAA
StatewideSuper – MySuper	Industry	S	12.5%	41	9.7%	19	9.0%	7	AAA
HESTA – Core Pool	Industry	S	13.1%	36	9.6%	20	8.3%	18	AAA
SelectingSuper MySuper/Default Option Index			13.7%		9.2%		7.8%		

Rankings are made on returns to multiple decimal points.

SelectingSuper Benchmark Indices – Workplace Super

INDEX NAME	Performance to November 30, 2019		
	1 year	3 years (%pa)	5 years (%pa)
SelectingSuper Australian Equities	23%	11%	9%
SelectingSuper International Equities	18%	12%	9%
SelectingSuper Property	15%	10%	9%
SelectingSuper Australian Fixed Interest	8%	4%	3%
SelectingSuper International Fixed Interest	7%	3%	3%
SelectingSuper Cash	1%	1%	1%

Source: www.selectingsuper.com.au and Rainmaker Information

DATABANK

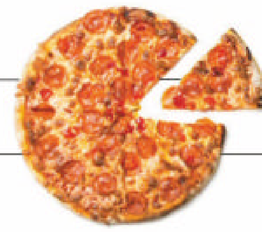
WHAT THEY MEAN

Performance after fees: When calculating fees, Rainmaker assumes a member has $50,000 in their account.

Strategy: Some MySuper products invest your superannuation based on age and are known as lifecycle funds (marked LC). The table includes the LC option for 40-year-old members. Non lifecycle funds are known as single strategy (S).

Rank: Funds are ranked against all MySuper investment options available in Australia.

Indices and averages: To produce these indices, Rainmaker analyses the results of more than 3300 investment options.



"My career as a dishwasher lasted only one shift. I was yelled at by the head chef – quite a lot"

What was your first job?

I washed dishes at a small pizza restaurant in the Melbourne suburb of Carlton. My biggest memory of that time was being yelled at by the head chef – quite a lot. Needless to say, my career as a dishwasher lasted only one shift. Plus, it really wasn't worth the 10 bucks per hour.

What's the best money advice you've ever received?

If you had all the money in the world, and money was not your absolute motivator, what work would you want to do? Whatever you answer is the career you should ultimately pursue.

What's the best investment decision you've made?

I have opened up a completely separate savings account, which I don't touch, for all my income that isn't generated from stand-up comedy – so, money I earn from my acting and radio jobs, for instance. That way I make sure to only live off the money I earn from my stand-up gigs, while the rest just sits there in that separate account – out of sight and out of mind to do who knows what with in the future.

What's the worst investment decision you've made?

Well, I have to say it's probably having set up that separate bank account. I'm sure those savings could be doing so much better, if they were deposited into almost any other financial device and earning a better return!

What is your favourite thing to splurge on?

It's all about FOOD! I have to say that one of my favourite things to splurge on is eating out at nice restaurants – I love good food. In fact, I can honestly say that I really don't remember the last time I cooked something myself, it would have to have been at least two years ago.

If you had $10,000 where would you invest it?

My brother used to work for a hedge fund, so I'd be giving it to him – surely he'd know what to do with it. If it was left to me, I'd be chucking it into one of those low-interest savings accounts … again.

Dilruk Jayasinha

Dilruk is a stand-up comedian and actor. He moved from Sri Lanka to Australia to study accounting and worked for one of the Big Four firms before ditching spreadsheets for the comedy stage. Dilruk won the Graham Kennedy Award for Most Popular New Talent at the 2018 Logie Awards for his work on ABC's *Utopia*. He co-hosts the podcast *Fitbet* with comedian Ben Lomas. After appearing on *I'm a Celebrity, Get Me Out of Here*, Dilruk will tour his new stand-up show *Victorious Lion*.

What would you do if you had only $50 left in your bank account?

Ooooh! Interesting question. I've been a good mate to a quite few people who have found themselves in some tricky financial situations. I'm hoping that I'd be able to bail them up and finally collect on a few loans that haven't been paid back yet, and which I haven't been too pushy about. And I'd probably look into selling my expensive candle collection. I hear there's a big market for half-used scented candles, right?

Do you intend to leave an inheritance?

Look, I don't have kids of my own but I recently became an uncle. I'm thinking I should leave something to my niece whom I adore. But she's only eight weeks old and at the moment all she really does is poop and cry – so not sure if she deserves any of my hard earnings just yet. Let's just wait and see.

What's one of life's luxuries you couldn't live without?

It would have to be a warm and comfortable bed. I'll be spending a massive chunk of the first half of the year on tour, so making sure that I'm sleeping on a comfortable bed at the end of a hectic tour schedule is very important to me and definitely one of my luxuries.

Finish this sentence: Money makes …

My meals way more exciting!

Three Cs to help grow your super...

1. Check

Have you checked your annual statement? Make sure your employer contributions are correct, then check your performance, fees and insurance, so you can compare them with other options.

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2. Contribute

If you want to voluntarily contribute, simply ask you payroll team or manager and they can help you get started. With the magic of compound interest, a $25 a week contribution will add $100,000 to your retirement balance.

3. Consolidate

If you have two super accounts, you are paying twice as much in fees. If you are eady to consolidat your funds, simply login to the account you wish to maintain and search for a “consolidate” option.

2. Source: Rainmaker Superannuation Savings Model. The model is assumed for a member in an average fund (based on performance) and from age 40 additional contributions of $25 are made each week.

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