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MARCUS PADLEY: DEBT ISN'T A DIRTY WORD

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[1]Source: APRA Annual MySuper Statistics June 2020, issued 16 December 2020. Top 10 MySuper options (public offer) based on total assets under management. Administration fees comparison using APRA Quarterly MySuper Statistics September 2020 (Issued 24 November 2020) based on a super account balance of $50,000.
[2]Source: SuperRatings Fund Crediting Rate Survey – SR50 Balanced (60-76) Index as at 31 March 2021. Past performance is not a reliable indicator of future performance and should never be the sole factor considered when selecting a superannuation fund.
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PAGE 48

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EDITOR'S DESK

By the numbers

$250,000 IS CLOSE to the magic number if you want to know how much you need to save through super as a single homeowner while still being eligible for the age pension.

When we last ran a similar cover story two years ago, some readers were aghast at the idea of anyone wanting to have the best of both worlds. Surely with so many people struggling to make ends meet, anyone with a hefty nest egg shouldn't try to game the system and get additional government assistance in their old age.

But I think this misses the point that unless we have a national discussion about superannuation and its impact on our social system, more people would be spending decades at work only to walk into their retirement worse off because they hadn't thought about how their super balance can affect the rest of their finances. At least when the time comes and you've stopped working full-time, your retirement lifestyle choices can be yours, not the result of inaction or insufficient information.

Read about the different case studies in Susan Hely's cover story (page 33).

We've got a mix of articles this month, ranging from a checklist of what you can claim as a tax deduction due to the pandemic, how to cover your kids' orthodontic expenses and – one to read with a pot of tea – how to invest for income.

And if you need a dose of inspiration, Kate Morris's journey as the founder of an ASX-listed company (page 20) will show you that success is just as much about stepping back at the right time and letting the talented people around you hold the reins. That's leadership at its best.

Michelle

Michelle Baltazar, Editor-in-chief

Feedback

Letter of the month

How we play mind games with our money

I've really enjoyed Phil Slade's contribution to *Money* over the years in his Mind Games column. Having studied psychology myself, I'm able to get a sense of how many of our decisions around money are often not so much about money at all.

One of the more enduring theories in psychology is that of self-determination theory, first introduced in the 1980s. One its central tenets is that people are going to be strongly and intrinsically motivated to make decisions that reinforce three key psychological needs: autonomy, competence and relatedness (or connection). Who doesn't want to feel self-determined and in control, skilled and competent, and connected to other people?

It's not hard, then, to see how money becomes a vehicle to drive the fulfilment of these needs, often with scant regard to the potential financial damage such decisions may produce. For example, as a young man I might want a new 4WD to feel good, be in with my mates, and be able to go places ... so I'll get whatever finance I can to make it happen, not realising I'm paying through the nose for a fast-depreciating asset and possibly hamstringing my financial health for years to come.

Sometimes these motivating principles work the other way and drive us into choices that are inherently positive, particularly if the people that influence us tend to make positive choices already.

Ultimately, money doesn't really make us happy and choices involving money are more often not black and white as to whether they are "good" or not. But there are definitely implications for the money choices we make.

Having a healthy understanding of the "mind games" and good financial knowledge seems be the sweet spot. Each of us can try to find the point of balance and encourage others to do the same.

Derek

Supermarkets' big night out hits the spot

All good writers know you have between 10 and 20 seconds to hook your readers' attention. James Carlisle's article, "Party takes a sober turn" (Intelligent Investor, April), did exactly that.

His article featured the interim results for the two big supermarkets – that subject is enough to probably send me to sleep normally. But the way he introduced the feature, well, had me hooked in a way many can relate to: a big night out. "After the party, the hangover. But it was Woolies, rather than Coles that remembered to drink a glass of water before bedtime."

I've been an avid subscriber to *Money* for eight years. What a refreshing change to have an article written in such an engaging and informative manner. In fact, I hadn't considered the big two supermarkets' interim growth previously ... zzzzzz ... sorry ... but thanks to James, I will in the future.

Rob

Early retirement not for everyone

I read with interest your feature on retiring early and financing your freedom (April), and the article on sharing love, not savings.

If you are aged 40 or less and retired without a job and obviously living better than on the dole, you will strike social problems. Others may think you are dealing drugs or in some form of crime. When they discover you are well off, they will try and put deals to you. People will steal from you and hound you for money. It is hard to keep from others that you are in fact well off.

I am 65 and financially independent. I have children trying to belt me up for money and they can be extremely threatening. Others relentlessly try and take advantage of me. Life is made a complete misery.

John

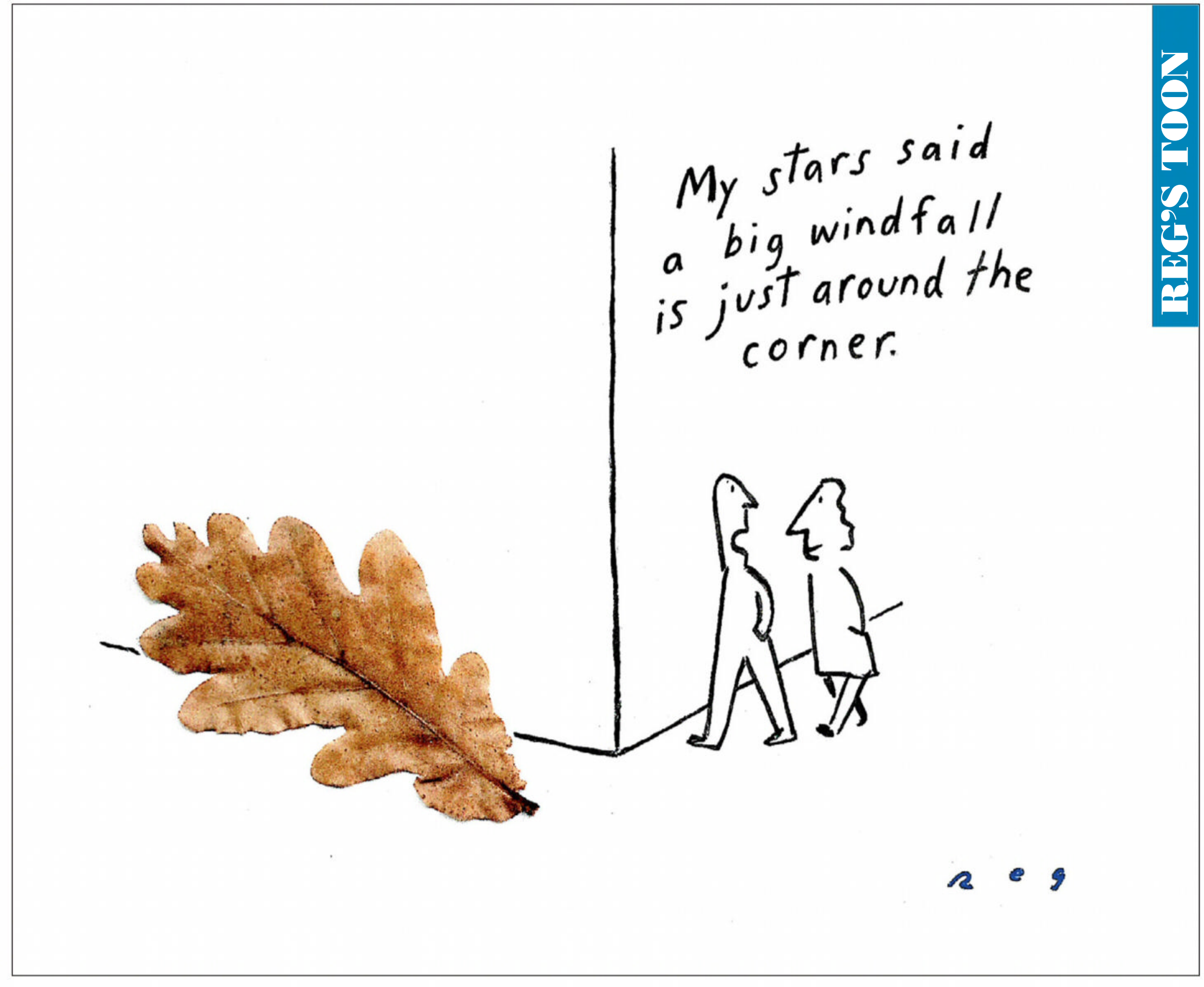
Prize worth winning

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

REG'S TOON



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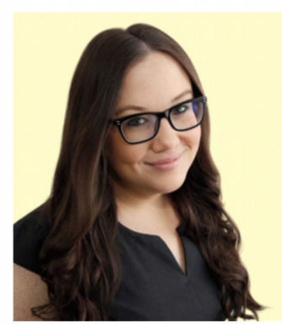


SHARYN McCOWEN

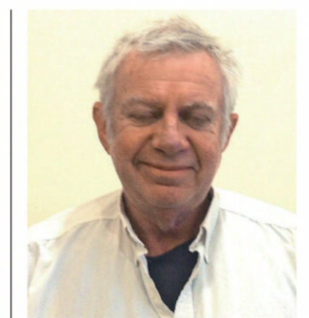
This year I'm on a mission to donate plasma every two weeks. One in three Aussies will need blood products in their lifetime, but only one in 30 of us donates each year, so I'm trying to move the needle (pardon the pun). It's a rewarding way to support strangers in need, plus there's free chocolate milk. And I'm encouraging the rest of the *Money* team to get involved, so please remind them to roll up their sleeves.

BOB CHRISTENSEN

Charities have been having a tough time because of the pandemic, so I'm increasing my contributions to the random ones I support. In normal years I renew my friendship with the neighbourhood dogs and their owners through Red Cross Calling, but this year it's a virtual appeal instead, so it will be a quick and largely canine-free letterbox drop. Better luck next year.

ANN LOVEDAY

The Koala Hospital at Port Macquarie gets my financial support. They provide specialised medical care for rescued, orphaned and injured koalas and also manage the regeneration of fire devastated habitat. For just $40 a year I've adopted my sweet koala friend, Zenani. She's a contented permanent resident at the hospital due to her lengthy rehabilitation and delicate health. I look forward to visiting her next time I head north.



REG LYNCH

For nearly four decades (Strewth! How did that happen?) I've thought up and drawn all kinds of things for newspapers and mags and books. Throughout my life I've been lucky enough to have a brain like Velcro, which has collected so many of the beautiful odds and ends that make up us. For me, it's good to share them back by way of an absurd cartoon or an honest conversation.

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Introducing ATEM Mini Pro

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

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

Create Training and Educational Videos

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

Use Professional Video Effects

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

Live Stream Training and Conferences

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

Monitor all Video Inputs!

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

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Run your own retirement race

How comfortable your future life will be depends on the calculations you do now

When I read an article recently by journalist Karren Vergara (on Moneymag.com.au) on her super balance of $154,000, it got me thinking. With just over 25 years to retirement, she can't possibly reach the $1 million mark that so many of us are convinced we'll need in our super before we can retire.

But perhaps she doesn't need to. According to AMP, the average super balance for men aged 40-44 is $134,992 and for women it's $98,572. By the time they reach 50-54, it's $242,007 and $159,188 respectively.

Now, Karren's figure of $154,000 is certainly an outlier for a woman aged under 40. And in 10 years this total would likely be around $286,000 (with 6% returns and current contribution levels) whereas the average for a woman in the 50-year age group is only $242,000. So the effort Karren has made to keep her super topped up certainly shows it is likely to pay off.

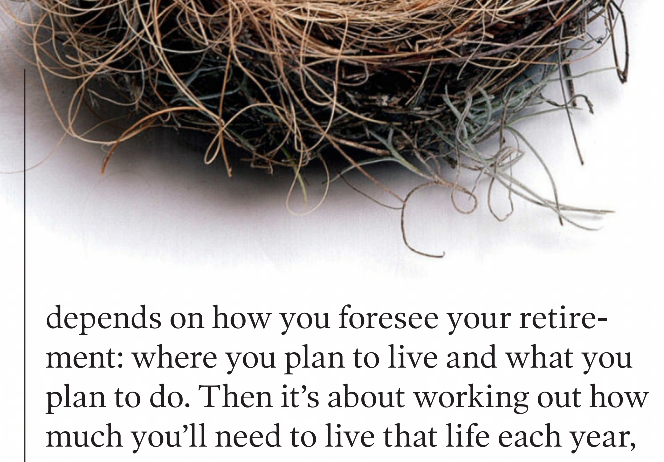
The Association of Super Funds of Australia (ASFA) calculates that the super needed for a comfortable retirement is $44,224 a year for a single person and $62,562 for a couple.

To generate that annual income, you would need about $737,000 in super (assuming a 6%pa return).

Our cover story this month (page 33) tells us that for a homeowning single person $253,000 is the "sweet spot" – the super amount needed to retire on to claim the full age pension. This would provide an annual income of $37,000. For a couple, the figure is $386,500.

Karren is certainly well on the way to reaching this amount. She can retire comfortably and her super will last until her 90s, according to ASFA calculations, and it will, in today's environment, be supplemented by the age pension in time.

How much money we think is enough to retire on is a very personal thing – it depends on how you foresee your retirement: where you plan to live and what you plan to do. Then it's about working out how much you'll need to live that life each year, and whether you'll have savings or other income to supplement your super.



The position you're in when you retire – whether you own your own home outright or whether you will reach retirement age (and retirement) in debt – will also impact the amount you'll need in super.

Perhaps your calculations will indicate that to sustain the lifestyle you desire you may have to work for longer.

ASFA estimates that the amount you will need in retirement is around 67% of your pre-retirement income.

If you plan to retire before you can access your super, your financial situation will be quite different. Last month's cover story on the FIRE community revealed the magic number they needed for retirement was 25 times their annual expenses.

If, however, you're not planning to retire early, this is not an easy calculation as annual expenses will continue to change over the years leading up to retirement.

I've done the back-of-an-envelope calculations on this, and my annual expenses are a little eye-watering. It's made me realise there needs to be greater correlation between what I'm putting into my retirement savings and what I expect to be taking out when I retire.

Calculating essentials – home maintenance, utilities, car expenses, food, healthcare, entertainment, travel – is a good start. Then perhaps a little extra for a new car in the future, new home furnishings/whitegoods and even renovations.

Research shows that people will typically spend in line with their peers – for example, owning a house in the same neighbourhood. Those with the grander plans, however, are usually outliers from the norm.

Knowing your income and outgoings is key to any successful financial plan – and having an idea of the outcome you are working towards helps keep you focused. Regularly updating your calculations is also important in ensuring you are on track.

Australia's FIRE community has grown in the past couple of years, and one of the reasons is that the community was built on the sharing of information and tips through the blogs of various members. The ability to check in with one another has helped build the community and gain greater acceptance, helping to inspire others outside the FIRE community to adopt some of its money-saving strategies. These might include saving between 50%-70% of your income, buying homes that can be paid off within a few years, and discovering the joy of inexpensive activities.

Retirement is not simply about squirrelling away all your income for a rainy day or to live off in later years. Instead it's about cleverly balancing your present needs with a smattering of rainy days and your plans for the future, when you may no longer want to work full time.

Julia Newbould is Money*'s managing editor.*

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THE BUZZ

Keep cool in a hot market

Property has been dominating investment conversations. While prices have risen in many places, the market is especially hot (some say too hot) in the capital cities and Byron Bay, the new Hollywood favourite, .

According to CoreLogic, capital city average dwelling prices rose 1.8% in April, which means they are 5.4% above their September 2017 record high. Darwin was the strongest performer at 2.7%, followed by Sydney at 2.4% and Adelaide at 2%. Darwin has yet to fully recover from its 33% fall between 2014 and 2020, and Perth is similarly recovering from its 22% drop over the same period – it managed only a 0.8% lift in April.

The four smallest capitals recorded double-digit annual growth: Adelaide (10.3%), Hobart (13.8%), Darwin (15.3%) and Canberra (14.2%). Melbourne, at only 2.2%, is still to reach double digits.

While house prices have soared, the unit rental market in Sydney and Melbourne has been weak. There has been some improvement since the pandemic moratoriums were lifted in recent months but the price of units is still lagging.

Shane Oliver, AMP Capital chief economist, says housing finance commitments remain at record highs, suggesting there is more demand to come. Auction clearance rates in Sydney and Melbourne remain high and at levels consistent with strong home price growth.

"While first home buyers led the initial recovery, spurred on by various incentives, housing finance data suggests that first home buyer demand may now have peaked but that investors are now jumping in to take over and that demand from owner-occupiers generally remains strong," says Oliver. "The fundamentals of still ultra-low mortgage rates, ongoing government incentive, economic recovery, the strong jobs market and an element of FOMO (buying now for fear of missing out) point to further home price increases ahead."

However, CoreLogic research director Tim Lawless says there is already evidence of fewer first-time buyers in the market, with the Bureau of Statistics reporting a 4% fall in the value of first-home buyer home loans in February, the first drop since May last year.

Meanwhile, Michelle May, principal of Michelle May Buyers Agents, says FOMO is the biggest enemy of buyers in this market as it can easily lead to many years of regret. Her tips are: don't panic; stick to your list of must-haves; don't believe the hype; wait rather than over-commit; pay attention to what's going on in the world and buy within your means; do your own research; and get a second opinion, ideally from someone who isn't emotionally involved. JULIA NEWBOULD

◆ **For more information, see Let's drink to rates**

ON MY MIND

Simpler, fairer tax deduction

Australians spend $2.3 billion annually on their tax affairs. And we have one of the highest rates of tax agent use globally. At Blueprint Institute, a think tank, we recently called for a $3000 standard deduction to simplify most taxpayers' affairs. Under our proposal, people with deductions higher than $3000 could opt out, claiming their full itemised deduction. But 11 million people would be better off, receiving an average tax cut of $400-$1000. This would eliminate $4 billion in compliance costs and seven to nine million tax returns.

No taxpayer would lose out. But low- and middle-income earners would benefit proportionally more. Men and women would benefit fairly equally, with women better off at higher income levels.

The standard deduction also improves "horizontal equity" – the idea that two people in similar circumstances should pay similar tax.

Our work-related deductions system is complex and vague, while the standard deduction would reduce inequity and inefficiency. Taxpayers with higher expenses won't benefit as much as those with lower deductions, but for people claiming less than $3000 that difference is minimal. It's a price worth paying for lower, simpler and fairer taxes.
Katelyn Lamont, researcher, Blueprint Institute

CALENDAR OF EVENTS

Tuesday, June 1
RBA interest rate decision

Friday, June 4
Balance of trade

Monday, June 7
ANZ job advertisements

Wednesday, June 9
Westpac consumer confidence index

NAB business confidence

Friday, June 18
Unemployment rate

NEWS BITES

Schroders has rolled out a new actively managed fund that will invest in China A-Shares, companies listed in China and Hong Kong and US-listed ADRs. The Schroder All China Equity Opportunities Fund is pitched as a fundamental, bottom-up fund that aims to outperform the MSCI China All Shares Index after fees over the medium to long term.

Super funds are coming up short on advice, according to a report, The Future of Global Retirement, by the UK fintech Smart. It found that while 50% of Australians expect to receive retirement advice from their fund, only 16% of those who received advice found it useful.

The federal government will provide $1.2 billion to support the digital transformation of the economy and measures to encourage business investment in technology. Announced ahead of the budget, the strategy earmarked $111.3 million to accelerate the rollout of the Consumer Data Right in banking, energy and telecoms while $50 million will be put towards enhancing cybersecurity in government, data centres and future telecoms networks.

Farmland proves its value

New data from Rural Bank provides detailed insights into the true monetary value of Australia's farmland. Its Australian Farmland Values report reveals that for the first time in 15 years, all states saw growth in median price per hectare, demonstrating the resilience of values despite adverse events in recent years.

Tasmania led the way with 25.3% growth in 2020, followed by WA at 19.3%, NSW at 15.6%, Queensland at 11.8%, SA at 10.9% and Victoria at 6.9%. These extraordinary increases occurred despite a 14.5% rise in transaction volumes.

Australian farmland delivered an average compound annual growth rate of 7.6% over the past 20 years and the latest report has raised questions about how aspiring young farmers will enter the market.

Rural Bank wants to encourage the best and brightest talent to work in the sector. One way Rural Bank is doing this is by supporting groups like Cultivate Farms, a social enterprise that matches the next generation of aspiring farmers with retiring farmers and investors to own and operate a farm together.

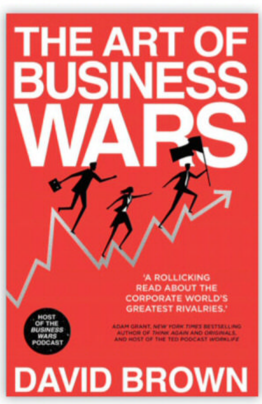
Alexandra Gartmann, CEO, Rural Bank

32%

of first-timers rely on the "bank of mum and dad", according to a survey of 1028 first home buyers by the comparison site Finder. That translates to 3779 Aussie "kidults". The bank of mum and dad is now Australia's ninth largest mortgage "lender", lending or giving $29 billion in the past 12 months.

NEWS & VIEWS

BOOK OF THE MONTH



THE ART OF BUSINESS WARS

By David Brown
John Murray Press, RRP $32.99

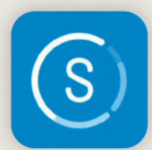
Using the seminal strategies of Sun Tzu's *The Art of War*, US journalist David Brown examines why some companies triumph while others fail. Based on his popular *Business Wars* podcast, this book explores the greatest business rivalries such as Blockbuster vs Netflix, Gibson vs Fender, iPhone vs BlackBerry and H&M vs Zara. Other brands put under the spotlight are Helena Rubinstein, Kellogg's Corn Flakes and Adidas. The ultimate goal is always to stay ahead of the competition and emerge victorious. Whether you're a creative freelancer or a CEO, the insights should prove invaluable.

JULIA NEWBOULD

Five readers can win a copy.
In 25 words or less, tell us why you would be interested in reading *The Art of Business Wars*. Enter at moneymag.com.au/win or at Money, Level 7, 55 Clarence Street, Sydney, 2000. Entries open on May 24, 2021 and close on June 30, 2021.

APP OF THE MONTH

APP OF THE MONTH
SUPERHERO
COST: FREE
OS: IOS and Android



Entering the market and offering free brokerage charges for ETF purchases, Superhero is a cheap alternative to most online broking platforms. Other trades are priced at $5.

Regular features cover advanced order placements, real-time market data, comprehensive reporting on realised and unrealised gains, income, tax and performance reporting.

The Superhero universe takes in 2500 shares and ETFs, including Australian and global property through real estate investment trusts (REITs) and listed investment companies (LICs).

At this stage, there is no ability to link an existing bank account to your Superhero trading account. Trades can only be made through available funds deposited in your Superhero wallet.

There is no minimum amount to maintain your account, but you will need a minimum of $100 in your trading account before placing an order.

JULIA NEWBOULD

TAX TIP

Contractors need to disclose all income

If you're engaged as a contractor in the building and construction sector, road freight, information technology, cleaning services, security, investigation or surveillance services, you need to take extra care to disclose your income. In all these industries, entities that pay contractors have to lodge a taxable payments annual report (TPAR) with the ATO to identify their contractors and how much they were paid.

The TPAR enables the ATO to identify those contractors who have not included all their income on their tax return; not lodged tax returns or activity statements; not registered for GST if required to do so; or quoted the wrong ABN on their invoices.

The last report, covering 2019-20, was due on August 28, 2020. If you received income in that year, you should have disclosed it in full in your tax return and BAS. If you either under-declared your receipts or didn't declare them at all, expect a "please explain" letter from the ATO.

To avoid that, you should ensure you lodge tax returns and activity statements by the due date; include all income in the tax return; quote the correct ABN on invoices; consider making a voluntary disclosure if a mistake was made on a previous tax return (penalties may be reduced); keep records of all income received and payments made; and check that all other tax obligations have been met.

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

SNAPSHOT Inflation fails to take off

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MY MONEY

MORE MONEY STORIES ON P44-53

MARKETING

Dollarmites bites the dust

The Queensland government has banned Commonwealth Bank's school banking Dollarmites program, prompting consumer groups to call for a nationwide ban.

Grace Grace, the Queensland education minister, said children are growing up in a world where money can literally be at their fingertips and they learn how to manage their money in school.

"It's a different digital world now to when school banking began more than 50 years ago."

The move follows an ASIC report last year that stated "young children are vulnerable consumers and are exposed to sophisticated advertising and marketing tactics by school banking program providers. School banking program providers fail to effectively disclose that a strategic objective of these programs is customer acquisition."

The Consumer advocacy group Choice has welcomed the move but has gone a step further in calling for a blanket ban on the program.

"It's time to get Dollarmites out of all schools across Australia. Dollarmites is a corporate marketing exercise disguised as financial education," says Choice banking expert Patrick Veyret.

"There's no place for multibillion-dollar financial corporations, especially those with a rap sheet as long as Commonwealth Bank, in our schools. It's heartening to see Victoria, the ACT and now Queensland act on banning predatory school bank marketing. It's time for Dollarmites to call it a day and the rest of the country to act."

Switch to digital banking increases risk

Aussies are turning away from bank branches to do their banking online, a shift driven by the Covid-19 pandemic, according to global fraud technology specialist GBG and data intelligence firm RFi Group.

They found that 88% of consumers can't see themselves going back to using a branch, while 40% indicated that during the pandemic they completed digitally a banking task that they otherwise would have done at a branch.

"It's clear that, unlike going back to a favourite restaurant or visiting a local cinema, Australians aren't looking forward to returning to physical bank branches," says Carol Chris, regional general manager, Australia, at GBG.

"The pandemic gave Australians an opportunity to explore how financial services could be accessed more conveniently through digital and mobile products, and consumers are now demanding financial institutions find ways to make these products the new norm, in even more efficient, easy-to-use and frictionless ways."

Yet the move to digital banking is not without risk. "While digital-first approaches allow financial institutions to more deeply engage with customers and streamline their product delivery, a digital-first consumer is exposed to more identity fraud and financial crime threats than ever before," says Alex Boorman, managing director of

consulting at RFi. "Financial institutions will continue to be challenged by the need to simultaneously keep customers protected, sustain digital trust and deliver frictionless customer

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PROPERTY

HOUSE PRICES

Dangers in the buying frenzy

Astronomical house price growth has been one of the ironies of the Covid-19 pandemic, but many experts say the trend is likely to slow.

While national dwelling values have increased on average by 6.2% over the past year, according to Corelogic, 47% of experts surveyed by the online comparison site Finder believe the growth is unsustainable.

"Rock-bottom rates, government stimulus and a fear of missing out have really lit a fire under the belly of the market," says Graham Cooke, head of consumer research at Finder.

"Listing numbers are unable to meet high buyer demand, keeping inventory levels low overall and adding to the sense of urgency among buyers.

"We've seen more borrowed for housing over the last six months than during any similar period in history – and economists have tipped us to borrow more over the next six. However, the view from our panel is that this fast-paced growth will not continue indefinitely."

According to Mala Raghavan, an economics lecturer at the University of Tasmania, buyers may have gotten ahead of themselves by joining the buying frenzy.

"The recent uptick in buying behaviour largely appears to be due to the fear of missing out, and many buyers are rushing into the market without clear foresight of the impending risks," she says.

"When mortgage rates start rising, many households will risk being unable to service their loans and could be vulnerable to foreclosures."

▶ MORE PROPERTY STORIES ON P54-63

REITs seen as a hedge against inflation

There may be an alternative asset class to gold and commodities as inflation shows signs of picking up – real estate investment trusts (REITs). According to Resolution Capital's chief investment officer, Andrew Parsons, there's plenty of evidence to demonstrate that REITs are not highly correlated to rising interest rates and bond yields. "It's a simple catchphrase that the market focuses on without actually looking at the history of returns."

He says that understanding the true effects of rising rates requires looking deeper into what's driving the economy and real estate fundamentals.

"A classic example of that was in 2020 where we had falling bonds and falling interest rates and yet REIT prices actually fell. So, to us it's a common error for people to focus on the simple thought that rising interest rates are bad for REITs – the historic evidence does not show that whatsoever."

Inflationary environments are characterised by rising building costs, which could provide a tailwind for REITs. Indeed, costs have been rising over the past 12 to 18 months, says Parsons.

"That's been a consequence of a number of factors, including the Covid disruptions, the problems with Vale iron ore mines in Brazil, a recovery in new housing starts in the US, plus the extraordinary government infrastructure plans that have been announced."

These higher input costs lead to higher rents, the key driver of REIT returns. "Developers are facing the prospect of higher building costs and as a consequence they will need higher rents to justify making that investment in new buildings."

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INVESTING

▶MORE INVESTING STORIES ON P64-72

DIVERSIFICATION

ETFs provide a home for $100bn

Australia's exchange traded fund industry has surged past the $100 billion mark, 20 years after the first ETF was launched here. According to the latest figures released by the Australian Securities Exchange (ASX) and Vanguard, Australia had $102 billion invested in ETFs at the end of March 2021.

"The Australian ETF industry has come a long way since the first ETF was listed in August 2001," says Minh Tieu, Vanguard's head of capital markets for Asia-Pacific. "We've seen impressive market growth over the last few years in particular, evidenced by the industry surpassing $100 billion in assets across the now 220 and growing ETFs listed on the ASX, when just 10 years ago we had only 50."

He says investor confidence has greatly improved since this time last year when markets were first rocked by the pandemic.

"While domestic equity, niche and leveraged ETFs were favoured in the first half of 2020 as investors sought to navigate market volatility, a year on we are seeing better diversification across both asset classes and ETF types, with a notable increase in flows to international equity and actively managed ETFs."

Vanguard's actively managed ETFs had $44.5 million injected into them during the first quarter, more than double the previous quarter, while its international equity ETFs had inflows of $660.6 million.

WHERE THE MONEY IS GOING

Asset class, Australian ETFs	Q1 2021 net cash flow ($m)	Q4 2020 net cash flow ($m)
Global equity	2174	3264
Australian equity	1092	2001
Australian fixed income	298	772
Commodity	-0.8	84
Global fixed income	312	391
Cash	-101	76
Multi asset	316	242
Infrastructure	77	123
Australian property	138	146
Global property	27	40.5
Currency	-5.5	-58.5

Source: ASX, Vanguard

Millions set to fall short on super

Research from Industry Super Australia estimates that millions of low- and middle-income families will not have enough money for retirement unless the federal government raises the superannuation guarantee.

If the rate is frozen at the present 9.5%, about half of all middle-income families will not reach the benchmark of a retirement income that is 65% of what they earnt while working.

"It's time the government re-commits to lifting the super rate to 12% [from July 1, 2025] – no ifs, no buts and no maybes," says Industry Super chief executive Bernie Dean.

"If the government cuts super, millions will not have enough for retirement and will have to drastically change their lifestyle. For some people it could mean choosing between a night out or keeping the heater on, and for others it might mean selling their house just to keep going."

The research also found that of the 6.1 million workers due to receive the scheduled SG increase to 10% on July 1, most will be women – 3.2 million. About 63% of those who will get the increase earn less than $70,000 and more people in their 20s will get the increase than any other age bracket.

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SHARES

▶MORE SHARES STORIES ON P74-89

TRENDS

Value is back in fashion

The winds of economic change are blowing in favour of value stocks, according to a research paper, titled The Drought Breaks: A Broad-Based Value Rebound, from Realindex.

Globally, value stocks returned an average 10.3% in the first quarter of 2021, while growth stocks returned a measly 1.6% during the same period.

"The drought has broken for global value investors," says the paper's author, David Walsh.

However, he says the recent data falls short of changing the long-term trend of dominance by growth shares. "Despite the recent rebound in value, the spread is still large and the most expensive names are still very expensive in historical terms.

"It remains to be seen whether we're at the start of a long reversal of fortune for the value style. However, if we see the runaway performance of growth as an unsustainable trend that has run its course, then we are more likely to see the value rebound as a trend that is here to stay."

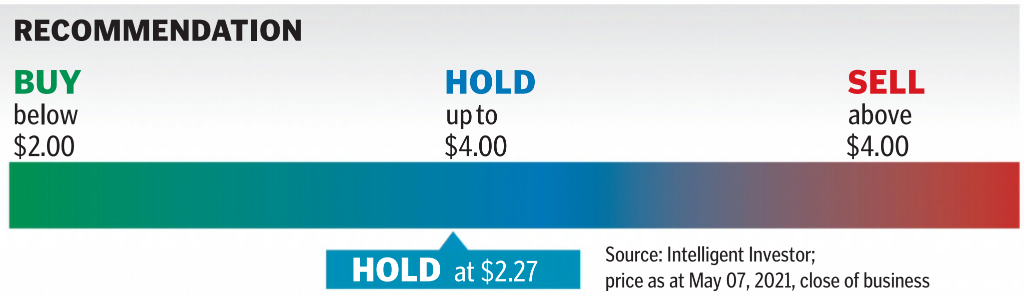
Still, the paper concludes that the signs are good for a continued value revival. "There is a lot of room for value stock prices to catch up. Inflation and interest rates may be ticking up, which normally creates positive conditions for value stocks.

"And finally, it appears that the 'smart money' is on value, with the analyst community looking more favourably on them. We think the signs are good for value investors."

◆ **For more on value investing, see page 74.**

HOLD Vista Group (VGL)

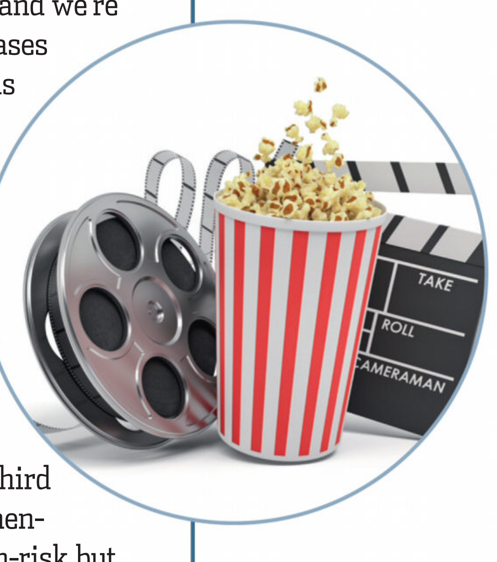
The Intelligent Investor Mickey Mordech



Cinemas have been crushed by the pandemic while studios are withholding blockbuster content and releasing direct-to-the-consumer for the first time. The big question is whether studios, having experimented with home releases, will return to the cinema along with their traditional audiences.

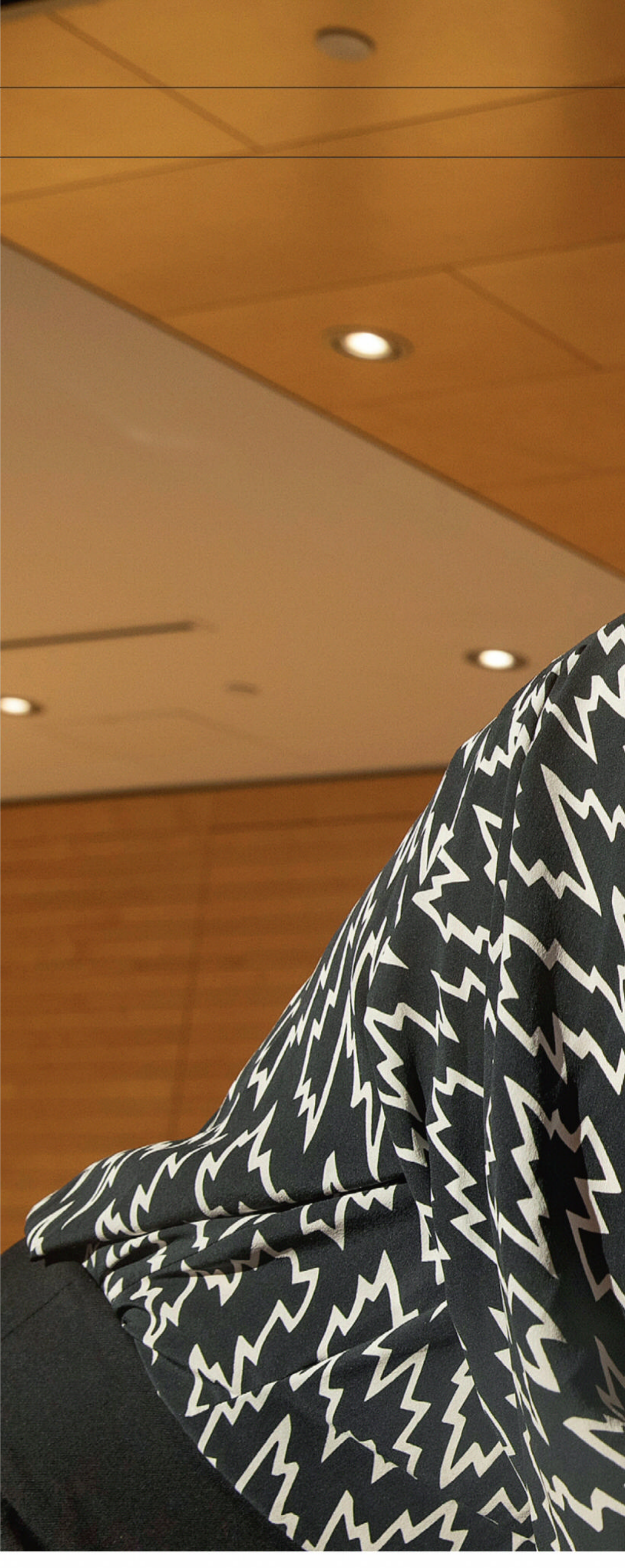
We suspect they will, which is why we recommended Vista as a speculative buy at $1.88 in March. The company's flagship software products, Vista Cinema and Movio, solve crucial problems for studios and cinemas – everything from movie scheduling to running mobile apps and keeping the food and beverage counter stocked up.

Moviegoers are now beginning to seep back into theatres and we're hopeful that as major releases are unleashed and cinemas recover Vista can return to break-even before the end of the year. Having used this period to invest heavily in its own product, Vista should emerge from the pandemic more dominant than ever. Still, even with the share price up over a third since our original recommendation, this remains a high-risk but interesting play.



MICKEY MORDECH IS AN ANALYST AT INTELLIGENT INVESTOR AND SHAREHOLDER IN VISTA.

COMPILED BY DAVID THORNTON



STORY ALAN DEANS

Fun job in the beauty business

Fact file

Kate Morris

Online beauty products entrepreneur and co-founder of Adore Beauty; age 43; lives in Melbourne with her family

Started work as soon as she was old enough, after her parents imposed a $12-a-week pocket money cap. First job was in a pharmacy in her home town, Launceston. "I went there every day after school, cleaned the lunch room, cleaned the toilets, vacuumed the shop and took the mail to the post office." Initially wanted to be a lawyer, but changed her mind after the first few lectures. Believes money should be a big part of the school curriculum. High priority is spending time with her children.

Kate Morris says she's having the time of her life since stepping down two years ago as co-CEO of the fast-growing online cosmetics business Adore Beauty. "I feel that I have the funnest job in the whole business. My role now is chief of innovation. That puts me back in start-up land," she says. Morris, of course, will always be Adore's co-founder. But, really, her first love is creating things.

Along with fellow Adore founder and business and life partner James Height, she handed over control of the company before its recent listing on the Australian Securities Exchange. She has since reinvented herself by refocusing on how the business develops in the years ahead.

"What does the next horizon of growth look like for Adore Beauty?" she asks.

MICHELE MOSSOP

Back in start-up land ... Morris, the joint founder and former CEO, says she now works in "the inventing room, doing the fun stuff".

"What are the completely new areas where we might want to develop the capability or business models that make sense for us in five years' time? My life is in the inventing room, doing the fun stuff. One of the things I learned over the years is that if you bring in the right people with the right values and right experience at the right time, then the value it creates is exponential."

It took a couple of years to find Tennealle O'Shannessy, who is the new CEO. She had been Seek's managing director in the Americas, one of the job search company's fastest growing markets. "We are glad we waited," Morris says.

Founders are renowned for not always being able to let go. Business guru Noam Wasserman has studied them, revealing his findings in a *Harvard Business Review* article. Successful CEO-cum-founders, apparently, are a pretty rare breed. "Four out of five entrepreneurs, my research shows, are forced to step down ...," Wasserman concluded. "Most are shocked when investors insist that they relinquish control." He added that it can be particularly damaging when employees loyal to the founder oppose the change. All the better, therefore, that Adore's changes were well planned and smoothly handled.

The two founders agreed that their joint leadership was slowing down the business, confusing lines of responsibility and creating difficulties within the company, says Morris. They realised that their skill sets were not perfectly suited to managing the future scale of the company.

"We're start-up people," she says. "We're builders. The problems that we could foresee were issues like how certain departments should be structured, how we optimise communication flows. Neither of us have experience in those areas.

"We see an incredible opportunity in our core business because of the ongoing structural shifts towards online retail. That has been happening more quickly in the last five years, and at an extreme pace in the last 12 months. Australia is a good six years behind the US or the UK, and even further if you look at South Korea and China. In the UK now, for instance, their online penetration for non-grocery retail is sitting at around 40%. In Australia, prior to Covid, it was about 7%-8%. Covid lifted that. We can see that from the way our new customers behave on our platforms, and we have plans to take advantage of it.

"There are sacrifices that I made, but I don't have regrets about any of it"

We have just launched a loyalty program, which we see as a structured way to improve our customer lifetime value. They will be extremely sticky, over time.

"We're also starting to roll out a private label strategy. There will be a skincare brand launching later this year and a haircare brand early next year. In the longer term, we are going to have a comprehensive business model that will be unique. In the mid- to longer-term there will be international expansion."

Adore has not simply developed a transaction platform where buyers click on bargains and brands. It segments its offerings to highlight popular product lines or to promote areas that are becoming hot. For instance, there is what it calls a Scent Room that allows shoppers to try before buying. How so? Well, a miniature matching sample is mailed with each order, allowing shoppers to try the scent before opening their purchase. If they don't like it, they simply send it back postage paid. There are also gift, wellness and "beauty IQ" sections on the website. They provide plenty of product information, which encourages people to linger and refine their shopping choices.

Podcasts have been another new driver of business. One, called Beauty IQ Uncensored, leads in the fashion and beauty sector in Australia and is gaining traction in Europe, says Morris. It ranks number 11 in the UK and four in Hungary. "The content we are creating, combined with our unique brand flavour and rich category experience, is really coming through. The branded product range is limited, but new offers will launch towards the end of this year."

Morris describes the Adore approach to its business as being human. "In the end, what is a business if it's not people? That is what has enabled us to grow so quickly without the company falling apart. As we grow, it helps to amplify those core values. We push ourselves and we challenge ourselves. Also, it's OK to fail sometimes.

"Thinking about the governance requirements of now being an ASX-listed company, we have a culture that openly admits mistakes and commits to doing the right thing by our customers and each other, including our suppliers. People said we would have to change our values. But that is the last thing we would do. It's the core of what makes us who we are and why we have been successful."

What advice does she have for others considering an ASX listing?

"It's not something to be taken lightly. I take it extremely seriously. We have people's superannuation money invested in our business, and that's a big deal for me. It's a big responsibility. It's not something that can be taken on the spur of the moment, or a on a whim. The governance requirements are not insignificant. But it brings a lot of opportunity as well. Everybody can see the growth achieved at Adore in its first 20 years with no money and no resources. Now, we're in a position where that doesn't have to be the case. That is immensely exciting."

Morris credits her parents for much of her success. "They gave me an extraordinary start to life, and not in the traditional, entrepreneurial family way. They gave me a strong base. It was their unconditional love and acceptance, and that I could follow my passion and do the things in life that excited me without it ever being a problem. There was never any judgement about what I wanted to do with my life."

Any regrets? "There are things I gave up to get here. I didn't travel the world like

Human touch ... "In the end, what is a business if it's not people?" says Morris.

a lot of my friends did because I started the business when I was 21. There are sacrifices that I made, but I don't have regrets about any of it."

Money wasn't discussed in her home. "I try to do more of that with my kids, because I think it's really important. Financial education should be a much larger part of school curricula. It was a really interesting part of our initial public offering process that so many women contacted me to say they wanted to buy shares, but they didn't know how to. Obviously, financial education is missing," she says.

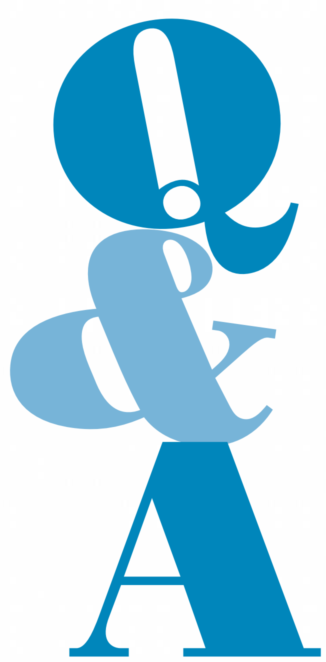
"It has been really useful for me to work with a financial planner. As an entrepreneur, you have all of your eggs in one basket because you put all of your time and hard work into building a business. But we all know that is a high-risk thing to do from a financial perspective. It helps to have a planner working on plan B so, if there is a liquidity event for the business, then I know to put enough into superannuation, that I'm saving for my kids' education and for retirement. It's a type of reverse planning. It starts with when you would like to retire, and what your life needs to look like at that point. You work backwards from there."

How about the issue of work-life balance.

"That's a question I get asked a lot. It's a question my partner never gets asked. What are the assumptions when we ask women entrepreneurs that question and not men?

"All aspects of my work are important. My kids are very important to me, and I love them. Having time to myself is important, too. I want to be able to go to Pilates or have a facial. That is what success is. Having a life where you get to do enough of the things you love."

MICHELE MOSSOP



Geoff may have only five years to live and would like some advice on ...

What to do with $460k in cash

Q My wife and I are 79 and 84 respectively. I have only five years left, according to medical advice. We have recently downsized to an apartment and sold our home of 50-plus years.

We both have a more than adequate superannuation income (she takes only half of the original amount) leaving us with a surplus each month.

Assets include a share portfolio of $600,000 (mainly banks) and income greater than $23,000pa. We have had our shares for 40-plus years and seen a few ups and downs.

The problem is what to do with $460,000 now in a bank. The possibilities are to invest in:

- **Exchange traded funds (ETFs), such as Vanguard (VAS) or Betashares A200 (directly).**
- **Argo or AFIC.**
- **Invest through a vehicle such as Stockspot or InvestSMART.**

Of course, the ASX might suffer a major downturn during the next four to five years. However, our children (and my wife) do not have to sell at a loss. They could wait for the market to rebound. I am assuming that they have the wit to hold these assets as sources of income (I hope I am right in assuming that shares, etc, are not subject to the capital gains tax until sold).

What are your thoughts?

Firstly, Geoff, I am really sorry to hear about your medical advice. Hopefully medical advances will see your time extended.

As a long-term investor, you've seen it all. You know as well as I do that good returns come from sensible assets held over the long term. I burst out laughing at your comment that you expect your family to have the wits to hold these assets in market downturns and enjoy the income over time. My suspicion is they have learnt from you and I am sure they will do this!

Frankly, you have provided a list of really sensible ideas and one I cannot add much value to. Sure, we could have a fun debate about some private equity or a focus on particular investment themes, but investing via low-cost ETFs or a listed investment company like Argo or AFIC makes complete sense to me. I am chair of InvestSMART, so I'll leave that alone, but I can say that whether it's InvestSMART or a similar company, holding a mix of ETFs in a single portfolio is a sound concept.

I do like the idea of you diversifying from a mainly bank portfolio – any of your suggestions will do this.

Thanks for getting in touch. I really enjoying hearing from people who have done well with long-term investments. Best wishes to you and your family.

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 editions of *Money*.

Emily is feeling overwhelmed by her various shareholdings, so an ...

Index fund would solve paperwork problem

Q I'm single and nearly 26. I have $70,000 in savings, $14,000 in a mix of ETFs and single stocks, and $30,000 in super. I'd like to buy a house but being a casual worker I don't see it happening anytime soon.

Over the next few years, I am thinking of putting my money into super under the first home super saver scheme (FHSS). I am reluctant to buy more ETFs because I am starting to find the paperwork overwhelming. I have bought small parcels of shares and set up dividend reinvestment plans (DRPs) for most of them. I worry about keeping track of all the different prices I paid for the shares, and the thought of selling any of them seems like a nightmare. Any advice?

Goodness, you are a very financially together nearly-26-year-old, Emily! I'd love to know where your skill with saving and investment came from. I have to admit that at 26, thanks to my parents, I had good knowledge of money and no debt, but my cash seemed to get recycled with my friends at the pub and social outings!

I'm also very impressed you know about the FHSS. As you know, you can pop your own money in, up to $15,000 a year to a maximum of $30,000. This has to be above the normal 9.5% (at present) of employer contributions. You could top up by salary sacrifice and only pay 15% tax on these contributions or pop your own money in.

So, yes, I support this idea. Get the $30,000 in, let it work for you and access it when you buy a home, plus of course your investment earnings. I am sure your small parcels of shares have done well but created much paperwork and different CGT dates due to dividend reinvestment. Add your ETFs and I am sure you have a nice pile of paperwork.

Maybe a diversified index fund run by someone like Vanguard is a way to minimise paperwork. You could sell your shares or ETFs that are close to cost price and simply use a low-cost indexed global fund. The challenge here, though, is to find a single diversified fund you can use, with only one lot of paperwork.

I am chair of InvestSMART, so I am clearly biased, but one of its free services may be of use to you. InvestSMART offers a free portfolio manager for existing investments. You might want to take a look. If you load your investments into that you'll get a consolidated online report whenever you want it.

There are similar services available from other providers.

Amanda would like her P&C's money to earn more than 0.5%, but it's ...

Better safe than sorry

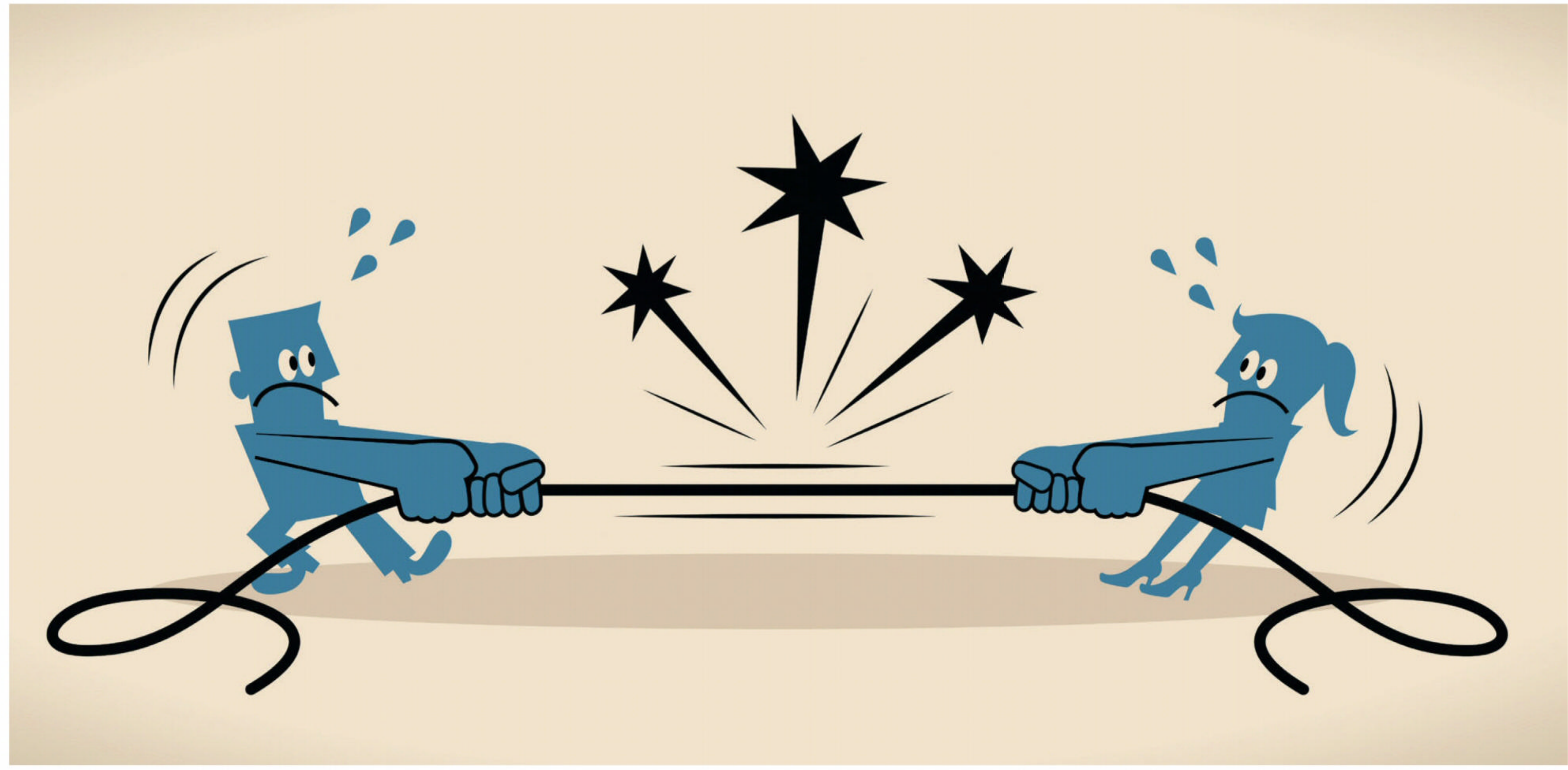
Q Our school parents and citizens group has raised $43,000 and we have it locked in a term deposit at 0.5%. Is this a good idea or are savings accounts offering better interest rates at the moment? Are there better investments we should look into?

While you and many of your fellow parents are probably rejoicing at the incredibly low mortgage rates, Amanda, the problem is the other side of the coin. I was not sure whether to laugh or cry when, at interest rates of between 18.75% and a low of 6%, we finally paid off our mortgage and we now find rates dropping to historic lows, seeing us with no mortgage to enjoy low rates and earning next to nothing on our cash.

This is the challenge of our times. Very cheap money has meant booming house prices, which makes it so hard for people to get into the market. But it also greatly impacts investors.

For your P&C, and all investors, the only way you can earn more is to take more risk. The only sensible way to manage risk is time. Many of us can take a five- to seven-year view, or longer, and hold quality assets like shares. But I suspect your P&C needs access to funds.

So, sadly, in my view you are restricted to low-return, safe investments. If you were okay with a medium-term view, say three years, you could consider an income-type fund, but again even that will be subject to some risk.



Though they have $564k in super, plus three properties, and have inherited $500k, Luisa says her ...

Husband is stressed about debt

Q My husband has turned 50 this year and I will be 50 in a few months. We have recently inherited around $500,000. With this we have paid out our mortgage and some credit cards. We don't seem to see eye-to-eye on what to do with the balance of the money, as he is now panicking that we have no money to retire on. He has around $300,000 in super and I have around $264,000.

We have three investment properties, one of which we are in the process of selling, as there has been no capital growth but the income on it has been steady. It has also been a great tax deduction over the years. He thinks the debt on the investment properties should have been paid out a long time ago and can't see why we should keep that debt.

I have to say I am getting lost in what to do with the balance of the funds. We also have around $20,000 each in shares. Do I concentrate on paying off the debts or split the funds between super and savings?

Your thoughts would be appreciated. I just can't see the forest for the trees at the moment.

For any couple, maintaining harmony over financial issues is not easy. The trick, of course, is compromise. Hopefully selling one investment property is the start of that. Obviously your debt levels will immediately drop and your cash levels will go up.

Let's move back from the trees and look at the forest, which I must say is in great shape. After the sale of the property, you will have two investment properties, which I assume are going okay. Thanks to the inheritance you are mortgage free, you have no credit card debt and you have a combined $564,000 in superannuation and $40,000 in shares. Things look very good to me.

Even better, you are only 50, so I suspect you will have at least another decade to add to your wealth. Firstly, top up your super via salary sacrifice to the maximum $25,000 each ($27,500 from July 1). This is just wealth-creation magic. You no longer have mortgage repayments, so you can do this. You only pay 15% tax on the contributions, so it is not that painful as it comes out of your pre-tax income.

Then you can debate the wisdom of paying down debt on the two remaining investment properties. I hope your mortgage is in the high 2% to mid 3% range. Hopefully your husband sees that this is not a big impost and hopefully it is covered by the rent. If you chose to put your savings towards reducing this debt, then that is fine. But do remember that by paying off a 3% mortgage you are earning 3% on your money. History shows super earns a much higher rate than this, plus there's the 15% tax rate on your contributions. History does indicate that investing money in super and then using that to pay off your mortgages is likely to give you a better result in a decade or so.

Luisa, there are no guarantees in life, and I do turn to logic when it comes to money. But relationships and happiness are far more important. So, if the "super versus pay off loans" issue was adding stress to my relationship, I'd agree to pay down the loans. Paying off debt costing you around 3% is probably not the very best decision, but it is still a good one!

The critical factor here is that you save consistently for the rest of your working life. Compound returns and time will be the solution to a comfortable retirement.

◆ **See our cover story, "The Sweet Spot: Why you only need $253k in super to retire", page 33.**

Graham is tempted by the promise of a 20% return, but it sounds …

Far too good to be true

Q I recently received an email from Income2Wealth, which stated that it gave a 20% annual return (at the time of writing), paid monthly, if you put $30,000 into its NIVA/SCC managed fund with registered security of capital. Have you heard of this company and is 20% realistic? I am tempted.

Warning, warning! Graham, we are both well aware that with our official interest rate set at 0.1%, the "risk-free rate of return" is about that. Next to nothing.

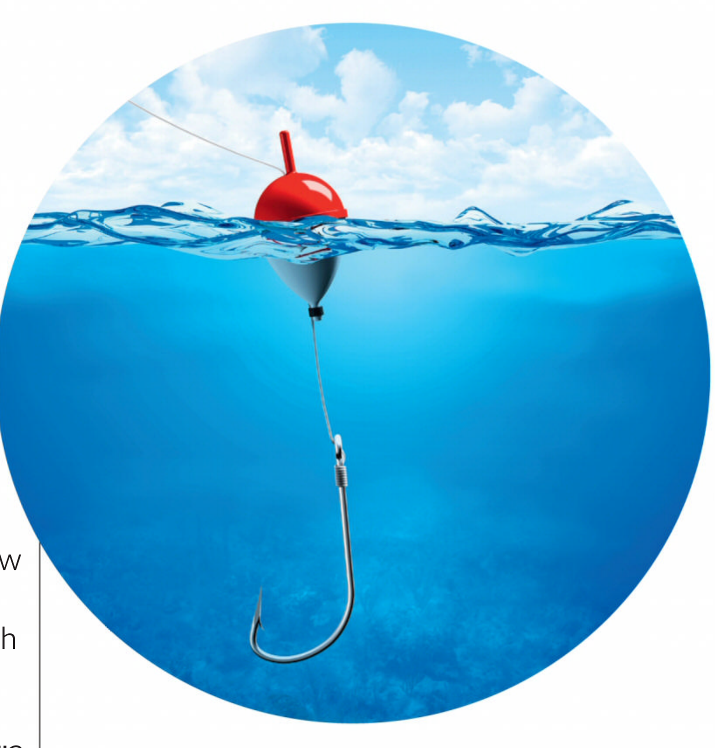
So, any return above that will come with more risk. I have no idea what Income2Wealth is, but a 20% return with "registered security of capital" sounds like absolute nonsense. Let's think about it. Based on your comment about "registered security", it is using words that indicate your capital is safe and secure, yet you get 20%pa. This is about 19.9% more than a bank, where your capital is indeed safe and secure.

The question you need to ask is exactly how will they generate such a high return each year. Maybe you should look at Mayfair, which was recently offering far less than that and investors have seemingly lost their money. Also, exactly what is the "registered security"? A government guarantee? Or a bank guarantee? We both know that will not be the case.

I would love you to earn 20% with security. But I don't know how you can.

Even by taking the obvious risks in the sharemarket and allowing for a hold of 20 years or so, long-term market returns, including dividends, have been in the 8% to 9% range. What also makes no sense about 20%pa is that your money would double in as little as 3½ years. So, if you started with $100,000, in seven years you would have about $400,000 and in 21 years $6.4 million.

Sound too good to be true to you?



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SMART SPENDING

Destination Noosa, Queensland

If you want to escape the cold weather, head to Queensland's Sunshine Coast and enjoy the walks, food and shopping that Noosa has on offer

Surf and sand ... clockwise, from above, Noosa River; perfect waves break along the coast; spoil your taste buds at the many restaurants and bars; Hells Gates in Noosa National Park.

Five things to do

1. Walk: Noosa National Park – Hells Gates
There are several ways to start this walk. One way is to continue along the track from Noosa Main Beach into Noosa National Park. It's roughly a 5km loop on moderate terrain with beautiful views of the coast and stretches of beach along the way. Once you reach Hells Gates you will be met with sweeping views of the cliffs and neighbouring beaches.

2. Indulge: Hastings Street
Arguably the most famous shopping and dining strip on the Sunshine Coast, Hastings Street is lined with high-end boutiques, restaurants, bars and hotels. When you're shopped out, just head across the road to the beachside Bistro C and enjoy a cocktail overlooking Main Beach.

3. Eat: Noosa Junction
Just up the hill from Hastings Street, Noosa Junction is filled with contemporary restaurants, bars and boutiques. The first port of call is Asian bar and diner Light Years. Order a cocktail from the extensive selection and indulge in share plates like miso caramel eggplant and panko-crumbed fish bao buns.

4. Shop: Eumundi Markets
The famous Eumundi Markets are held every Wednesday and Saturday morning. You will find more than 600 stalls offering a range of wares from gourmet food and fresh produce to clothing and jewellery. There's live music, too. The best way to get to the markets is by car. Free parking is scarce but other parking is available for a small fee. Tip: The markets tend to get busy early on in the day so plan to be there first thing.

5. Drive: Noosa Shire
If you have access to a car, head further down the coast and check out the surrounding beaches – Sunshine, Sunrise and Peregian. This area has more of a laid-back atmosphere and there are plenty of cafes and boutiques to enjoy. ANNABELLE DICKSON

DRIVING PASSION

How to test drive a second-hand car

Before anything else, check that you will be covered by the owner's insurance if you should crash during the test drive. Ask the owner whether they expect you to cough up for all repairs or just the excess.

After that's settled, take a dispassionate look at the vehicle. Do you like its looks? Is it the right size for you and the family?

If you're still committed, take a seat behind the wheel. Are you comfortable? If not, can you adjust the seat and mirrors?

Fiddle with the indicators, wipers and headlights. Crank up the stereo and check the satellite navigation, smartphone connectivity and reversing camera display. Try the climate control on different settings.

Imagine loading shopping, bikes or strollers and picking up the kids or elderly passengers. Check there is enough room in the back seat.

Ride quality: Select a route based on the sort of driving you will do regularly. Drive on winding roads, city streets, hills and over potholes.

Power: Test the power in real-world situations: highway merging, passing and sudden acceleration in city driving. Air-conditioners put a serious drain on small engines so repeat all the tests with the AC on.

Transmission: If driving a manual, look for smooth gearshift and clutch action. Do both feel precise and easy to use, or vague and notchy? If testing a 4WD, engage and disengage 4WD to test how easy it is to operate. If testing an automatic, are the upshifts and downshifts smooth? Does it downshift at appropriate times?

Handling: Where safe, feel how the car reacts to changes in direction? Does it feel stable and controllable? Do you feel you could avoid an accident if you had to? How heavy is the steering? Does the steering feel precise with no excessive motion?

Braking: Really use the brakes. Make sure they slow you in a straight, controlled manner. Brake softly, then aggressively to test the car's reaction to sudden braking input. Remember to warn passengers beforehand and check for other cars around you.

Noise: Listen for excessive engine, interior, tyre and wind noise with the windows up and down. If the car is equipped with a sunroof, open it and listen. Do this at normal speeds as well as under full throttle.

Parking: Parallel park to check for blind spots or difficulty in identifying the corners of the car. Assess whether the steering is light enough at low speeds for parking.

CARSALES.COM.AU

EXTRAVAGANCE

Gold rush

For those who take their mobile phone *very* seriously, there's a 24K gold iPhone 12 Pro Max. Sure to be a talking point when you're out and about, the phone comes with a certificate of authenticity and you can pay for it in Bitcoin.

How much: From $17,327.81
Where from: goldgenie.com

WINE SPOTLIGHT

2018 De Bortoli 'Wizardry' Grenache Heathcote $23

Every now and again a wine stops you in your tracks. This did. Two thoughts. How good is this! What a bargain! Steve Webber and the team have crafted a red that is attractive, fresh and vibrant. It's medium-bodied with fleshy texture, juicy mulberry, redcurrant and blackberry flavours with a smooth finish.

SPLURGE

2015 Brand & Sons 'Sanctuary' Cabernet Sauvignon $130

Fourth-generation vigneron Sam Brand continues his family tradition of making quality Coonawarra reds with the first release of a diverse portfolio of what the region does best, mostly at modest prices. This is their flagship cabernet, age-worthy yet ready to drink at six years. It has restrained aromatics yet wonderful fleshy texture that floods the palate with bright raspberry, redcurrant flavours; richly concentrated and powerful with a beguiling softness.

PETER FORRESTAL

SMART SPENDING

SMART TECH

Games that will never end

It's difficult to understate just how much streaming and subscription services have changed the way we consume entertainment today. Spotify, for example, only launched in Australia in 2012, and Netflix didn't arrive here until 2015.

Many of us have jumped on the bandwagon, discarding our old CD and DVD collections. These services aren't always perfect, but they provide instantaneous access to a veritable smorgasbord of viewing and listening options that are only a click away.

Increasingly, gaming platforms have started to adopt the same kind of content model, and while the nature and breadth of the catalogues vary a bit depending on your particular device or console, they're all pretty compelling when you realise you'll never run out of things to play.

Of course, if you're not an avid gamer, an all-you-can-play monthly package might seem like overkill, but even if you only spend a few hours a week playing – whether at home on the couch or commuting to work – these subscriptions end up representing pretty good value for money.

PETER DOCKRILL

What is it? Nintendo Switch Online
How much? $5.95 monthly, $29.95 annually
Pros: Nintendo Switch Online may be the most lightweight of all the gaming services around, but for less than $30 a year it's still a no-brainer for Switch owners. In addition to unlocking online play and offering cloud save support for game data, the service bundles dozens of classic Nintendo and Super Nintendo games.
Cons: We should really have access to Nintendo 64 (and later) content by now... but Nintendo is taking things slow.
nintendo.com.au

What is it? Apple Arcade
How much? $7.99 a month
Pros: We've covered Apple Arcade before, but the service keeps expanding (with 180-plus games now), and since so many of us are iPhone users, it's something worth keeping an eye on. In addition to a huge range of exclusive games for iPhone/Mac/Apple TV users, Apple Arcade has introduced a new collection of revamped hit App Store titles and classic games (Chess, Sudoku, etc).
Cons: Inessential perhaps but a nifty boredom killer.
apple.com/au

What is it? Xbox Game Pass
How much? From $10.95 a month
Pros: Sony might sell more PlayStations, but Microsoft's Xbox Game Pass has become the best bang for buck in terms of gaming subscriptions. On your Xbox (or PC), you get instant access to over 100 games, many of them top-tier and critically acclaimed titles. Optional access to EA Play and free Games with Gold costs more, depending on platform.
Cons: Like all such services, the games are only playable while your subscription remains active.
xbox.com

GIVE IT UP

parkrun

What is it? Parkrun is a global phenomenon that brings together everyone from elite runners to parents with prams, to run, jog or walk 5km through a local park each Saturday morning. After launching in Australia at Main Beach on the Gold Coast in April 2011, it has now expanded to 398 events across every state, including prisons and defence bases. About 50,000 people take part each week. A 2019 survey found almost 70% of doctors prescribe parkrun to patients to improve their physical fitness, mental wellbeing, social connectivity, exposure to nature and self-confidence.
Where your money goes: One of the best things about parkrun is that it's free for participants, but you can donate to help new events get under way or to purchase equipment. For instance, every parkrun must be equipped with a defibrillator, at a cost of more than $1600. In Australia, just 9% of people who sustain sudden cardiac arrest survive, but defibrillation within three minutes of collapse can increase the chances of survival to more than 70%.
How to donate: Visit asf.org.au/communities/parkrun/defibs-4-parkrun-australia to make a one-off or ongoing tax-deductible donation.

JULIA NEWBOULD

SOCIAL CAPITAL

Social Capital (SoCap) is a Chrome browser extension that places a tip button below every YouTube video. Users load an account with credits to tip their favourite stand-up comedian or muso. You pay a credit card fee, and SoCap takes 5%, far less than other online patronage platforms that take up to 25% in fees, so more goes to the artist you're supporting.

SHARYN McCOWEN

I live in fear of ending up homeless

How do low-income-earning single mothers with health issues get their foot in the door buying property?

I'm a single mum of two awesome children. I have a series of health issues that have impacted my employment opportunities for a while now.

One of my biggest fears is not being able to own my own house. I have a few small businesses I'm trying to build, as it allows me to pace my skills around my health.

I'm a celebrant, stand-up comedian, a storyteller and an actor.

I have a decent deposit– at least 10% - for a home, but I'm unable to get approved for a mortgage.

I took on a casual job, which is now in limbo due to a back injury.

When I chatted with a mortgage broker, he said I'd have to wait six months before a bank will look at an application for a home loan.

My biggest fear is being homeless in 20 years, as this seems to be a common issue for single mothers.

Nicole

Nicole's skills include stand-up comedy and acting.

Nicole, your situation is one that many Australians are struggling with. You have built a solid home deposit, which is really important. It is not just the amount you have, it also shows your capacity to save and manage your money.

But this, as you say, is not the issue stopping you getting into the housing market – it is access to a mortgage. In particular after the financial royal commission, lenders are taking a very close look at both parts of the housing equation: firstly, the very important deposit and secondly, the ongoing income to not only meet the interest repayments but also principal repayments over several decades.

Here I think your mortgage broker is right. Lenders will want to see a steady income stream from your business before they are likely to lend to you. This is frustrating, in particular as at the moment mortgage interest rates are at record lows. But I also hate it when we see rises in interest rates, or people losing their jobs and hence their homes. The other problem, of course, is that with the record low interest rates, I am seeing loans as low as 1.99% at the moment but housing prices in many parts of Australia are rocketing ahead.

Lenders acting responsibly is really important. Things go wrong for all of us at times, but seeing forced mortgagee sales is something we could all do without and I am concerned that if a 90% loan was available to you it might put you under enormous pressure if the business you are building to give you flexibility around your health ran into problems. I really would hate to see you lose that deposit.

So now I think is the time to plan and continue on your pathway to building your career as a celebrant, stand-up comedian, storyteller and actor. Pretty obviously, it is also about getting over your back injury, which must be compounding your health issues.

> **Paul's verdict: Big positives are your attitude and time frame**
>
> **Continue building your career and save on a regular basis**

Your health comes first and I appreciate you may have ongoing issues. The big positive is your time frame. You mention not wanting to be homeless in 20 years, which means you are of an age where you can see a long future ahead of you, and that is invaluable with money. Small amounts put aside on a regular basis, when you can, are the key for you.

Clearly, you have an entrepreneurial spirit and a talent for communicating with people. Money issues I can deal with and I am quite happy talking about them to people in person or in the media. A stand-up comedy routine, though, would terrify me!

Health allowing, it would be great if you could build up your sources of income from your communication skills. I also wonder if these skills would give you access to part-time or casual work that fitted in with your health. Good communication skills are not easy to find.

So far this is all about you, your health, your business and ability to be a single mum with your two kids, all the while trying to build savings and an income history that will satisfy our lenders. Where government could greatly help is with low-cost housing. I appreciate strong efforts are being made here, but we absolutely need more. This would be a real solution for many low-income families.

I am hoping that your back injury recovers with reasonable speed and your other health issues allow you to focus on building your business. I would encourage you to look for opportunities in the communications field that are less stressful for your health. If possible, a permanent part-time job in this area would greatly assist with your loan application.

I would also stay in touch with your mortgage broker. Government incentives for first home buyers, low-income earners and other disadvantaged groups seem to be regularly announced.

This is not an easy time for you. But you have many years ahead of you. As your kids grow, you are likely to get more time to focus on your areas of expertise and your health.

With many years in front of you, the attitude you have and the very good deposit you have built, I do feel that home ownership, while not a short-term goal, is very realistic in the medium to longer term.

Ask your question

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

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THE SWEET SPOT

WHY YOU ONLY NEED $253k IN SUPER TO RETIRE

How to combine savings and the age pension to maximise your retirement income

STORY SUSAN HELY

There is a winning number that pre-retirees and retirees need to know. We call it "the sweet spot" – the point where superannuation combines with the full age pension.

The sweet spot has been harder to hit since the federal government tightened the assets test taper rate in January 2017.

Combining the age pension with super is harder for homeowning couples with super, plus other assets, above $401,500, which is the cut-off point for the full pension. With this amount in assets, their pension shrinks until it cuts out at $880,500. But the catch is this: their income from super isn't high enough to compensate for the loss of the pension.

They're not necessarily wealthy. Many middle-income earners, who have been diligently building up their savings through their working lives, are shocked to find out that their super is a drag on their retirement income because of the assets means test.

In fact, people with less in super who qualify for a full age pension can do better.

For example, a homeowning couple with super of more than $401,500 will be worse off in terms of income than a couple with $386,500 who qualify for the full age pension of $37,341. The couple with the higher balance lose $3 a fortnight in the age pension for every $1000 above the assets threshold. That is $78 a year or 7.8% of their incremental assets. In the current interest-rate environment, their savings can't earn nearly enough to offset that penalty.

A single homeowner with $253,000 in super, plus a few other assets, qualifies for a full age pension of about $24,700 a year. Under the assets test, the cut-off for a part pension is $585,750. So if a single person has saved, for example, $750,000 in super, they miss out on the age pension and have to live off the income generated by their savings.

In the analysis for our cover story, we assume our case studies have only a modest $15,000 in other assets, such as a car. The numbers would be different in other situations. Also, there are different assets thresholds for non-homeowners.

For non-homeowners, the sweet spot would be $467,500 for singles and for a couple it would be $601,000.

Increasingly middle-income earners are caught in what Andrew Boal, chief executive at Rice Warner and chair of the Actuaries Institute's retirement strategy group, describes as the taper trap.

"With the taper rate at $78, the retirees [a couple] could be as much as $40,000 [income] worse off. In other words, the more they save, the worse off they are," says Boal.

The sweet spot has come into sharp focus in the past year, especially because of low investment returns. In fact, some pre-retirees have decided it is better to spend some of their super and to rely on the certainty of the age pension instead.

CASE STUDIES: How it works

Couples

A 66-year-old couple, Stephen and Anna, who own their home, have $386,500 in super plus home contents and car worth $15,000, taking their total assets to $401,500. They just qualify for the full age pension.

Their income from the age pension ($37,341pa) combines with a $19,325 drawdown from their super's account-based pension. This assumes they draw down their super at the normal minimum rate of 5%. Their total retirement income is $56,666 a year.

This compares with Peter and Jill, who have super of, say, $1.13 million in an account-based pension. Peter and Jill do not qualify for the age pension because their assets are too high. They will have a similar income of $56,500 based on a 5% drawdown of their account-based pension.

So, Stephen and Anna, with $386,500 in super, will have the same income as Peter and Jill, who have saved almost three times as much.

The super sweet spot at age 66 for a homeowning couple with modest other assets is $386,500.

COMPARE THE PAIR

SINGLE HOMEOWNER AT 66			
Savings in an account-based pension	Age pension	Income from account-based pension	Total
$253,000	$24,768*	$12,650	$37,418
$745,000	$0	$37,250	$37,250
HOMEOWNING COUPLE AT 66			
$386,500	$37,341	$19,325	$56,666
$1,130,000	$0	$56,500	$56,500

* Single pension is impacted marginally by income test via the deeming rates.

Singles

In the case of a single homeowner, Phoebe, the sweet spot is $253,000. We'll assume she has home contents and car worth $15,000, keeping her total assets below the threshold.

With this level of savings Phoebe qualifies for a single age pension of $24,768 and, combined with an account-based super pension of $12,650, she will have an income of $37,418.

On the other hand, Johnno, who has $745,000 in superannuation, does not receive any age pension because of the assets test. He will earn slightly less than Phoebe from his account-based pension – $37,250 based on a drawdown of 5% of his balance.

As these examples show, after you have moved above the sweet spot your chances of receiving government assistance fall away sharply and you have to rely more heavily on your own savings, which is increasingly difficult while cash rates are so low.

"Party people" try to make the cut

The federal government's idea behind the harsher assets test taper rate introduced in 2017 was to push Australians to be more self-sufficient and use their own resources in retirement. It wants retirees to draw down their capital – and increasingly tap into the equity in the family home – rather than leave an inheritance.

But the "taper trap" has encouraged some retirees to spend their savings quickly and live on the age pension alone, says Rice Warner's Andrew Boal.

This has the unintended consequences of not only distorting how people save but also how they spend their savings, says Peter Humble, independent financial planner at Rise Wealth.

He has some clients who are divesting themselves of assessable assets. "There are some interesting spending choices – people go hard and have a bit of a party to spend some of their capital."

The government's move to restrict age pension entitlement is encouraging people to pursue a full pension instead of a part pension.

They are converting their nest egg's assessable assets, which could earn income, into non-assessable assets such as home improvements, according to Matthew Linden, deputy chief executive of Industry Super Australia.

In this real example, Les sells his home and buys a bigger one so he can qualify for the age pension.

A widower, he is retiring with $470,000 in his super. His adult children live in Queensland, so Les decides to sell his house in Victoria and move north. He wants to receive the full age pension. "I have worked hard and paid tax all my life."

He is aware of the effects of the taper rate. "I'm no worse off on the age pension from a cash flow point of view," he says.

The real estate agent tells Les he will get $500,000 for his house. Les decides to upgrade it and put more, around $670,000 in total, towards a place on the Sunshine Coast. This way he will have around $270,000 left (after moving and conveyancing costs) and will qualify for the full age pension.

Regular income without risk

If you receive the age pension, you are guaranteed an income. Also, it is indexed to the consumer price index, so it increases over time.

Humble says the couples pension rate of $37,341pa (including the pension supplement and energy supplement) is attractive for its risk-free nature. He says a self-funded retiree would need millions of dollars to invest in assets such as cash and term deposits to get a risk-free $37,000.

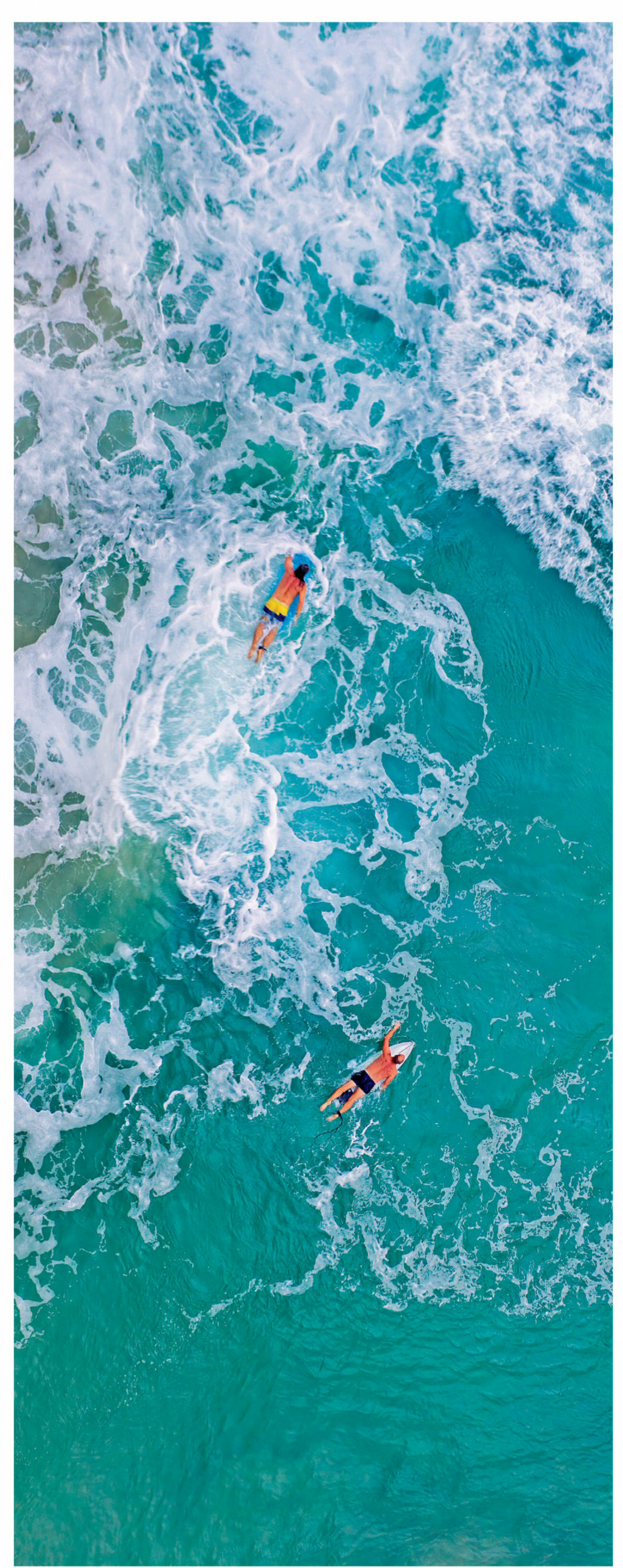
Instead, self-funded retirees take on more risk to get a reasonable rate of return and typically roll over their superannuation into an account-based pension that is invested in local and overseas shares, property, fixed interest, cash and some alternative assets.

But this isn't the approach for everyone.

"Some people will eat into their capital rather than take risks with their money," says Humble.

Retirees must draw down a minimum from their account-based pension, set at 5% from 2021-22 for people aged 65 to 74. That minimum increases beyond 74.

Some retirees undervalue assets such as their car and caravan to access the age pension, but financial planner Mark McShane, at Minchin Moore, says there are cases where the government checks up and he recommends always using true valuations.



So, how much do you need to be "comfortable"?

If you ask financial experts how much money you need in retirement, they will typically tell you 65%-70% of your pre-retirement income.

The FIRE movement (financially independent, retire early), which includes people who choose to retire young and live off the income from their capital, uses a simple formula: work out how much you need to live on and multiply it by 25.

Others point to figures that support the retirement standard promoted by the Association of Superannuation Funds of Australia (ASFA). Couples aged 65 to 85 need $62,562pa and a single person needs $44,224 for a comfortable life, including such things as health insurance, streaming services and holidays.

But few Australians ever build up enough super to generate this sort of income. The median balance for men aged 60 to 64 is $204,107 and for women $146,900, according to tax office figures.

Retiring members of the REST super fund, which primarily covers the retail industry, find the often quoted $1 million savings target very discouraging, says Greg Fleming, head of advice at REST.

The average balance of members in the REST pension product is $260,000. Fleming says they are relieved when they find out what their income will be with their savings plus the age pension.

Super balances will increase as the system matures. When the compulsory employer contribution began in 1992 it was only 3% of earnings and has been 9.5% since 2014 (it is due to increase to 10% next financial year).

Ways to bridge the gap

Rice Warner's Andrew Boal says that while the current system is relatively immature, over the next 20 years more than 60% of super balances at retirement will reach $250,000 or more, and over the next 40 years around 40% will hit $500,000 in today's dollars.

Combining the age pension and income from savings would still leave a couple with $385,500 in super, which is short of the ASFA standard for a comfortable retirement by $5896 ($62,562 minus $56,666), or about $115 a week.

One way to reach it is to draw down at a higher rate from an account-based pension, say 6.5% instead of 5%. If the investment environment is healthy it might be possible to do so without running down the balance over time. But assumptions about future investment returns from super are by their nature very uncertain and few would argue the toss between 5% and 6%.

Another way to add income is to work a few hours in retirement. Part-time work is means-tested and can impact on the age pension rate. The sweet spot amount for a couple will generate deemed income of $6914 a year, which is under the threshold of $8216. You lose 50 cents from the age pension for every dollar you earn over the limit.

If a couple earned an extra $10,490 a year through part-time work (around $400 a fortnight), the first $1302 would still be under the income threshold. The balance would reduce their age pension by $4594, so that they had a net income increase of $5896, bringing them up to ASFA's comfortable standard.

In the case of a single person, the deemed income exceeds the threshold so there is no headroom for additional income. The single person is short of the comfortable standard by $6806 ($44,224 minus $37,418). They could

Fair is fees up to 30% lower than the super industry average*

bridge this by drawing down 7.7% of their super pension account, which is less likely to be sustainable in the long term because it will run down the balance unless the investment returns are as high as that drawdown.

A combined approach might be to draw down their super at 6%, adding an extra $2530 of income, and take on part-time work for $8552 a year, which would reduce their pension by $4276 so that the net income gain from work was $4276. Together with the additional drawdown of $2530, this would add $6806pa of income so that they achieve the single person comfortable standard of $44,224.

Keen to preserve capital

While financial planner Peter Humble sees the taper rate as a "bizarre distortion that creates a disincentive for people," other financial planners, such as Anne Graham, from Story Wealth Management, say it's not especially unfair. Before the taper rate was changed in 2017, she says couples with $1 million could get a part age pension and health concession card, which was costly for the economy.

"You have a growing ageing population and a reducing working population to support older Australians. There is only a limited amount of money and the age pension is supposed to be a safety net."

She says everyone has a different strategy for retirement. She sees her role as explaining the advantages and disadvantages to clients who want to receive a full pension. There is a perception among some people who don't qualify that friends or neighbours who do get the pension actually have more money and other assets than they do.

Humble says his older clients are keen to preserve their capital. They want to leave a bequest to their children and grandchildren, particularly in a time of rising, unaffordable property prices. But he observes that baby boomers are far more prepared to spend their capital.

"Some people see Centrelink as a right. Others see it as a form of welfare," he says. "My job is to tell them the rules. Engaging with them is challenging. Australia has built a complex system with a patchwork of exemptions and exclusions that don't make a lot of sense."

Graham says some people don't want the age pension because they don't want the government knowing anything about them. They don't want to do the paperwork or to go through the application process. Others don't know they qualify.

Humble says retirees keen on the age pension are more likely to upgrade the family home or spend up to $250,000 on a new four-wheel-drive and a caravan. "They ride the bumps a bit more." Be aware that vehicles should be declared as assessable assets.

One of the problems with people spending some of their superannuation on the house to claim the age pension is that most of their wealth is in an asset that doesn't provide an income. What happens when they need money for an emergency?

"I'd always rather have more money," says Humble. "Heading down the road on a free-form spending spree is fraught with danger. It assumes you can see the future and it assumes nothing will happen to your life. It also assumes rules around the age pension won't change. If the government were to reduce the severity of taper at some point, the spending spree would have been unnecessary."

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Risks in early retirement

One of the reasons to save more in superannuation is to cover the risk of an unexpected health issue or a forced redundancy.

The average age at retirement in 2018-19 was 55.4 years, but the average age at which people intend to retire is 65.5, according to the Bureau of Statistics. Women typically retire earlier at 52 while men retire at 59.5 years. These figures go against the government's expectation that people will work longer.

The problem with leaving the workforce early is that you will not qualify for the age pension until you are 66, rising to 67 on July 1, 2023. Your super could fund those five to seven years until you qualify for the pension, otherwise you may have to turn to JobSeeker.

For example, if you retire early and you need $50,000pa for six years, you would have to add another $300,000 to your $385,500 retirement sweet spot savings, which will deliver you the age pension at 66.

Also, more people are retiring with debt because of bigger mortgages and the desire to help adult kids get into the property market. Industry Super Australia says 47% of couple households in 2018 had a mortgage or personal debt nearing retirement. If it were repaid at retirement, around half of couples with debt and two-thirds of singles would deplete more than half their balance.

Story Wealth's Anne Graham says often the reason her clients head into retirement with housing debt is because a relationship has broken down and the assets have been divided.

She recommends paying down the mortgage before retiring. With interest rates so low, some people prefer to put extra money into superannuation, where it is taxed at 15% instead of their full rate. Once in super, the money can earn 6%-7%pa.

Reduce the uncertainty

Financial planners see their role as encouraging their clients to boost their superannuation. There is a new concessional contribution limit from July 1 this year of $27,500, up from $25,000.

"It pays to optimise your superannuation balance because you can get a tax benefit after you turn 60 and pay yourself an income stream with no tax," says Minchin Moore's Mark McShane. He says if your employer doesn't allow you to salary sacrifice you can add extra yourself and claim the tax deduction.

The sooner you start pumping up your super, the sooner compounding kicks in. But typically people start salary sacrificing in the last five to 10 years of employment.

McShane says that if you put more into super early, you have greater control over your future, and are not living with the uncertainty of what happens to the age pension, health care cards and aged care.

Fair is simple super advice
at no extra cost

How to beat the assets test and qualify for the age pension

If you have too many assets and you want to receive the age pension, there are some strategies that can potentially help you qualify.

Financial planner Mark McShane recommends contacting the technical staff at Services Australia for help to optimise what you can get.

REST Industry Super's Greg Fleming describes the strategies as "sheltering" your assets.

Transfer super

Fleming says the most popular and effective strategy for REST's retirees involves a couple with an age difference. When the older one reaches 66, they can receive the age pension because their partner's super isn't counted as an asset.

Superannuation money can be moved from the older partner to the younger member, who is still a few years from age pension age.

Using the bring-forward provisions, you can move up to $300,000 ($330,000 from July 1) into your younger spouse's super account. This can increase your eligibility for the age pension as well as for valuable benefits, such as the pensioner concession card until the younger spouse also reaches age pension age.

"You only need $1 of age pension to qualify for benefits such as the pensioner concession card," says McShane. (See page 42 for more on the concession card.)

Upgrade your home

If you have been putting off updating the bathroom and the kitchen for years, it could be a smart move if you have the money available. Every dollar you spend on renovating your house will get you closer to the age pension.

Give it away

One of the most common questions that financial planners are asked is: How do I help my kids get into the property market?

Financial planner Peter Humble says clients who want to access the age pension frequently say they will give some of their money to their kids. But Centrelink has gifting rules that prevent people doing this and claiming the pension.

Individuals and couples combined can gift up to $10,000 each financial year, or up to $30,000 over a five-year period, and remain within the gifting-free area.

If you give away more than $10,000 it is still counted under the age pension assets test for the next five years. If you give your child a holiday house or a block of land, for example, the value will also count for five years.

Watch out if you gift too many assets too soon because you might run out of money in your old age. With uncertainty surrounding health care and aged care costs, you need to have money set aside. people are living longer, and they often underestimate all the costs in old age.

Buy a funeral bond

You can prepay some or all of your funeral costs and avoid having them counted in your assets test. The allowable limit is $13,500 and it will change every July 1.

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Take cash out of your home to boost income

If you own your home in retirement and want more money for your golden years you can unlock some of the property's value. There are several ways to free up some of the capital. One strategy is to downsize and move to cheaper housing, unlocking some of the equity. Another is to take out a reverse mortgage, where you borrow against the value of your home.

Around 1.8 million age pensioners own property, according to Paul Rogan, CEO of Pension Boost, a private company that helps retirees access the federal government's Pension Loans Scheme.

With prices reaching an average $1 million for a house in the capital cities and $565,400 for a unit, the family home is the biggest asset for most people, outstripping superannuation. But selling it is an emotional decision.

Greg Fleming, REST super's head of advice, says its retiring members have little interest in taking out a reverse mortgage on the home they have fought so hard to own. "A home is a prized asset," he says. People would prefer to do more budgeting than borrow against their home. He says that retirement looks a lot healthier for people who have paid off their home.

Financial planner Mark McShane prefers downsizing to reverse mortgages with their fees and interest costs.

Story Wealth's Anne Graham says downsizing can be a risky strategy, which works well if it involves moving from the city to a regional area. But moving from one suburb to another can backfire because it may not unlock as much money as expected. Sometimes people spend the same, or even more, trying to find something they like.

Reverse mortgages

If you don't want to move, you can always borrow against the value of your home and take out a reverse mortgage. This allows

you to stay where you are and gives you some extra cash. Or you can sell part of your property through what is known as an equity release product.

Services Australia has the Pension Loans Scheme (PLS), which allows people to use the capital they have tied up in real estate as a non-taxable loan. It can be for either a short time or an indefinite period, and is paid in fortnightly non-taxable instalments.

The scheme has been around for 35 years but recently has had a surge of take-ups because it has been opened to self-funded retirees as well as people on the age pension. Around 3700 Australians have used the PLS, which was mentioned in the government's Retirement Income Review as an option to boost income. The PLS lends on all sorts of property, including farms.

Services Australia general manager Hank Jongen says the PLS is improving the customer experience for people when they claim and manage their loan online. It has more specialist telephone staff to answer enquiries and service customers. It has introduced a loan calculator to help people test their eligibility and estimate loan balances. It has electronic loan repayments and new online services for customers to change loan terms, print or request itemised statements and complete regular loan reviews. It also has a joint online claim for partnered customers with more relevant questions.

The PLS amount is based on age and increases as people age. It works like this:

Margaret, 70, starts her PLS of $400 a fortnight from March 2021 to September 2026. She will have received $86,600 and her loan balance, including interest at 4.5%pa and costs, will reach $105,420.

At 4.5%pa, even if pension payments are ceased, the outstanding loan will increase by 50% over nine years. For example, if you owe $50,000 when you cease pension payments, over nine years this will increase to $75,000.

At the previous rate of 5.25%, which was reduced in January 2020, the debt would have grown to $83,000 over nine years.

Paul Rogan says the typical age of a retiree who approaches Pension Boost is 73. They have been on the age pension for several years and need extra money for a broad range of reasons. These include paying for home repairs, credit card debt, an interstate trip to see the grandchildren, or to pay the energy bill or healthcare costs.

Fair is more super investment choices, even one that doesn't cost the planet

The age pension – will it always be there?

This year 150,000 Australians will retire. Many will join the 63% of retirees on the full or part age pension.

One of the three pillars of the retirement income system, along with super and home-ownership, the pension is designed to be a safety net. It hovers just above the poverty line for singles.

Financial planner Peter Humble hears from people in their 30s, 40s and 50s that there is no point building up their superannuation with extra contributions because they will get the age pension.

"I always say: what makes you think there will be a pension?" he says.

The pool of working people who are taxed to pay for age pensions is shrinking. Thirty-five years ago, there were 6.7 working Australians between the ages of 16 to 65 whose taxes helped support retirees. By 2030 there will be only three workers, according to former prime minister Paul Keating on the *7.30 Report*'s recent special on the future of retirement.

"So, you have three people looking after everyone over 65 when before there were 6.7 people," he said. "That burden means that you want superannuation to withdraw the burden on the age pension, so the few taxpayers left in the system are carrying it."

The federal government argues that a growing ageing population is putting pressure on its finances. It has made it harder for people to receive the age pension by tightening the eligibility. Also, in 2014 it changed the way the age pension is indexed.

Until then, the pension was increased each year according to the general cost of living as measured by the CPI, pensioner specific living costs and the relativity to average earnings. The 2014 budget changed the indexation, basing it solely on the CPI. It created the potential for the age pension to grow more slowly than average incomes, so that pensioners become relatively poorer compared with the rest of the community over time.

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"It has had a large impact on real value," says Matthew Linden, from Industry Super Australia. Instead of increasing over time due to inflation and productivity, the age pension increases only with inflation. There is also potential for indexation to lag behind increases in pensioner-specific living costs.

As well, the government raised the age pension age to 67 for people born on or after January 1, 1957. For anyone born on or after July 1, 1952 the age increases to 65.5 years.

The government tightened the assets test from January 2017 and moved the goal posts for older Australians, says Linden. These severe changes have impacted 416,000 age pensioners. Around 91,000 lost their age pension altogether and a further 235,000 have seen their part age pension reduced.

With so many changes, David Knox, senior partner and actuary at Mercer Australia, says retirees want certainty and need to know the means test won't change. "We need a statement and commitment from both political parties that it won't be changed."

Andrew Boal, Rice Warner's chief executive and chair of the Actuaries Institute's retirement strategy group, says Australia is one of the few countries that has a means-tested age pension. The taper rate works to "target the people who need [financial help] the most".

Both Knox and Boal believe the taper rate is too punitive and would like it to be more generous, as it encourages retirees to spend their savings quickly and risk living on the age pension.

Boal believes the age pension will always be around because the Australian economy can afford it. "The cost of the age pension is around 2.5% of GDP and is projected to be the same going forward. So it is very manageable."

Some countries with a burgeoning ageing population spend much more. Italy and Greece, for example, spend 15% on the age pension.

"I've never felt that the age pension is broken. You should have great certainty that it is affordable," says Boal.

Knox agrees: "We will always have an age pension."

Discounts are an extra benefit

The full age pension sits at around 28% of average weekly earnings and on its own just about satisfies the Association of Superannuation Funds of Australia standard for a "modest" lifestyle in retirement.

Of the 63% of retirees who receive the age pension, 39% get the full amount while 24% receive a part payment. But will the changes to the taper rate shift this balance?

There are some important exemptions to the age pension assets test, such as the family home. It isn't counted and pensioner couples owning a home are allowed to hold up to $880,500 in assets before their eligibility cuts out.

One of the benefits of obtaining a part age pension is being eligible for discounts on health care, transport and utilities. The pensioner concession card provides a range of handy discounts depending on the state you live in and your needs. As a rule it provides the most benefits of the three Centrelink cards available. For example, in NSW the pensioner card entitles you to discounts on council rates, water, energy and gas bills, plus registration and driver's licences – a saving of around $1772pa.

The commonwealth seniors health card entitles the holder to cheaper prescriptions and medical appointments. *M*

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The holiday is over

STORY
DAVID THORNTON

After going easy on businesses and individuals during the pandemic, the ATO is taking a tougher approach

It has been anything but business as usual in the world of taxation. "The ATO has been very lenient throughout 2020, offering payment arrangements, deferrals of lodgements, remission of penalties and general interest charges, and generally trying to accommodate the difficult financial position many taxpayers found themselves in as a result of the lockdowns and impact of international and state border closures," says Robyn Jacobson, a chartered tax adviser and senior advocate at the Tax Institute. "But as our economic recovery continues, the ATO is now shifting its focus onto debt recovery and collection, and following up outstanding lodgements, moving back to a 'business as usual' stance."

Given that state of play, here are some expert tips to help you navigate your tax affairs this financial season.

GET IT RIGHT

Optimising your tax refund means maximising your deductions while being sure not to overcook it and draw the ire of the ATO.

It should go without saying – you can only claim what you've spent. "Don't inflate deductions in order to get a bigger refund and only claim for costs you can prove you spent by producing an invoice, receipt or bank statement, for instance," cautions Mark Chapman, director of tax communications at H&R Block. "Self-lodgers using the ATO's myTax program are monitored as they prepare their return by the ATO's computer systems to ensure they're not over-claiming."

Jacobson says common errors include claiming for home-to-work travel, non-work clothing and the flat $300 deduction (or slightly less than this amount) without actually incurring the expense. Your deductions will be cross-referenced with those claimed by others like you, and discrepancies can raise a red flag. If that happens, you'll have to pay the piper.

"If your deduction claims are found to be incorrect, you will be required to repay the tax avoided, plus pay interest of about 9% per annum," says Jacobson. What's more, if the ATO believes you have acted carelessly, a penalty between 25% and 95% of the tax avoided may also be charged.

Nor should you rely on pre-filled data from the ATO. "Particularly if you are lodging early, always use your own information as the key source data," says Chapman. "This year most employers won't provide payment summaries to their employees. Instead, they'll report your year-end wage information direct to the ATO from where it can be pre-filled into your tax return."

Getting it right also means not rushing it.

"It may be tempting to get it done as soon as possible, but the fact is that jumping in too early can cause problems if other parties, like your bank or public companies, haven't yet filed their information," says Jacobson. "So my tip is to wait a week or three, make

sure everything is in order and then get started on filling out your tax return."

CAPITAL GAINS AND LOSSES

If you make a capital gain on an asset you sell, such as an investment property or shares, you'll need to pay tax on that. But this tax can be minimised or even eliminated by claiming any capital losses.

"If a taxpayer has an unapplied capital loss of $100,000 from 2019-20, from the sale of shares in a public company, and they make a capital gain of $300,000 on the sale of an investment property in 2020-21, then they reduce the amount of the capital gain by the amount of the unapplied capital loss: this reduces the capital gain to $200,000," explains Jacobson.

"However, if the individual made the capital gain of $300,000 on the sale of the investment property in 2020-21, then made a capital loss of $100,000 from the sale of shares in 2021-22, they cannot reduce the amount of the capital gain, which is taxable. The unapplied capital loss of $100,000 can be carried forward."

Capital gains can be reduced by capital losses either arising in the same year or in an earlier year.

> "It may be tempting to get it done ASAP, but jumping in too early can cause problems"

"So, if you have brought forward capital losses, these can be used up against this year's capital gains and if you have any capital losses arising from this year, these too can be utilised."

Adrian Raftery, from the accounting and tax service Mr Taxman, points out that capital gains tax is reduced by 50% if you hold the asset for more than a year.

DEDUCTING EXPENSES

You've always been able to deduct expenses related to your job. "The cost of clothing that is mandated by your job, such as a uniform, is deductible and so is the cost of any journey that is related to your job, such as travelling between offices or traveling to meet a customer or supplier – travelling from home to work and back again is generally excluded – as well travel and accommodation incurred whilst travelling away from home, meals and incidentals," says Chapman.

Add to this tools and equipment, courses and training as well as the travel, internet fees and textbooks associated with it. "The golden rule is that the expense must have a direct connection to your job, the expense must have been personally incurred and not refunded by your employer and you must have proof that you actually incurred it – a receipt or an invoice, for instance."

PANDEMIC CLAIMS

Covid-19 has then added some additional expenses that you can claim. You can deduct costs of working from home using either the ATO's 80¢ per hour rate, its 52¢ per hour rate or actual costs. "The 80¢ per hour rate might sound like the most generous but it covers all expenses that you might incur," says Chapman.

You simply claim 80¢ for each hour you work from home, and this covers all your expenses, such as phone, internet, the decline in value of computer equipment and furniture, electricity and gas for heating, cooling and lighting.

If your expenses fall outside this time frame, you can apply the fixed rate method, which is a deduction of 52¢ for each hour you work from home, but this rate excludes the cost of your phone, home internet and depreciation of any computer equipment. These can be claimed separately. "If you claim those separately the 52¢ is often the better option," says Chapman. But this will require a log of hours worked.

The third option is the actual costs method.

"Actual costs are the best option, but using that method means you have to retain proof of incurring expenditure like gas and electricity, cleaning costs, phone and internet, computer consumables, and the cost of home office equipment," says Chapman.

Of course, it's not a free-for-all to claim regular household expenses. "Remember that you'll not only need to keep a log of the hours you work from home, but also calculate what percentage of these expenses are work-related," says Jacobson. "You can't claim 100% of your internet bill if only 60% of your internet use is for work purposes.

PROPERTY EXPENSES

Property, meanwhile, can be structured in a tax-effective way. "They're not always easy to get, but if you're able to get an interest-only loan facility on an investment property, then that can maximise deductible interest on that loan," says Peter Bembrick, a tax partner at HLB Mann Judd. "You're better putting extra repayments against your private property and leaving the investment loan intact."

He suggests prepaying expenses such as your income protection premiums (if held outside your super), management charges on investments and professional membership fees. "You can usually pre-pay deductible expenses for up to 12 months, so you can get those in early if you want deductions this year."

CAPS AND CONTRIBUTIONS

The annual cap for concessional contributions to super is $25,000 ($27,500 from July 1, 2021).

"This includes the amount paid on your behalf by your employer – the superannuation guarantee," says Jacobson. "If you believe that you're not receiving all the superannuation you are entitled to, you can report your employer to the ATO. You can also check with your fund and your myGov account."

Those who haven't fully utilised their concessional cap can carry forward the unutilised part for up to five years, as long as their total superannuation balance at the end of the previous income year is less than $500,000.

Meanwhile, the non-concessional contributions cap is $100,000 ($110,000 from July 1, 2021). "Individuals aged less than 65 can bring forward three years of non-concessional contributions, meaning a non-concessional contribution of $300,000 can be made in 2020-21, assuming that you have not already triggered the bring-forward rule in 2018-19 or 2019-20," says Jacobson.

"If your income for surcharge purposes (broadly, equal to your taxable income, plus reportable fringe benefits, plus reportable superannuation contributions, plus total net investment losses) exceeds $250,000, you are liable to division 293 tax, which effectively taxes your contributions at the higher rate of 30% (in the fund) rather than the concessional rate of 15%."

GET PROFESSIONAL ADVICE

"There's a reason 70% of Australians use a tax agent to prepare their tax return – tax is complicated," says Chapman. "Get your tax return wrong and the comeback is on you, either with a lower refund or ATO penalties, and most people will find it far less stressful to simply pass on all their information to a tax agent and leave it to the agent to complete their return, safe in the knowledge that it will be accurate and complete."

Raftery likes to use a motoring analogy. "We can all change a tyre on a car, but it takes a trained mechanic to spot deeper issues, and it's not different with tax." *M*

Power of extra payments

A few minutes spent playing with an online mortgage calculator can be an eye-opener – and save you money

There is nothing more rewarding than knowing you are on top of your mortgage. Your home, for most people, is likely the biggest purchase you'll make in your life, next to your car.

This has become even more so in recent years. When I bought my first property, the ratio of the cost of my house relative to my junior salary then was five to one. Today, my niece has to contend with an almost 12 to 1 ratio for an average unit in a suburb in northern Sydney ($920,000) versus her salary as a primary school teacher.

With average property prices likely to hover around $1 million in our big cities, it's become even more compelling to pay off your home loan sooner. Everyone knows that making extra repayments can save you money, but when it's an abstract idea, it kind of floats in the ether and you don't really do anything about it. But if you put it in numbers, the transformative effect of setting extra money aside each week towards your home loan becomes real.

For example, if my niece were to save up 10% to buy her dream unit worth $920,000, she would have to borrow $828,000 from the bank.

Assuming she pays it off over 30 years, her weekly repayment would be $820 (assuming 3.13%pa for principal and interest repayments). Imagine if she finds a way to set aside $50 each week as an extra repayment. She would be able to pay off her home loan two years and nine months sooner and save $47,056 in interest.

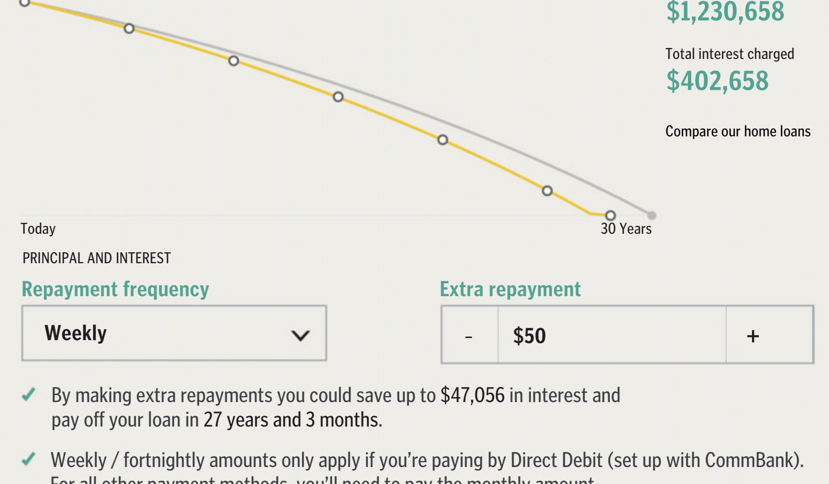
If you are a first-time buyer, or even someone who has yet to take the plunge into property investing, you could benefit from a few tips on how to pay off your loan faster. Here are three to get you started.

1 Shop around. No, *really*, shop around.

The big four banks – CBA, Westpac, ANZ and NAB – all have a great section on their websites for prospective home loan borrowers. You can play various lending scenarios through their easy-to-use calculators. The repayment calculator can tell you how much you need to set aside each week if you want to borrow, for example, $800,000 or $820,000.

You'd be surprised how different the interest rate offers are. But Susan Mitchell, chief executive of the broker Mortgage Choice, says the differences could narrow once you've spoken to the bank.

"The challenge with the major banks is that they have a carded rate, but behind the scenes they discount based on a client's circumstances," she says.



For example, if the client is a professional, like a lawyer or a doctor, the client could sit down with the lender to negotiate a better deal. Alternatively, if you're working with a mortgage broker, the broker could request a discount. "You may find that the interest rate on these loans would not be so dissimilar."

Banks might also offer a lower price if they want to attract a certain type of business to balance their portfolios. For example, if they want to increase the size of their investment lending portfolio, they could offer more competitive rates for customers who qualify.

But you won't know what is really on offer until you do some legwork, which, unfortunately, not everyone does.

2 When a "comparison rate" does not apply to your personal situation.

When you compare home loans, it seems logical to calculate the cost of borrowing based on the interest rate the institution is offering. But have you ever wondered why there's a larger percentage value quoted along with the "comparison rate"?

That's because the real cost of the loan isn't just the interest rate but other fees and charges as well, including the application fee and ongoing fees.

What can be confusing, or even misleading, is that comparison rates are often calculated on a $150,000 home loan over a 25-year term.

"This is not a common scenario. The average loan size is closer to $400,000," says Mitchell.

It's even more misleading for my niece who is looking to apply for more than double that amount.

3 Do you need an offset account or redraw facility?

Assuming my niece took up a home loan package that had a lower interest rate but an annual fee of $400, that's another $12,000 over 30 years, excluding interest.

"Generally speaking, it is cheaper to get a home loan that isn't packaged," says Mitchell. But this also means the borrower will not be able to access features such as an offset account or redraw facility. So, you have to assess if you need those features.

You can always refinance or switch loans when your situation changes and you need the extra flexibility of a package.

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.*

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Gained in translation

Our choice of words can have a huge effect on how we make decisions

When travelling through France in early 2020 (just before the lockdowns) I noticed something interesting when we arrived at various hotels to confirm our room. When the reception staff spoke English, we often enquired about the size of the room and the view, or whether there was a better room or late check available. However, when we got to a hotel where we had to speak French (we tried hard but our French was quite limited) our conversation was much more transactional – names, check-out times, how do we get to the room.

Admittedly, the difficulty overcoming the language barrier did mean we were just glad that we got a room to ourselves and didn't accidentally book a bunk in a share house or the suite Présidentielle. But it wasn't just our poor French that seemed to shift our conversation down a more transactional road – it seemed that using a foreign language made our thinking more transactional as well. As it turns out, psychological research supports this hypothesis.

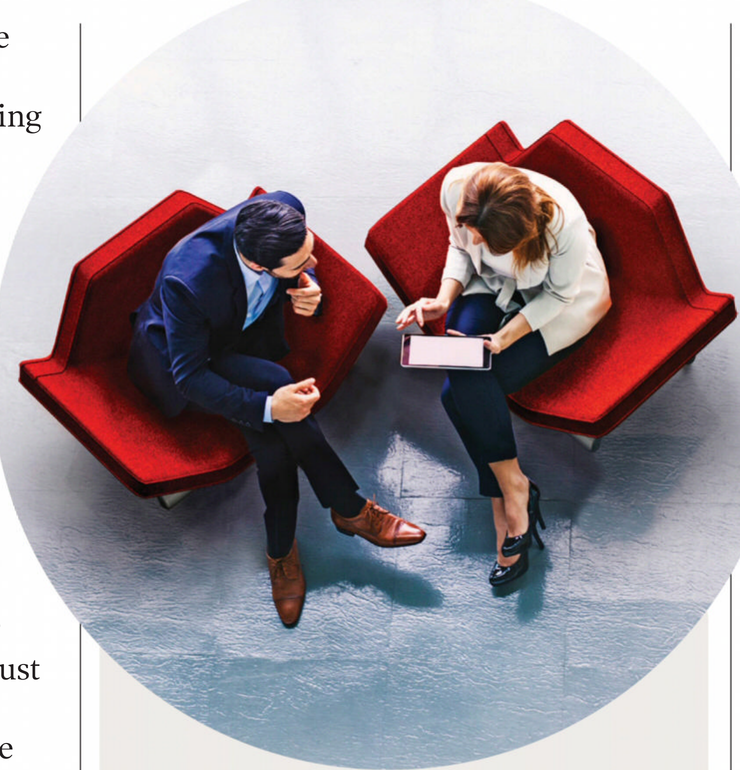
International research has shown that when people use foreign languages to process difficult decisions, they end up being significantly more utilitarian and unemotional. They were less afraid of losses, less likely to get frustrated and much less emotionally connected to the decision outcome.

However, it isn't only speaking in a foreign language that can change our perspective. Changing the words we use in our native language can also be enough to shift our thinking. This is particularly evident when it comes to financial decisions, which are often intrinsically linked to our emotions and our sense of self.

Consider, for instance, the following two questions:

Do I want to invest $20,000 with this new company?

Do I want to gamble $20,000 with this new company?



Top three ways to reframe language to make better financial decisions

Virtuous verbs. Before making a decision, change the verbs in the core decision question to help look at it in a different way. Replace invest with gamble, spend with save, give with share, credit with loan, capitalise with risk, etc. If this language changes your instinctive decision, then ask yourself why?

Repeat in your own words. When in a sales or negotiation conversation, summarise what the other person has said back to them using different words. This helps clarify your thinking, lets the other person know they've been heard and allows more time for your mental processing to work through detail more rationally.

The foreign language flip. Learn key phrases like "Do I need this?", "Is this the best use of my money right now?" and "Is there another way we can look at this?" Practise these phrases so you can use them in the moment to trigger your rational brain to engage.

For most people, if you simply change the word "invest" to "gamble" it will alter the way you think about putting money into a new company. Both words share a similarity, but gambling sounds riskier, so it's likely to change the information and assurances you seek, as well as reframe the likelihood of returns. This simple word change fundamentally shifts how you make your decision. The key to understanding why words have such impact on our decision making is to understand the influence language has on our emotions.

Recent neuroscience and cross-cultural research shows a critical link between language and emotion. Meta-analyses of neuroimaging studies reveal that the parts of the brain that are involved in perceiving and experiencing emotion are the same parts that are used to make meaning out of words. This shows that language plays a vital role in perceiving and experiencing emotion, which then helps direct our financial judgement and behaviours.

In other words, the words we use to articulate a situation or decision changes our conceptual framing, leading to different emotional reactions and dramatic shifts in behaviour. A good example of this is how the terms "credit" or "a loan" change the way we perceive debt. When we have a credit card we feel like it's our money that we can spend, as opposed to a loan, which is someone else's money that we have to pay back. This can dramatically shift the priority we put on clearing debt and is why a line of credit against your home loan should be managed with great caution.

Language changes our perception, which changes our behaviour. Changez votre langue et changez votre avenir financier.

Phil Slade is a behavioural economist and psychologist, and co-founder of decision architecture firm Decida.

Think like an entrepreneur

Are winners born or made? Two successful innovators share their insights

Plenty has been written about the "mindset" needed to achieve success in business. However, no single outlook has been linked to entrepreneurial power. A study by Harvard Business School sums things up neatly, saying entrepreneurs are a mixed bunch, and there's no reason to think a geeky 20-something tech founder is closely aligned to a 50-something immigrant who is opening a family store.

To shed some light on what makes successful business people tick, *Money* caught up with two entrepreneurs who have achieved success multiple times.

Fred Schebesta: the brains behind Finder

Schebesta kickstarted his career in 2001, with the launch of Freestyle Media, a digital marketing agency. He sold the business a few years later, and in 2006 introduced the world to Finder, a comparison site that now operates in 20 countries and employs 400-plus people. That was followed by an innovation arm, Finder Ventures, and today Schebesta's latest enterprise, Schebesta Ventures, is all about sharing his systems and strategies to help others succeed.

In 2017 Schebesta was named EY's Australian Young Entrepreneur of the Year, and he is one of LinkedIn's Top Voices of Australia 2020.

Cameron Poolman: revolutionising small business lending

An engineer by trade, Poolman joined auctioneers Gray Eisdell Timms in the 1990s in the days when liquidators' auctions was a no-punches-pulled affair.

Sensing the opportunities offered by the fledgling internet, Poolman approached the board of Gray Eisdell Timms asking for $50,000 to set up a website. After some convincing, he was given the cash and a shed out the back to operate from. What followed was one of Australia's most successful online auction sites, GraysOnline.

Keen to see if he could replicate this success, in 2015 Poolman launched OnDeck Australia, a fintech lender focusing exclusively on small and medium-sized enterprises (SMEs). Not only has the business grown year on year, in early 2021 OnDeck launched a new risk assessment program called KOALA, which provides a holistic view of a business's ability to repay a loan with less human intervention. It's providing small businesses access to larger loans and giving the mainstream banks a run for their money in the SME lending area.

A matter of mindset

Schebesta and Poolman hail from very different backgrounds. Their outlooks are equally diverse.

"I've met people who say success as an entrepreneur is all about being in the right place at the right time, or having the right idea," says Schebesta. "I've been grinding hard at business success for many years, and I wouldn't say it's easy. It comes down to being able to critically assess whether your company has a source of power that will sustain it for a long period in a significant market."

On the other hand, Poolman says it's important to define what you mean by success. "Building a multi-generation business with flexible work hours in a particular location ticks all the boxes of success for plenty of people. I'm more about growth by experimentation. However, I do believe you need an overall strategy on how you're going to support or delight your customers. And you've got to be willing to take risks and make mistakes."

Schebesta agrees: "At some point everyone has made a mistake."

Given the hard work, the risk and the lack of guaranteed success, what drives entrepreneurs? Interestingly, neither Schebesta or Poolman point to money.

"I never set out to get a job," says Schebesta. "I hired people because I didn't want to work in the company. What I'm good at is sharing a vision, motivating people and strategically understanding where to put my investment."

The big prize for Schebesta is winning, though that's very different from beating the competition. "Yes, I am competing against other companies that may be very good, but I don't aspire to be like them, nor do I take inspiration from them. Ultimately, I'm competing against myself."

Poolman faces different driving forces. "I like to test boundaries," he says. "In 2000, when I started GraysOnline, everyone was saying retail customers needed to see and touch a product before they'd buy it. The internet has shown that's not the case – these days people even buy cars online.

"With OnDeck I'm using technology to lend up to $250,000 to people I've never met. That's a big shift from the situation where small businesses have to go into a branch to borrow and then wait a month or two to get the money."

Schebesta believes we can all achieve success, but it comes down to preparation and commitment. "Over time your company is going to demand a lot from you. Know how prepared you are to make those sacrifices. Try new things. Go for something that's scary. This gives people the freedom to fail and grow."

Poolman takes a more pragmatic view. "Have a very good business plan and look at the risks and upsides. Know your own skill strengths and surround yourself with people who have skills in areas you don't. Realistically, it's often hard work over a 10- or 15-year period to achieve a valuable, sustainable business."

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

Take the bite out of the bills

Planning ahead and shopping around can cut the cost of orthodontics

Both my kids needed braces. One has a cross bite and the other crooked teeth. I wasn't prepared for the expense as neither my partner nor I had orthodontics. I soon discovered that if your kids need orthodontics, expect big bills. Prices vary from $6000 to $9500, depending on a range of factors, according to Robert Schwartz, specialist orthodontist and spokesperson for Orthodontics Australia.

He estimates about 300,000 Australians have braces or aligners and about 75% of them are in the mouths of 225,000 children.

What can you do to save money on orthodontics?

Start early. Having orthodontics isn't an emergency medical procedure, but it is hard to put it off because there is strong evidence that a delay in straightening out crooked teeth will cause problems later, which could be more expensive – and perhaps more painful– to fix.

Orthodontists will tell you that straight teeth are important for self-esteem and confidence. Your dentist will typically give their view on whether your kids need orthodontics when they are around eight to 10 years old, says Schwartz. Some problems could be treated right away but others could be further down the track, allowing you to save up for them.

Private health insurance

Check with your private health insurer to see how much you get back for orthodontic work. The more you pay for health insurance extras the more likely you are able to claim money back for orthodontics. It isn't available with a basic insurance (extras) plan but it is in plans with special features.

If you haven't got coverage, work out if it is worth upgrading to the extra benefits option. Unlike specialised services such as physiotherapy, which have a set amount paid each year, orthodontics is limited to a maximum payment of a couple of thousand dollars for the fund member's lifetime.

Shop around for an orthodontist

Your dentist will recommend an orthodontist, but shop around as prices can vary.

While orthodontists are a fairly elite group of medical specialists, they are spread out in suburban areas as well as in city centres. There are about 550 orthodontists in Australia and, as well as being a fully qualified dentist, they have studied for a further three years full-time at university to remedy crooked teeth and jaw problems with an array of devices. They must have 5000 clinical hours before they can practise. You can check if your orthodontist is a registered specialist at ahpra.gov.au.

While word-of-mouth recommendations are always worth chasing up, check out social media and reviews about orthodontists.

Prices can vary depending on the suburb and the treatment, says Schwartz.

Get a treatment plan

Health funds may need an orthodontic treatment plan to determine your benefits. Before you undergo any treatment, you should ask your orthodontist to provide you with a written treatment plan, recommends the Commonwealth Ombudsman.

The ombudsman says it should include the estimated length of treatment time, the dental item number used to identify the treatment, the total cost of the orthodontics and how you intend to pay for the treatment, such as upfront lump sum or monthly instalments over the duration of treatment.

Once you have your treatment plan, give a copy to your health fund so it can provide a benefit quote based on your treatment and level of cover.

Payment plans

Most orthodontists divide up the overall cost of the treatment into regular instalments that are timed to match your child's appointments, which are anywhere from four to six to eight weeks apart. The orthodontist I chose was happy to take an upfront fee of a couple of thousand dollars and then instalments of $200 every month for a couple of years. Direct debit is usually how you pay. Schwartz says orthodontists are happy to arrange payment periods that suit you.

Often our monthly visits only took 10 minutes as the braces were checked and often tightened. My advice is to keep an

eye on repayments and query any bills that appear excessive.

My orthodontist explained that the total fee was worked out on the average cost of the treatments, rather than individual costs. This means that if kids have problems with their braces and need extra visits, the parents will pay the same amount as someone who has standard treatments. This could mean that you could be overpaying for standard work.

Buy now, pay later

Some orthodontists allow you to pay using a buy now, pay later plan. BNPL providers could carry out credit checks and may charge third-party fees, so it's worth weighing up the pros and cons of making a direct plan with your specialist.

Loan schemes

There are a number of companies that lend money for medical costs. Check out the interest rates and terms carefully.

Look after those braces

Stress to your kids to be careful with removable orthodontics, such as plates and retainers. They are expensive to replace. A friend's daughter kept her plate in her school uniform pocket. She fell over and it snapped in two. Another boy took his out while he ate his fish and chips at the beach and ended up throwing them away with the wrapping. Luckily his parents were able to search through the bin and retrieve them.

Some braces are cheaper

There is a range of contemporary orthodontic treatments to straighten teeth and align the jaw that are designed to be less noticeable and comfortable. They include traditional metal braces, ceramic or tooth-coloured braces, clear aligners that you change every few weeks and lingual braces on the inside of the teeth. The lingual braces can be more expensive because of lab fees and they are more time consuming to fit.

The orthodontist will choose the type of braces that best suit the position of the teeth, the bite and circumstances. Some are better suited to adult patients than children. For example, lingual braces can impact the tongue as they are on the inside of the mouth, says Schwartz. Usually, metal braces are the cheapest and come in all sorts of colours.

Mail order devices

DIY clear aligner products can be bought online. They are cheaper than traditional devices, but Orthodontics Australia says that although the lower cost and convenience are appealing, consumers need to be aware of the risks from a lack of a full clinical examination and in-person supervision to assess how the treatment is progressing. Schwartz warns that DIY treatment plans can lead to significant dental problems, such as permanent damage to the teeth, gums, jaw joints or jaws, resulting in costly remedial treatment. The ACCC recently fined EZ Smile for falsely alleging that its treatments were supplied by dental professionals including orthodontists registered in Australia and were subject to Australian health regulation standards. In fact, the aligners were made in China.

Your dentist can provide orthodontic treatment

Dentists are increasingly offering orthodontic treatments such as aligners. In most cases, a health fund will provide the same amount of benefit you are entitled to claim, regardless of whether an orthodontist or a general dentist provides the treatment, says the Commonwealth Ombudsman.

But in some instances, a health fund may pay a lower benefit for orthodontic treatment provided by a general dentist. The ombudsman says in order to ensure your health fund provides you with accurate benefit information, it is important that you tell your fund who will provide the treatment.

Close to home or school

There will be many visits to the orthodontist over the years, particularly if your child needs ongoing supervision. Consider choosing a clinic that is close to your home, the school or public transport for those times when your child will go there on their own. Also do the reviews mention the waiting time? My niece often had to wait one or two hours at every appointment. These often fell during school time.

Health fund limits and waiting periods

Health fund benefits for orthodontics vary from fund to fund. Typically you will need to serve a 12-month waiting period before you will be eligible to claim.

A number of health funds increase your orthodontic benefits the longer you remain a member. The benefits will rise over time until you reach the limit.

The following example of an accrued benefit from the Commonwealth Ombudsman is based on a policy with a starting limit of $500 that increases by $200 every year after you have served the 12-month waiting period: 1st year $500, 2nd year $700, 3rd year $900, 4th year $1100.

Your annual benefit will continue to increase until you reach the maximum amount. But not all health funds have accrued benefits; some pay a fixed benefit each year. For example, a health fund might pay a maximum benefit of $800 a year for orthodontic treatment, which may then be capped at a maximum of $2000 overall.

Lifetime limit

Almost all health funds place a "lifetime limit" on orthodontic benefits. This means that once you have claimed the maximum amount, you will not be eligible to claim any further orthodontic benefits.

Loyalty limits

If you are with a health fund where you accrue your orthodontic benefits over time, the accrued amount is not transferable. This means that if you cancel your membership and transfer to another health fund, your accrued orthodontic benefits will not transfer to the new fund. You will have to start with a base benefit at the new fund.

If you are thinking about transferring to a new fund, you can ask if they will consider recognising your accrued orthodontic benefits from your previous fund. You should do this before you decide to change funds. The new fund may agree to recognise your accrued benefits, but is under no obligation to do so.

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

STORY PETER ESHO

Look beyond the yield

Long-term growth is the secret to making the best buying decisions

Over the years, many people have asked me about buying property. "Should I buy one expensive property or two or more less expensive properties?" It's a difficult question that requires quite a lot of analysis to make the right decision. But I can help provide the steps of analysis an investor should take when considering what to do.

I spent almost seven years as a stock analyst, early in my career, at the Chicago-based research firm Morningstar, working out of its Sydney office and covering a range of stockmarket-listed companies. It was a humbling experience and one that, in hindsight, was the best training ground for building an investment framework, which I have used in my career ever since.

A stock analyst studies different companies

throughout the day and writes up their research to help people decide where to invest. These are typically large companies listed on the stockmarket. This means we have the ability to look through their public accounts and periodic filings to find patterns and trends.

This is a great place for any investor to start. If you're not into stocks, pick a couple of companies you engage with as a customer – for example, if you buy groceries from Woolworths, it's a good habit every now and then to gloss over its financials and see what's happening in its business.

After studying hundreds of companies, reading thousands of investment reports and speaking to some of Australia's most well-regarded chief executives, I learnt two very important lessons over those seven years:

1. How to think about investment returns; and
2. Patience is the most important investment virtue of them all.

Returns in context

There's a big difference between people who give advice and those who invest money into the market for a living. The sideline critic will tell you a whole bunch of things they've learned or heard. But the person investing in the market, taking hits and making wins, will always give you a different picture from the experience of doing the real thing.

Battle scars are important. Skin in the game counts.

This is the difference between learning about investing at university from a lecturer or learning in the markets, alongside traders with grey hair. One of the biggest eye-openers for me was in the way money managers, particularly those investing in stocks, think about income generation and long-term returns.

Money managers are in the business of managing other people's money. It comes with a big obligation. If you underperform, it's hard to stay in the market. Watching money managers is a good way to quickly validate what works and what doesn't.

So let's drill into the numbers and the psychology of investing. Most ordinary investors think a 5% yield is better than a 4% yield, thus they are lured into the 5% investment over the 4% investment. But this is only one dimension and often a trap.

Don't be a sucker. There are other dimensions to consider. The income you generate from an investment expressed in percentage per year needs to be tested against two other variables: its quality and its ability to grow.

The highest-quality investments are often those with the lowest returns relative to peers.

Lending money to the Australian government will give you a lower return than lending money to a stranger at the casino looking for a quick loan. Buying a house in Vaucluse or Toorak will give you a lower rental return than a house in a regional city with a tiny population. The reason is risk and quality. The higher the quality, the lower the return and vice versa.

Banks generally pay less interest on term deposits than peer-to-peer lending sites or other types of innovators because there is more demand for deposits at the bank. They don't need to compete like the innovator does.

Commonwealth Bank doesn't need to convince you of its creditworthiness. The new kid on the block does.

So, keep in mind that a higher return is usually a trap when you compromise quality. Diamonds are always more expensive than crystals, gold is more expensive than silver and Bitcoin is worth more than Dogecoin because of inherent demand and supply principles.

Check the numbers

The second variable is income growth. Often a 4% yield is better than a 5% yield if it can grow faster and cheaper over the long term.

Income growth is more important than today's income return. It's the future that matters. This is what many investors don't understand and a lesson I learnt from a colleague who spent 20 years investing in small companies, often in their infancy, before they became big household names.

Let's use a simple example of two investments making 4%pa and 5%pa on an initial $100,000. One gives you $4000 and the other $5000. Sounds pretty straightforward. But assume we're talking about real estate. Also assume that the one giving you $4000pa has the ability to grow its earnings by 20%pa because it is in a desirable location, near the ocean and handy to transport, schools, amenities and recreation facilities.

The one that gives you $5000 will only grow its earnings by 10% because it is in a new area where there will be more supply for many more years.

In 10 years, the $4000pa investment return would have grown to $24,766pa while the $5000pa investment would have grown to $12,968pa. They've both done exceptionally well; but the return of the lower-starting investment is now double the return of the higher-starting amount.

The lesson here is this: it's not what yield you get today, but what you earn over the future of the investment

Income growth is more important than today's income return. It's the future that matters.

and how this grows. Income from investments is about quality, reliability and growth over a long-term horizon.

Don't be fooled

Tesla has a market value of around $US600 billion/$777 billion (as at the time of writing) and it makes around 500,000 cars a year. Ford, the oldest car maker in the world, is worth around $US50 billion and makes 1.2 million cars a year.

Why is Tesla 12 times more expensive than Ford when it makes half the number of cars? Because the market thinks Tesla's earnings have a higher rate of growth than Ford and is pricing that growth over the long term.

I actually think Ford is good value, but I'm blind to the fact that Ford is mature while Tesla is the future. I don't assume people buying Tesla are stupid or naive.

And even if this is perception and reality, it's what the market trades on. Even in property, there is not always an easy and definitive answer to why a certain area outperforms another. It's easier when one is close to a beach or has water views, but to an outsider the market valuations are sometimes hard to understand.

When property investors are often making the decision on the yields alone, perhaps it's because they are looking at it for short-term gains. The capital return may take longer to be realised (it used to be that property would double every seven years; now in many areas it is closer to 10 years).

Often, however, in my experience, the people buying the lower 4%pa return are smarter and more experienced than those buying the higher 5%pa return. They have calculated the overall returns on their investment and are making a savvy long-term decision.

So, before you make the decision on property – whether to buy one or many, or in one area or another – do your research fully.

Don't get fooled into buying a higher percentage return thinking that you can outsmart the market, especially in sophisticated markets like stocks and real estate. We call this being penny wise but pound foolish.

Bottom line

My key takeaway from this is for you to focus on buying a good-quality investment with a higher rate of growth and putting into place a patient and strategic plan that will see you reap rewards over many years.

The 19th century British art critic and social thinker John Ruskin put it this way:

"It's unwise to pay too much, but it's worse to pay too little. When you pay too much, you lose a little money – that's all. When you pay too little, you sometimes lose everything, because the thing you bought was incapable of doing the thing it was bought to do. The common law of business balance prohibits paying a little and getting a lot – it can't be done. If you deal with the lowest bidder, it is well to add something for the risk you run, and if you do that you will have enough to pay for something better." ***M***

Peter Esho is the co-founder of Wealthi, a real estate investment platform.

Key to a better retirement

As well as providing security, homeownership can underpin a more enjoyable lifestyle

Most retired renters in Australia live in poverty, whereas very few retired homeowners suffer the same fate, according to a key finding of the federal government's Retirement Income Review. Could there be a better argument for owning a fully paid off family home in retirement?

The review found that housing is an important component of voluntary savings for most people and a major determinant of their retirement outcomes. "As homeowners generally have lower housing costs in retirement, they tend to have better retirement outcomes than those who rent. The home is also an asset that can be drawn on in retirement."

It also points out that the principal residence is excluded from the assets test for the age pension. "Regardless of the value of the house, a homeowner can receive the same age pension as a renter, all other things being equal," the review says.

There are several strategies – including downsizing, upsizing and taking out a reverse mortgage – that will help maximise the contribution your home can make to your retirement lifestyle. Which one you choose depends on your circumstances.

If your super balance is relatively low – the ASFA retirement standard estimates a single person needs an annual income of $44,224 for a comfortable lifestyle ($62,562 for a couple) and to achieve that you need a balance of $545,000 ($640,000 couple) – you could consider selling your home and buying a cheaper one. Under the downsizer contribution rules you can park up to $300,000 of the proceeds in super as long as you meet the eligibility requirements. These include having held the home for 10 years or more and being 65 or older. And selling the family home is free of capital gains tax.

Or, rather than putting the funds into super, you can invest them yourself to reduce fees.

On the flipside, some retirees' situations are improved with lower super balances and a legitimate way to achieve this is either to move to a more expensive home or renovate your existing one. The current taper rate for the age pension creates a "sweet spot" for retirees to reduce their savings to receive either a full or part age pension, according to a submission by the Alliance for a Fairer Retirement System to the Retirement Income Review.

"That sweet spot [for the full pension] is around $400,000 in savings, which sees a pensioner couple earning $1000 a month more than a couple with $800,000 in savings," says Ian Henschke, chief advocate for National Seniors Australia.

For retirees who want to stay put but need extra cash, there are a number of ways your home can provide this:

The **pension loan scheme** (PLS) is a federal government initiative that allows you, if eligible, to borrow against your home through a reverse mortgage. You can use the equity in your home to borrow up to $36,000 a year (single) or $54,000 (a couple). The loan, which is also available to self-funded retirees, is secured against your house as a reverse mortgage. The current interest rate is 4.5%.

Reverse mortgages enable you to access some of the capital in your home. They're available to those over 60 and the mortgage is limited to 15%-20% of your equity, with a minimum loan of $10,000. You can take regular payments, a lump sum or both. It's only available in selected postcodes. Current interest rates vary from 4.95% to 5.6%.

Wealth Release, offered by Homesafe Solutions, aims to provide a debt-free cash boost for older Australians. Unlike a reverse mortgage, Homesafe buys a share of the future sale value of a house. The homeowner retains the title deed. Homesafe calculates the payout based on the future share of the house to be sold, the homeowner's age and the house value today. The payout can range from $25,000 to $1 million. In return for a lump sum upfront, Homesafe receives an agreed percentage of the future sale proceeds of the house. There is no time limit on any sale.

Fractional senior equity release, which is offered by investment manager DomaCom, enables you to sell part of the equity in your home to an investor, via DomaCom, in return for a lump sum or staggered payments. A 4.4% service fee is charged, which is split between the investor and the platform. As the homeowner you are essentially liquidating part of your house into cash. The outside investor then owns the equity and receives yield from it through the service fee as well as a proportional share of any capital gains should the house be sold.

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.*

Super that won't run out

A NEW RETIREMENT PRODUCT HAS BEEN DESIGNED TO HELP RETIREES SPEND THEIR SUPER WITH THE CONFIDENCE THAT THEY WON'T RUN OUT OF MONEY LATER IN LIFE. **QSUPER WRITES.**

One of the key concerns for many people approaching, or in, retirement is that they will outlive their savings. In the early stages of retirement when retirees are active and enjoying their post-work life, spending needs are generally higher. However, research by National Seniors Australia in 2020 shows this is the period when many retirees spend less for fear of running out of money.

As a result, many people end up leaving behind significant balances that they could have used in their retirement.

To offer Australians more certainty for the future, one of Australia's largest and oldest superannuation funds, QSuper, has created an industry-first retirement product offering tax-free, fortnightly payments that never run out.

Confidence your retirement savings will last

QSuper's chief of member experience, Jason Murray, said the Lifetime Pension was developed in response to members' needs.

He said it aimed to provide greater confidence for retirees that their retirement savings would be there for their whole retirement.

Murray said customer insights showed many retirees risked living quite frugally in retirement for fear that they would consume all of their retirement savings prematurely.

"We have learnt many members leave behind significant balances – up to 90% of their starting retirement balances in some cases," he said.

"This is driven from concerns that they will need to preserve their wealth for the unexpected, or the obvious uncertainty regarding how long they will live.

"To address this risk, QSuper has worked hard in the background to develop a product aimed at providing greater confidence to members and to deliver an income stream so that they can have comfort that their retirement savings will be there for their whole retirement."

How it works

The pioneering product aims to maximise retirees' cash flow by converting their retirement savings into tax-free, fortnightly income, no matter how long they live. The Lifetime Pension also offers benefits such as money-back and spouse protection.

Launched to members on March 1, 2021, it is hoped that many retirees purchasing this product will also be eligible for a higher age pension, as only 60% of the Lifetime Pension is counted in asset and income tests.

The Lifetime Pension pool is invested in QSuper's balanced investment option, which means it is expected to offer higher rates of income than annuities currently available in Australia.

A $100,000 investment provides first-year tax-free income, paid fortnightly, of $6164 to a 60-year-old, $7529 to a 70-year-old and $10,834 to an 80-year-old, with slightly lower rates available to provide lifetime income for a spouse as well.

Not a conventional lifetime annuity

The Lifetime Pension is not an annuity. A conventional lifetime annuity pays a fixed income for life.

QSuper's Lifetime Pension, on the other hand, pays a variable income for life.

QSuper, formerly the Queensland public sector fund, is open to all Australians and the Lifetime Pension is available to QSuper members aged between 60 and 80.

For more information on QSuper's Lifetime Pension, visit qsuper.com.au/lifetimepension or call 1300 360 750.

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Get down to business

Reliable tenants, predictable income and fewer hassles add to the appeal of commercial property

STORY
SCOTT O'NEILL AND MINA O'NEILL

Despite our many years of investing experience, it has taken us a long time to understand what commercial property is and isn't. There's no point in investing your hard-earned money if you don't really "get" how it works and how you can make money from it. So let's dive right in so you can really appreciate what we love so much about this investment vehicle.

WHAT IT IS

Commercial property can be defined as any property that is zoned or used solely for business purposes. It includes shopping centres, strip malls, hotels, retail stores, warehouses, restaurants, industrial spaces, farms, office buildings, childcare centres, service stations, data centres, even vacant lots that have been designated as commercial by the local government. They are the buildings you see every day as you walk around your neighbourhood. Just as everyone needs a place to live, most of us need a place to work.

You can't build a business on a residential property or a home on a commercial property. This is because owners or builders of commercial properties must meet certain standards when constructing a business, from the style and specifications of the building to the number of parking spaces provided. Councils also have different zoning and regulations that must be adhered to. They also might have different tax rates compared with other types of properties.

Commercial properties can be divided into categories. There are hundreds of different options available, and choosing the right property and then the right tenant is often the most difficult part of starting your investing journey.

The key asset types are:

Industrial

These properties include heavy manufacturing, light assembly and warehousing. They are used to manufacture, process or store goods and include factories, workshops and research facilities. Industrial properties can range in size from a small workshop of 50sq m up to facilities of 200,000sq m or more.

They generally provide higher yields than retail or other commercial investments, and also have longer lease periods due to the specialised nature and fitout of the facilities required by tenants. In most cases they are the cheapest type of commercial property per square metre. They're usually relatively large and have often been reconfigured to accommodate heavy machinery. Frequently their location is chosen for easy highway access. They may include office space, too.

Often the specialised and extensive nature of these fitouts can make it costly for industrial tenants to move properties. Generally, the larger the asset size, the smaller the tenant pool you have to choose from. But the benefit of larger warehouses is that the tenant needs to spend more money to move, which is likely to attract longer-term tenants.

For example, a 20,000sq m warehouse might attract a global logistics company. It will likely need to spend millions on fitting out the property so won't want to move on unless really necessary.

On the other hand, the smaller the asset size, the larger the pool of tenants to choose from, so it can be easier to find a tenant.

Industrial leases generally run from two to 10 years, but most sit in the three- to five-year range.

Retail

Retail properties are the sorts of commercial property that most people will be most familiar with because we see and visit these businesses all the time. Used mainly to promote and sell consumer goods and services, they include supermarkets, department stores, specialty shops, convenience stores, pharmacies, hairdressers, hardware stores, liquor shops, food takeaways, discount stores, and so on. They range widely in size and may be home to one or hundreds of individual stores and businesses.

Retail properties can be divided into two types:

Discretionary spend reliant. These types of properties are subject to shifts in consumer confidence and the wider economic climate, which means retail property owners often struggle with extended vacancy periods if the economy is not performing well. They include travel agents, fashion stores, high-end restaurants and electronic goods stores.

Non-discretionary spend reliant. These types of properties tend to perform consistently regardless of consumer confidence and wider economic performance. They include, for example, supermarkets, allied medical shopfronts, fast food outlets and hardware stores.

Retail leases generally vary from 12 months to 10 years, but most sit in the three-to five-year range.

Office

Office properties are found in both urban and suburban areas. Many of us work in them, so they're easy to identify. In large cities, they're typically found in high-rise buildings in the inner-city central business district, although many cities have smaller satellite CBDs in the form of business office parks or office campuses. Office properties are typically used by professional service providers.

One advantage of office investing is that you are most often dealing with quality professional tenants. These may include global accounting firms, legal practices or government departments.

The downside of office investing is the sign-on costs. To encourage tenants to sign a long-term lease, office owners often need to offer incentives, which can take the form of a period of free rent, allowances for fitouts, air-conditioning reconfiguration and internet services.

Incentives are a result of you needing to compete hard to secure a tenant, as they usually have a lot of options open to them, especially in the CBD. This sector of the market was hit hardest by the pandemic as businesses chose flexible work-at-home arrangements to protect their employees from the virus. However, offices in suburban areas tended to perform better as social distancing requirements had less impact on smaller office blocks that were less dependent on lifts and less affected by public transport constraints.

Office leases, like retail, generally vary from 12 months to 10 years, but most sit in the two- to five-year range.

Boarding houses

A boarding house is defined as a house in which individual rooms are let out to short-term tenants, who share common areas such as kitchens, living rooms and often bathrooms. This classification does not include backpacker accommodation, group homes, hotels or motels, seniors' housing or serviced apartments. Given the multi-income nature of the investment, boarding houses can offer a comfortable transition for residential investors seeking cash flow returns on a commercial scale.

Keep in mind that this type of investment requires extensive and constant management owing to the transient nature of the tenant population. While the returns may look good on paper, they can be severely diminished by the extra maintenance, management costs and vacancy issues. Other types of commercial property will typically generate better returns than a boarding house.

Boarding house leases generally vary from one to 12 months, but average around six months.

Unit blocks

A block of more than four units on one title can be classed as a commercial property. For years, banks have treated blocks of four or more units on one title as qualifying for a commercial loan, which increases the minimum deposit to about 30%. The yields are higher than for standard single-occupancy residential properties, given the multiple incomes involved.

As with boarding houses, you will need to account for extra management and maintenance costs. A big difference, though, is that the units are fully self-contained, so they tend to attract longer-term tenants. Unit blocks can often allow value-add plays such as strata titling, which involves changing the ownership structure of the building so you can turn a single title into a title on each unit. This means you can sell off the units individually, potentially at a higher per-square-metre rate.

Unit leases, like most standard residential agreements, are generally six or 12 months.

Land

Land zoned for commercial property typically falls into three categories: brownfield, which is land once zoned for industrial use and may be impaired; infill, which is land that has been developed but is now vacant; and greenfield, which is completely undeveloped land.

Land can be a useful investment if you are an owner-occupier looking to build premises for your business, mainly because you can build to your own specs, laying out everything exactly as you wish.

In most cases there will be no holding income on vacant land, which rules it out for most investors. However, there are many examples where vacant land can be leased. For example, if you own land near a port, a logistics company may lease it to store shipping containers. In that case, rent will be payable, but at a lower rate per square metre than if it had a secure building.

Large-format retail properties

This sector is typically represented by homemaker-type tenants as well as tenants previously represented in traditional department stores. Large-format retail now comprises a whopping 35% of all retail floor space. Many of these properties are freestanding or part of a larger complex.

With this type of asset, you can expect long leases – three to 10 years in most cases – and tenants are very "sticky" once they are established. Prices start from around $2 million for standalone retail stores selling products such as furniture, floor coverings and other homemaker-type goods. Complexes are generally purchased by institutional investors, as prices are often more than $20 million.

Special purpose

Most other types of commercial property fall into the special purpose category. This includes such things as car washes, self-storage buildings, theme parks, nursing homes, churches and marinas.

One of the most well-known special purpose properties is service stations. These are classed as special purpose as they have a single use. Leases can be from five to 15 years and yields can be relatively favourable, too. However, there are many things to consider before jumping into a fuel station asset, such as contamination and equipment maintenance. The key here is to know exactly what you are purchasing.

Mixed-use properties

These typically involve a shopfront with a residential unit upstairs. This provides the tenant with the opportunity to work and live in the same location. There's also the opportunity to rent out the unit separately in a multi-income scenario.

Something to consider is that they generally produce a lower yield because of the residential component. As residential yields are lower, the residential floor space will bring down the overall net yield.

They can also be located in relatively expensive metro areas, where there's a lot of competition. This means vacancies can last longer and the unit may not be as desirable to live in as a unit in a residential area, because it's located on a main road with other commercial properties. Prices for these properties generally start from $1 million.

It's important always to purchase the property for its leasable qualities first, before considering the strength of the tenant. One trick we always apply to asset selection is to make sure you plan for a future vacancy. If you have confidence you will find a replacement tenant in a short period, then you have a quality property. If you are buying a property just because of a good tenant, this is going to put you at potential risk. Because what happens if that great tenant leaves and you're left with a long vacancy?

It's worth remembering that with commercial property you're interested in owning the property, not the business. The business has nothing to do with it, although it does play a part in the property selection and tenant process, because the right type of business with a secure, reliable tenant will help the longer-term performance of your asset.

WHAT COMMERCIAL PROPERTY ISN'T

You know the story. A couple at auction keep bidding and push up the price. They have their hearts set on their "forever home". They end up paying 20% more than they had budgeted for, against another couple doing the same thing.

Say goodbye to the emotional pull of the heartstrings and the stress associated with buying residential property, because in com-

mercial property the transaction revolves solely around cold, hard numbers and contracts, not people – and not emotion.

Another thing it isn't is completely unpredictable. By that we mean there is more certainty over tenants and the consistency of cash flow and even growth. Let's break this down.

Things are often a lot more predictable when dealing with commercial than with residential tenants. For example, one of the most significant reasons we were drawn away from the residential property market was inconsistency of net income, mostly because you are responsible for the outgoings and often tenants don't stay long term.

When it comes to maintenance (which is almost always covered by commercial tenants), in residential portfolios the uncertainty of having to cover extra costs can become an issue, especially when you own many residential properties. We often seem to be paying thousands every month in following up maintenance problems – from a leaking tap, faulty air-conditioner or blocked toilet to more major items such as leaking roofs, asbestos problems, replacing carpets and fences, and even structural issues. These items must be dealt with expeditiously and at your own expense. If your goal is to live off your rental income, uncertainty over maintenance costs can be a significant ongoing concern. This is not something commercial property investors need to deal with.

Lower-quality tenants are another issue that residential investors find hard to avoid. Tenants generally sign six- to 12-month leases and might stay longer, but rents are very cyclical. Compare this to commercial property, where rental increases are generally fixed at an annual 2.5% to 4%. Commercial tenants have their own brand and reputation, so naturally you will find they are more stable tenants.

Growth, too, can be more predictable for commercial property. Why? Because rental growth is a good indicator of capital growth for commercial property. Residential is entirely market and sentiment driven.

Don't get us wrong – we love what residential property can do for you, but there comes a point in your investing career when commercial investments need to play a part. It's simply more profitable in terms of cash flow and also more scalable, so you can build faster and more easily. *M*

WIN A COPY

This is an edited excerpt from *Rethink Property Investing (become financially free with commercial property investing)* by Scott O'Neill and Mina O'Neill (Wiley, $29.95). We have five copies to give away. To enter, tell us in 25 words or less what kind of property investment you are most interested in and why? Enter online at moneymag.com.au/win or send your entry to Money magazine, Level 7, 55 Clarence Street, Sydney, NSW, 2000. Entries open on May 24, 2021 and close on June 30, 2021.

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In search

STORY VITA PALESTRANT

While retirees are wary of locking up their savings in an annuity, mixing and matching products could provide a higher regular income

Should the federal government be telling retirees how to invest their super and spend their savings? Its Retirement Income Review noted with concern that retirees are being too parsimonious with their savings and leaving bequests to their kids.

The government wants to ensure super's generous tax concessions aren't being used for estate planning, but rather for their intended purpose: providing income in retirement.

As the super system matures and shifts its focus from the accumulation phase to pension phase, the spotlight has focused sharply on which types of products serve retirees best and whether longevity products should play a greater role.

The idea is to put a stop to "leakage" in the $3 trillion system, with some players calling for super fund members to be defaulted into lifetime annuity type products.

But research undertaken by the Association of Superannuation Funds of Australia (ASFA), using data from the tax office, the Australian Prudential Regulation Authority and other sources, found the vast majority of retirees exhaust their savings and leave no super behind when they die.

"We don't have a systemic problem with retirees underspending or bequeathing their super – quite the opposite. The majority of Australian retirees run out of super well before the end of their lives," says ASFA chief executive Martin Fahy.

The research showed 90% of retirees aged over 80 had no super in their final years. Among women, 85% who passed away aged 60 and over had nothing left.

"The main challenge for the system is to deliver higher superannuation balances at retirement. The solution for ensuring adequacy of retirement incomes is moving the superannuation guarantee to 12%," says Fahy.

So why all the attention on retirement products when account-based pensions have served retirees well? Their balanced option has given super fund members returns of more than 7% a year over the past 10 years.

# of certainty

The product also gives retirees the control, flexibility and transparency they need to manage life's unexpected twists and turns. And while they might worry about outlasting their super, the age pension is there as a safety net.

Consumers often bristle at the thought that the government might take a "Big Brother" approach and foist annuities on them. As far as they are concerned, it's not only their money, it's deferred pay and they should use it as they see fit.

Means test changes

Currently, 35% of Australians retire with balances of $250,000 or more. Over the next 40 years this proportion is expected to double, with around 70% of balances expected to reach that amount or more, says the Actuaries Institute's Andrew Boal in the paper "Spending in Retirement and the Taper Rate". By then about 40% of super balances at retirement are expected to reach $500,000 or more.

At present a homeowning retiree with assets, including super, below $268,000 is entitled to a full age pension for most, if not all, their retirement. Those with over $800,000 have the capacity to live off investments earnings and not have to eat into the capital.

But it's the high proportion of people in the middle who could benefit from more income certainty, says Boal.

They will be eligible for a part age pension for a substantial portion of their retirement and "as a result, the means test rules will be important to them".

Changes made to the rules for the age pension on July 1, 2019, now make annuity or lifetime products a more attractive proposition. Under the new rules only 60% of the purchase amount of a lifetime income stream and only 60% of the income payments will be an assessable asset.

Boal says such favourable treatment will be important to this large middle group and will also promote the development of new products.

How annuities work

Annuities pay a guaranteed level of income, either for a fixed period or for the rest of your life, in return for a lump sum investment. The income is paid regardless of how markets perform, providing retirees with certainty.

The downside is that an annuity is sensitive to interest rates, which means its risk-free income comes at the expense of higher growth and higher returns.

Alex Dunnin, executive director of research and compliance at the Rainmaker Group, publisher of *Money* magazine, says a fixed 15-year annuity currently returns about 3% in annual income payments.

"To get $50,000 a year in income from this you'd need to put $1.7 million into these annuities. That's a big amount of money to put away for such a long time.

"That's twice as much as you'd need to invest in a balanced investment in a plain vanilla account-based pension. Annuities are paying much higher rates than traditional bank term deposits. But compared to regular retirement superannuation accounts, they're not so compelling.

"It's part of why annuities, regardless of how compelling they are as a way to get guaranteed retirement income, have struggled to capture the imagination of today's retirees."

APRA figures show annuity payments have stayed at $4 billion a year since 2015. "Given income payments paid through super funds have risen 32% from $28 billion to $37 billion through this time, it means the annuity share has fallen from 14% to 11%," says Dunnin.

"When you look at the broader trends, when people retire they are increasingly leaving their money in the super system in an account-based pension or an equivalent product and drawing down a pension or regular payment from their super."

The generous age pension incentives may be their "secret sauce", says Dunnin, but it doesn't get over the hurdle of retirees' reluctance to lock in their savings and not being able to pass on the residual to their estate. "That makes them unattractive to a lot of people."

However, an annuity can complement other retirement investments and sources of income such as super and the age pension.

Take a layered approach

Ben Marshan, head of policy, strategy and innovation at the Financial Planning Association, agrees there isn't a lot of demand for annuity products. "In a market-based society, if there was a lot of demand for annuities you would've seen more companies providing them." People are not comfortable with the idea of locking up their money.

However, annuities do have strategic benefits if used well in combination with other income streams, such as

> "To get an income of $50k a year for 15 years, $1.7m is a big amount to put away for such a long tme"

account-based pensions and the age pension. For starters, they offer higher returns than term deposits. "If you were to invest $100,000 in a term deposit you would probably be getting somewhere between 1%-2.5% returns, but because they pool all of the money, you tend to be able to get 4.5%-6%-type interest rates or annuity payments off the investment," says Marshan.

"When you combine the guaranteed payments, and you combine the age pension benefit you get from an annuity product, there's a strong argument as to why – within certain profile bands – they are attractive to help acquire certainty around retirement."

Financial planners typically use a layering approach to maximise retirees' income. "They will typically look at allocating about 20% to annuities. It will cover the client's essential living expenses so no matter what happens with your other investments it's going to be covered," says Marshan.

"It means you can take a slightly more aggressive investment approach with your account-based pension than you otherwise might do because you have a guaranteed source of income from the annuity. Over longer periods of time you will get a better outcome from that. It provides some additional flexibility for you if you've got this guaranteed income that is sitting there."

Deferred lifetime annuities are another product that can give people peace of mind if they fear running out of money later in life. The income stream can be purchased but deferred to a later date.

"If you're just a bit over the Centrelink assets test you can lock away a portion of your money that will be available later in life and doesn't count for Centrelink purposes. It allows you to get age pension benefits but you know you'll get your money back later in life," says Marshan.

He dismisses out of hand calls to make annuities and lifetime pensions compulsory. "Australians want control over their own money. They also want to know they have the option of helping their kids when they pass away. The only people that are pushing it are the ones who stand to make significant amounts of money and benefit from it."

Independent financial adviser Mark Berry, of Berry Actuarial Planning, agrees that making such products compulsory has little appeal. "The environment in which retirees operate must allow optimum flexibility to respond to their changing needs and circumstances," he says.

"Products like annuities compromise their ability to respond to change and should not be compulsory. They may need to access capital for aged care needs or to assist family members with unforeseen medical expenses, and if funds are trapped in annuities then the ability to respond is compromised."

John McCallum, CEO of National Seniors Australia, says the retirement system as it stands is far too complex. "What's needed is consistency and a lack of complexity, particularly in that zone between having eligibility to a part pension and managing your own money – that's a very complex zone."

He favours fund members being offered a default lifetime product, but it should not be compulsory – they should be able to opt out.

Pioneering product

QSuper, the third largest super fund in the country with $120 billion under administration, is the first super fund to launch a lifetime product.

The lifetime pension is linked to QSuper's balanced investment option, enabling it to offer much higher rates of income than traditional annuities.

Unlike annuities, the lifetime pension payments are investment-linked. This means amounts are not guaranteed and may be adjusted up or down annually based on the investment performance and mortality of the pool.

The product is designed to support increasing payments over time to assist with rising costs of living.

As a lifetime pension it qualifies for the pension

benefits referred to above: retirees may receive higher pension payments than they may otherwise have qualified for, or potentially be eligible for the age pension and commonwealth pensioners concession card.

Ben Hillier, head of product and services at QSuper, says unlike a traditional annuity that needs to invest conservatively in cash and bonds, QSuper's product is market-linked and invests 100% in the fund's balanced option.

"As a result, the rates of income are substantially higher. But because its market-linked there is some variability to the income. It will go up and will go down annually based on a fairly simplistic, or transparent, formula that we communicate to members." The benchmark for the pool's financial result is set at 5%.

Brnic Van Wyk, head of asset and liability management at QSuper, says there are two components to adjusting the pension annually. "The dominant one is investment returns. So, you could phrase it in a way to say we have an investment return assumption of 5% and the adjustment will be a deviation from that assumption.

"That assumption is prudent, it's conservative. We would expect to get investment returns in our balanced fund in excess of that 5%, which means we expect pensions will increase over time.

"Our balanced option returns for the last 20 years is almost 9% a year, so that would've given people in the last 20 years effectively a 4% increase a year on average. Some years it goes up and some years it goes down, but that broadly keeps pace with inflation.

"It doesn't guarantee it will increase every year with inflation, but it creates that expectation over time. And that will dominate. But there is also a mortality assumption because it is effectively a pooling of lives."

In addition, Hillier points to the product's low fees. "Effectively there are no extra fees. QSuper has a standard percentage-based admin fee of 0.16% a year and an investment management fee on the balanced option of 0.38%. They are just our standard fees that apply to this product."

The lifetime pension has money-back protection, which assures members if they die before receiving their purchase price back as income their beneficiaries will get the difference. "If you put in $300,000 and you and your spouse die after 10 years or so and had $200,000 in income, the remaining $100,000 will be paid to your beneficiaries."

There's a six-month cooling off period so retirees can decide whether the product is right for them. It can be used alongside an account-based pension.

Finally, when it comes to setting yourself up for retirement, it pays to get professional help. It's a complex and difficult landscape to navigate alone. *M*

CASE STUDY

How a couple can maximise income

Betty and Geoff are both 67-year-old retired schoolteachers with a combined $930,000 in super. They may qualify for some age pension in years when there is a market downturn, but generally are not eligible for age pension benefits.

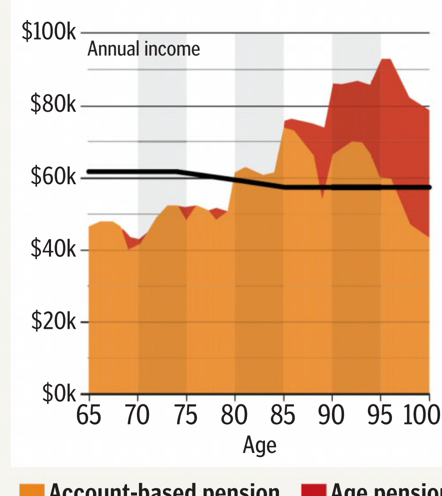
As the graph (below, left) shows, even with a balance of this size, if they withdraw the minimum from their retirement income accounts, they will not achieve the ASFA retirement standard for a comfortable level of income in the early years of retirement, which is $62,562 for a couple. (It's $44,224 for a single person.) Their income and access to the age pension are also impacted by market movements.

However, if they were to consider splitting their balance between a retirement income account and a lifetime pension, they would be able to target a significantly higher income. They could also qualify for the age pension and therefore benefit from the pensioner concession card. In addition, they would be less affected by market movements and experience a more stable income stream.

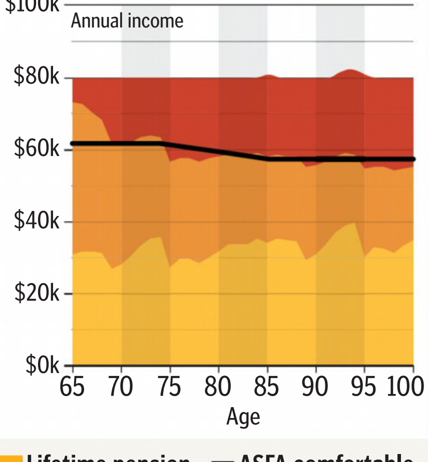
This is a stronger outcome for Betty and Geoff, as they gain additional income in their early, more active years of retirement, and receive the additional benefits of the pensioner concession card.

In this example, provided by ASFA, Betty and Geoff were advised to put half of their balance into a QSuper lifetime pension. This enabled them to draw a target income of $80,000 in total from their age pension, lifetime pension and account-based pension, using the flexibility of their account-based pension to ensure their income remained consistent.

Minimum drawdown from anaccount-based pension with no Lifetime pension



Target drawdown from an account-based pension with 50% of balance used to purchase a Lifetime pension



Account-based pension | Age pension | Lifetime pension | ASFA comfortable

Source: QSuper

These graphs have been used for illustrative purposes only and may not be to scale.

The fight club of finance

CFDs are a risky investment, but the payoff can be huge when – or if – it comes

Once the domain of professional investors looking to hedge their portfolios, contracts for difference (CFDs) are increasingly being traded by retail investors. But are they worth the risk?

CFDs are over-the-counter (OTC) derivatives, so the underlying security is never physically owned.

They are essentially a two-way bet between a provider and a trader that a security, such as stock or currency pair, will either increase or decrease in value. Traders can bet that a security will go up, known as going long, or that it will go down, known as going short.

But perhaps the most significant aspect of CFDs is that they allow traders to leverage their position. And this is where the bodies are buried.

Leverage amplifies the position such that the gains or losses are based on the levered trading amount, not the initial investment.

"If you had $100 and you had leverage of 300:1, you're taking a $30,000 position with your $100," says Peter Campbell, financial adviser at Merideon Wealth Strategies.

"So that can be very fast money, but you can also rapidly lose a lot of money. If a severe market event happens and your stop losses get skipped over, or what we call 'gapped', then your losses can blow out."

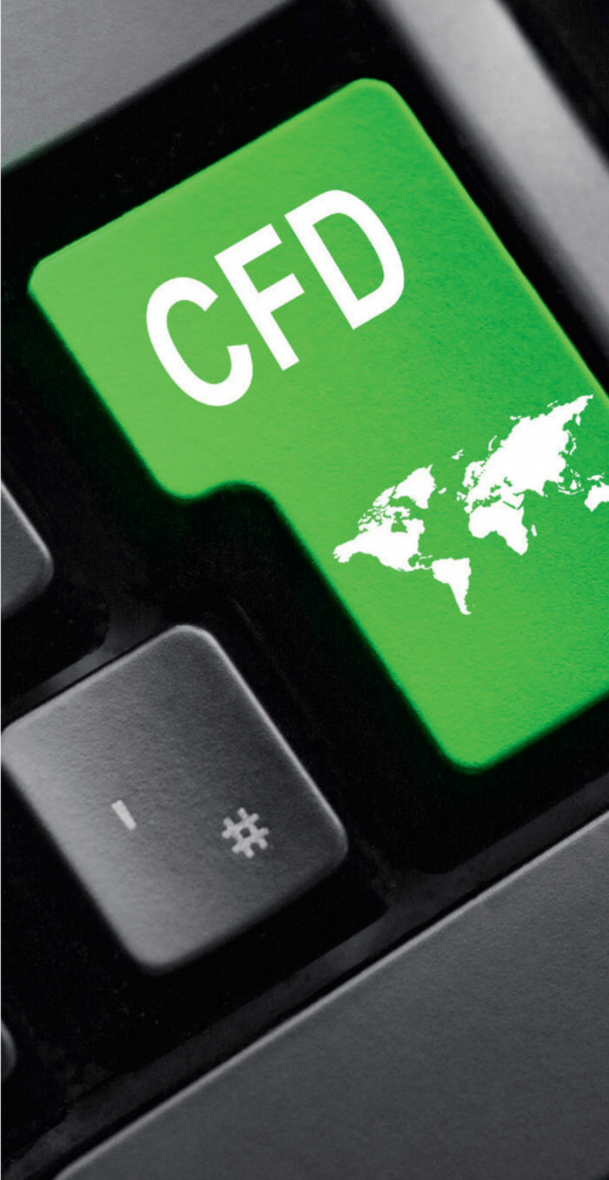
Maintaining a position can lead to a margin call. If the underlying asset falls too far on a long bet, or increases too much on a short bet, you may be required to inject more capital into your position to meet the contracted margin requirement.

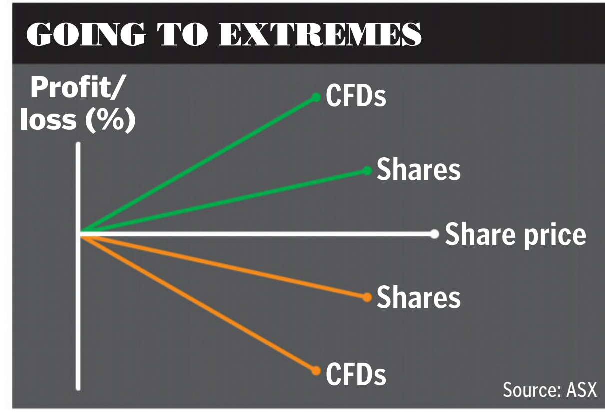
Before gaining traction among retail investors, CFDs have for a long time been a tool used by professionals to hedge their positions and minimise losses.

"CFDs have been around a long time, but they burst in popularity when it comes to the retail trading of foreign exchange," says Campbell.

So worried was the Australian Securities and Investments Commission (ASIC) that last year it placed ratio limits of 30:1 for major currency pairs, 20:1 for minor currency pairs, gold or a major stock index, 10:1 for commodities other than gold, 2:1 for crypto assets and 5:1 for other shares.

This may still seem like a lot of leverage, but it's a far cry from the 500:1 ratio that was common. "Protecting retail investors from harm, particularly at a time of heightened vulnerability, is a priority for ASIC," says Cathie Armour, an ASIC Commissioner.





The move was based in part on a five-week period in March and April 2020 when the retail clients of a sample of 13 CFD providers made a net loss of more than $774 million. Also during this period, over 1.1 million CFD positions were terminated under margin close-out arrangements, and more than 15,000 retail client CFD trading accounts fell into negative balance, owing a total of $10.9 million.

What's more, a 2017 ASIC review found that 63% of clients lost money trading margin foreign exchange CFDs, while 72% of clients lost money trading other CFDs.

It's really no surprise, then, that a lot of interview requests to CFD providers went unanswered when preparing this story.

"No one wants to talk about fight club," says Campbell.

As mentioned, CFDs have long been used as a tool to hedge – essentially to have a second position that will offset the potential losses of another primary investment. And experienced retail investors could use them for this reason, too, though it's uncommon.

It comes down to understanding what you're investing in.

"If you think about ma and pa reading a Facebook advertisement that encourages investment in exciting things like GameStop and Bitcoin, it's not something that's commonly understood," says Campbell. "Compare that to property, which is tangible, a physical asset, and that's an entirely different prospect."

While the concept of profit and loss resulting from the rising or falling value of an asset is familiar to most investors, the concept of margin trading is less so. "I don't think people understand gearing, they see it as a big piggybank," says Campbell.

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^La Trobe Financial's 12 Month Term Account was judged the Best Credit Fund – Mortgages for 2021 by *Money* magazine.

Beat the income squeeze

STORY
NICOLA FIELD

In today's low-rate world, there is a way to boost income while protecting precious capital

For Australians who rely on cash savings to fully or partially fund their lifestyle, the past few years have been challenging. Since 2011 the official cash rate has tumbled from 4.75% down to 0.1%, and it's putting a serious squeeze on household incomes.

Ten years ago, an investor with $500,000 in a 12-month term deposit could have earned a return of 6.05% to generate annual income of $30,250. Fast-forward to 2021 and that same nest egg is likely to earn an average of 0.3% in a similar deposit, producing a meagre annual income of just $1500.

Chris Andrews, chief investment officer and deputy CEO of La Trobe Financial, whose 12-month term account has taken out *Money's* Best of the Best award for mortgage-backed credit funds in each of the past 12 years, says he hears daily from investors regarding the challenges of today's low-rate environment.

Sarah Harding, financial planner and principal of Sydney-based WY Advice, adds: "Retirees are among those most heavily impacted by today's environment of very low interest rates.

"I have met with retirees who have substantial volumes of cash earning very little interest in bank accounts. They want to earn better returns on their money, but they aren't comfortable taking on the higher risk of sharemarket investing as they don't have previous experience, and they are keen to protect the value of their capital."

The solution can lie with mortgage-backed investment funds, or what used to known as mortgage trusts.

It's worth stressing that these investments are not the same as a term deposit. Investors' money is not backed by the government guarantee that applies to savings accounts, nor are returns set in stone. However, they can provide an opportunity to make your money work harder through a combination of healthy returns, regular income and capital stability.

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Looking out for you for seven decades

How they work

Investors have a number of choices when it comes to these funds.

A contributory fund allows them to acquire a fractional interest in a specific mortgage. The loan may be used to finance anything from the construction of a residential apartment block to the development of a commercial office building or retail centre.

This option has the advantage of allowing investors to pick the mortgage that matches how they feel about risk and the returns. However, it can mean waiting until an appropriate mortgage becomes available. The bigger drawback is that contributory funds can see investor risk concentrated in a few developments, or even just one.

A second option is a pooled fund that spreads investors' money across a range of mortgages and borrowers. Investors don't have a say in the underlying loans, though the upside is greater diversity, which helps to reduce risk.

Compelling returns

In today's low rate environment, the returns on mortgage-backed funds can be compelling.

Returns for contributory funds, where you pick the development project , tend to be higher than for a pooled fund, reflecting increased risk. As a guide, Australian Unity's Select Income Fund is currently offering returns of 6.75-8.75%pa.

Even with pooled funds, investors can earn returns exceeding 4%, still well above rates on bank deposits. At the time of writing, La Trobe Financial's 12-month term account, which has the highest sector rating by SQM Research, was paying 4.35%pa.

The potential for high returns brings additional considerations. As Harding points out: "Investors considering a mortgage-based investment should be aware that there is always a heightened level of risk – these investments are not on par with bank accounts. People tend to focus on the yield their money will earn, but it's important to be aware that higher returns also carry higher risk."

Where to focus research

Regardless of the type of investment, investors need to address three issues:

- The quality of the fund's underlying assets, as this drives performance;
- Liquidity management; and
- The quality of the fund manager, including their track record and transparency.

Knowing how and where your money is invested with a mortgage-backed fund can hinge on thoroughly reading the product disclosure statement (PDS). In particular, Harding says it is important for investors to look at the underlying portfolio of mortgages. "Ideally, a fund will bring diversity to its portfolio by having a variety of loans and borrowers with different credit ratings."

La Trobe Financial's 12-month term account spreads investors' money over more than 6000 mortgages. Other fund managers can have fewer than 100 loans.

What's interesting in the case of La Trobe, is that residential mortgages account for more than half (54%) the 12-month term account's underlying assets, whereas the sector focus tends to be on commercial loans. At a time when home loan rates are below 2% with some mainstream lenders, this can raise questions about the quality of borrowers seeking a residential mortgage from a provider charging higher rates. But it turns out there are sound reasons for the high volume of residential loans.

Harding says that in today's environment of high home loan demand, mortgage brokers are reporting delays in access to credit. This, coupled with an increase in the verification banks are demanding from residential borrowers, is seeing many people consider lenders beyond mainstream banks to access a mortgage.

Andrews goes further: "There is always a group of borrowers that the big banks don't deal with very well. High-quality borrowers such as self-managed super funds virtually never default, yet the banks tend not to serve this part of the market."

It's a similar story with self-employed borrowers. Andrews says they can often be extremely wealthy, though the way their finances are structured may make it hard for banks to determine their ability to service a loan.

According to Andrews, La Trobe Financial carefully vets the quality of each borrower, including their credit history and sources of income, to determine credit worthiness. The result, he says, is that "the average credit score across our borrowers is similar to – and in some cases higher than – those who borrow from the big four banks."

Check the LVR

Another area worthy of attention is the fund's loan to valuation ratio (LVR). This is the percentage of a property's value a fund is willing to finance through a mortgage. SQM Research says the normal range of LVRs is around 50%-70%.

Since 1952, La Trobe Financial has been helping Australians build wealth.

Details of the portfolio's overall LVR should be noted in the PDS. The lower the LVR, the greater the margin for safety.

Redemption risk

Sarah Harding points to liquidity – how easy it is to get capital in and out of the investment – as a key issue for investors.

Liquidity has been problematic in the past. Seasoned investors may recall the GFC of 2007-09, when many mortgage trusts were forced to freeze redemptions as investors shifted cash into newly government guaranteed deposits. The fallout saw a swathe of fund managers exit the sector altogether.

Shane Oliver, head of investment strategy and chief economist at AMP Capital, explains what went wrong. "Funds froze redemptions to minimise forced sales of assets at a time when the underlying value of the assets were falling. Being subject to a redemption freeze at a time of market stress for the underlying assets of such funds is one of their key risks."

La Trobe Financial was among the few funds that didn't freeze payments during the GFC, which Andrews attributes to the quality of the assets and good liquidity management.

Keep a cash reserve

Investors considering a mortgage-backed investment fund typically need to commit to a specific time frame, so it's important to know where you stand if cash is needed urgently.

A product may be described as having a set investment term, but it can be up to you, the investor, to alert the fund that you want your capital back on the due date. This works in much the same way as a fixed term deposit, where your money will simply be rolled over for another term unless you provide instructions to the contrary.

It's when money is needed in a hurry that investors can face additional costs. With La Trobe Financial's 12-month account, for example, funds may be returned early, subject to liquidity within the fund, though a 1.5% early redemption fee applies.

The upshot is that it can make sense to only invest money that won't be needed for the set term and to have back-up cash available to handle emergencies.

Is there an alternative?

Unlisted funds aren't the only way to pocket regular income backed by healthy returns plus the potential for capital stability. Managed funds and listed investment companies (LICs) with exposure to underlying mortgages are also available on the Australian Securities Exchange (ASX).

As a guide, the Qualitas Real Estate Income Fund (ASX: QRI) aims for monthly dividend payments and capital preservation via exposure to commercial real estate loans, chiefly in Australia. Perpetual Credit Income Trust (PCI), which also pays dividends monthly, invests in domestic and global credit and fixed-income assets.

WY Advice's Sarah Harding believes that listed trusts and LICs make it much easier to sell down and receive funds within three days than to try and exit an unlisted trust. "The transparency of underlying mortgages and the composition of portfolio is a bit higher with a listed structure as they have to meet ASX listing requirements."

The catch is that a major sharemarket rout can impact every sector, something we saw in February-March 2021 when the ASX 200 plunged 30%, dragging down values across the board. While severe market downturns happen infrequently, it is a risk to bear in mind in the trade-off for liquidity. *M*

This report was sponsored by La Trobe but was independently researched and written.

MORTGAGE TRUST RATINGS (OUT OF 5)

FUND MANAGER	La Trobe Financial Australian Credit Fund 12-month term account	Trilogy Enhanced Income Fund	Trilogy Monthly Income Trust	EQT Mortgage Income Fund	Boston Private Income Fund	BMYG Australian Property Credit Fund
SQM RATING	4.25	4.0	4.0	3.75	3.75	3.5

Source: SQM Research April 2021

CONTRIBUTORY MORTGAGE TRUST RATINGS (OUT OF 5)

FUND MANAGER	La Trobe Australian Credit Fund Select Investment Account	Balmain Private (Balmain Discrete Mortgage income trusts)	Australian Unity Select Income Fund	Firstmac High Livez – Retail	Zagga Investments Lending Trust	RF Eclipse Select Credit Fund
SQM RATING	4.25	4.25	4.0	4.0	4.0	3.75

Source: SQM Research April 2021

Are they right for you?

Mortgage-backed investments can be suitable for a variety of investors. The choice comes back to your risk tolerance and your goals. If you value liquidity and are comfortable with sharemarket volatility, a listed fund or LIC can be a flexible solution.

For many retirees, however, taking care of capital is a top priority, and this can make unlisted funds attractive. If in doubt, speak with a financial adviser.

As financial adviser Sarah Harding notes, mortgage-backed investments are all about capital preservation and earning a stable income that generally is higher than bank accounts. "As more Australians enter retirement, I believe we could see growing interest in these investments."

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

STORY DAVID THORNTON

Growth has been the buzzword for half a decade, but value investing is set to reassert itself

Return of the bargain hunter

Value investing is all about finding bargains. The market prices stocks based on supply and demand, but this price may sometimes be below what investment experts assess to be a "fair" price.

As the father of value investing, Benjamin Graham, has said: "The intelligent investor is a realist who sells to optimists and buys from pessimists."

The idea behind value investing is that the stock is bought on the cheap, and eventually the market will realise it is actually worth more than it is trading for and then recalibrate the price upwards, thereby returning a profit for the investor.

Growth investing, on the other hand, is all about finding stocks that will grow faster than the rest of the market.

If Graham is the pioneer of value investing, the mantle in the growth domain certainly goes to Philip Fisher, who followed the maxim that "[the] greatest investment reward comes to those who by good luck or good sense find the occasional company that over the years can grow in sales and profits far more than industry as a whole".

Some investors view growth and value investment styles as bedfellows.

The legendary Warren Buffett has even suggested that growth and value investing are joined at the hip: "Growth is always a component in the calculation of value."

Michael Goldberg, managing director and portfolio manager at Collins St Asset Management, sees it this way: "Between Ben Graham and Philip Fisher, you'll find all growth investors and all value investors. Both are looking to buy a dollar's worth of a business for 50 cents."

In any case, growth businesses tend to be valued more based on their future earnings as opposed to their current earnings.

Tesla is a great example. For years it survived on capital raisings, and only recently announced its first full-year profit. And its consumer-facing business doesn't even account for most of its income. Last year it made more money from selling emissions credits to other car makers than it did from selling its cars.

Growth investing has had the upper hand on value investing over recent years. The MSCI Australia Growth Index shows an annualised five-year return of 10.52% compared with the MSCI Australia Value Index's 8.55%.

This disparity has come amid low growth, cheap money largely thanks to central bank quantitative easing and low inflation.

What low rates mean

The low rates also make growth companies appear more attractive.

"If you're ascribing value to a company with future earnings growth, one of the basic measures you're going to look at is discounted cash flow," says Goldberg. "So, when interest rates are low and falling, the future values of those cash flows are more valuable than they would be if the risk-free rate was higher."

These conditions favour companies that borrow a lot of capital and reinvest it with an eye to future earnings growth.

"Pre-Covid, investors looking for growth were pushed into tech stocks and the growth end of the market, and the low interest rates allowed them to pay whatever they liked," says Stephen Bruce, director of portfolio management at Perennial Value Management.

However, Aaron Binsted, portfolio manager at Lazard Asset Management, believes interest rates have likely had a marginal affect.

"Rates are often used to explain the popularity of growth companies. It does make a difference, but if you play around with cash flow discount rates, the difference is not that big."

"Additionally, the relationship between lower rates and higher equity prices just isn't there. At the time the US was having a boom because of supposedly low interest rates, Europe was flat even though they had lower interest rates than the US."

Rob Hay, head of distribution at Collins St Asset Management, attributes some of the surge in growth to the inflow of passive money from exchange traded funds.

"As these companies have greater and greater market capitalisation, in turn they then attract more and more flows from passive strategies with each quarterly rebalance. So much so that some investors who are not natural owners of these growth stocks are compelled to hold them by default."

The average Aussie share fund is tracking the index plus or minus 3%, notes Hay.

"As a fund manager, if you have a mandate to track the index, even if intellectually you disagree with the valuation of stocks like Afterpay, you find yourself having to have these companies in your portfolio."

Then you can throw in a good dose of speculation. If you want to take risk with a speculative bet, you may as well do it with a trending stock that promises juicy growth.

"You can differentiate between speculation and fundamentals," says Binsted. "Fundamentals are seen in higher dividends and stronger

VALUE VERSUS GROWTH

Index performance – gross returns (%)

	1 MO	3 MO	1 YR	YTD	3 YR*	5 YR*	10 YR*	SINCE DEC 31, 1974*
MSCI AUSTRALIA VALUE	-0.51	7.80	86.72	7.80	7.24	8.55	5.08	12.53
MSCI AUSTRALIA GROWTH	2.33	-1.72	49.68	-1.72	10.10	10.52	3.54	9.59
MSCI AUSTRALIA	0.72	3.44	68.66	3.44	9.21	9.94	4.55	11.25
MSCI WORLD	3.38	5.04	54.76	5.04	13.42	13.98	10.50	11.10

Source: ASX. March 31, 2021. * Annualised

> You can have cheap stocks that are overpriced and expensive stocks that are good value

earnings growth, whereas the outperformance of growth stocks as a group has been based on their price multiples expanding, not on superior earnings growth. That really suggests that a lot of the expansion has been based on speculation."

One can imagine that Benjamin Graham would agree were he still alive, having famously stated that "you must never delude yourself into thinking that you're investing when you're speculating".

Going around in cycles

Finally, the popularity of growth stocks follows a historical pattern.

"We're at the end of a very long bull market and it's at the end of those markets where you get extreme valuations," says Binsted. "If you look at long-term market cycles, these extremes in growth tend to eventuate after financial crises, and the past decade has followed the global financial crisis."

Eventually conditions change, and this could work in the favour of value investing.

"You're seeing a paradigm shift. You've had low growth, low rates, but now you see broader growth, rising rates and rising inflation," says Bruce.

"During the Covid crash there was a tremendous amount of uncertainty, and you saw good-quality businesses thrown out with the bath water," adds Goldberg.

Generally, improving economic conditions are a good thing for all companies, even growth companies.

"For the last decade it's been a narrow range of stocks that have offered growth, and that's meant those stocks have traded at a premium," says Jamie Nicol, chief investment officer at DNR Capital.

"Now it's broadened out because of the low base many companies are under and also because of fiscal stimulus, which provides a healthy backdrop for many sectors."

The spotlight has been almost exclusively on the frothy top end of town, but now it will cast over more of the market.

"As people look around and see there are other opportunities available, you get a grinding down of this valuation premium high-growth companies have enjoyed," says Bruce.

A common misconception is that stocks with low price to earnings (P/E) ratios offer value, while high P/E ratios represent growth stocks.

"Simply buying the cheapest stocks isn't the way forward," says Bruce.

Indeed, you can have cheap stocks that are still overpriced, and expensive stocks that are still good value.

Which sectors will benefit

So, what assets and sectors stand to benefit from a rotation to value? Among the sectors Bruce expects will benefit from an inflationary period of broad-based growth are commodities and consumer-facing cyclical stocks.

"Financials should also continue to perform well with steepening yield curves, and dividends will be bouncing back," he says.

Reece Birtles, chief investment officer at Martin Currie Australia, expects strong performance from the financial sector. "Rising interest rates and higher credit growth will benefit the banks."

Birtles also points to the energy and services sectors as likely beneficiaries of the changing investment landscape. "Drilling was so cut back due to the demand shock, and although demand has come back drilling is yet to. Despite investment in renewables, there's going to be an insufficient quantity of energy as the economy grows in the short term."

However, the jury is out on whether consumer discretionary stocks will outperform in the long term.

"Retailers have done well in Covid because there's been an increase in spending on goods, but at this point consumers have spent so much money on goods that there may not be much pent-up demand left," says Birtles.

Aaron Binsted has similar concerns that the consumer activity we've seen as we've come out of the pandemic may be a short-lived sugar hit.

"It has huge support near term, but you have to ask questions about what will happen next year or the year after, because the government has to stop sending us money at some point," he says. *M*

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Performance as at 31 March 2021*

	ETHI	Global Shares Index
1 Year (%)	**32.7%**	24.0%
3 Years (%, p.a.)	**23.0%**	12.3%
Fund inception (%, p.a.) 5 January 2017	**21.4%**	12.3%

Past performance is not indicative of future returns. Investing involves risk.

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*Source: Bloomberg. As at 31 March 2021. ETF returns are calculated using NAV per unit and assume reinvestment of any distributions. Global Shares Index refers to Solactive GBS Global Markets Large and Mid Cap USD Index NTR (AUD). BetaShares Capital Ltd (ABN 78 139 566 868 AFSL 341181) is the issuer. Investors should read the PDS at www.betashares.com.au and consider with their financial adviser whether the product is appropriate for their circumstances. An investment in the Fund involves risk - its value can go down as well as up - and should only be considered as a component of a broader portfolio. Awards are only one factor when considering a financial product.

SECTOR HEALTHCARE

Catch a global tailwind

Growing affluence in an ageing world bodes well for the future

This time last year, Australians were revering healthcare like never before. At least not in our lifetimes. We were, at once, thankful for our health system and also wondering if it would be able to cope with the huge influx of Covid-19 cases that, worst case, would threaten our ability to provide adequate care.

It is one of those things that, in normal times, we're able to take for granted: that our health needs will be able to be met if and when we find ourselves in need.

It is, in Australia at least, an assumption we can make in large part because of our public health system. But it is also because of our private healthcare networks and health insurance, and because of those companies that have made improving our wellbeing their core mission.

There is no shortage of healthcare options for investors: there are private hospitals, diagnostic services, medical device makers, health insurers (though these are more reasonably categorised as financial services) and retirement and aged care facilities (again, more appropriately classified as property trusts, in this writer's opinion).

And the sector is growing, not just here but globally. As a population, we are ageing. And healthcare inflation is growing at more than 3% – about twice to three times the rate of general inflation. Add that to the fact that Australia spends around 10% of its national economic output (GDP) on healthcare – our American cousins are closer to 18% – and the importance of this sector becomes apparent.

Unfortunately, growing volumes aren't enough to make an investment case. The amount of oil drilled grew almost exponentially for a century after it was discovered, and the price barely kept up with inflation. Air travel grew at a similar clip, but most airlines have gone broke – some more than once! Even in healthcare, a successful investment needs something different. Better. Preferably unique.

Best in Breed's tips so far

SECTOR	STOCK	ASX CODE
Discretionary retail	Kogan	KGN
Consumer staples	Treasury Wine	TWE
Resources	South32	S32
Financials	Macquarie Bank	MQG
Healthcare	Cochlear	COH

The private hospitals were, somewhat ironically, knocked around by Covid-19, as governments suspended most non-essential procedures. And while they have size on their side, and are very profitable, the cost of building and maintaining a hospital makes outperformance harder than you'd imagine. Just think of the time, cost and upfront capital required to build a new hospital. And unless the population grows at a sufficient rate, each new facility cannibalises those around it, at least to some extent, including, more often than not, those owned by the same companies.

The diagnostic services, on the other hand, have been in clover, and their share prices have reflected that over the past year (and extending a longer-term trend in the process, as doctors continue to increase the number of tests they recommend and the ageing of the population continues). That's a long-term tailwind, unlikely to stop any time soon.

And then there are the medical device makers – the ones you know, like Cochlear (hearing implants) and ResMed (sleep apnoea devices and ventilators), and ones you may not, like Nanosonics, which makes devices to disinfect ultrasound probes and the disinfectant that goes in those machines.

Then there's CSL, one of Australia's great export success stories, even if the new generation of vaccines (using gene technology) presents a potential existential challenge to that part of its business.

Foolish takeaway

There's no harm in looking for business tailwinds. In fact, they can be wonderful. You want true longevity, though. So, for keeping customers essentially for their lifetime, plus a market-leading brand, practitioner recommendation and a long growth runway as the world continues to become more affluent, it's hard to go past Cochlear as our Best in Breed.

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).

How AI is quietly changing the world

Businesses are increasingly using smart computers to benefit customers and shareholders

A mere mention of the term artificial intelligence (AI) causes a lot of people to think of it as some abstract technology that is being tested in advanced computing labs, modelling robots on human behaviour. In reality, AI is far more common and being harnessed to affect our lives in a variety of ways – we just don't notice it as much.

In fact, AI is becoming a real competitive advantage for some companies and setting them up to deliver significant value to their customers and shareholders. Therefore, developing an appreciation of how some companies are leveraging AI in their operating models is an important skill for investors.

Artificial intelligence, in essence, is the processing of countless volumes of collected data by computers to make automated decisions or even elicit artificial creativity. It is fast becoming a universal engine of "doing" or "execution".

Until now, humans have used computers to capture and display data through reports and used the insights therein to make decisions for "doing". But now, AI or smart computers are stepping straight into the realm of "doing" and becoming an operational foundation for a wide range of activities that would otherwise have been done by humans or operations with humans at their core.

So where am I going with this? The implications for business alone are profound. AI is transforming the very nature of companies, how they operate and how they compete. Investors need to understand how some companies are harnessing the power of AI to drive explosive growth that would not be possible with traditional processes.

For example, the reality of harnessing the power of AI in business processes is already here for companies such as Facebook, Tencent, Walmart, Roche, Mastercard, Fidelity Investments, Tesla, Amazon, Google, and on and on the list continues.

There is a general perception that AI needs to somehow replicate humans flawlessly to become of any use and disrupt our way of doing things – that would be defined as "strong AI". What doesn't get much airplay is that the "weak AI" is already here and it doesn't need to be a perfect replica of humans to be powerful and effective.

Take, for example, Facebook, which uses AI to prioritise content on an individual user's social media feeds based on the deep data collected on that individual. In another example, Walmart, which sells an unthinkable 35 million products online, uses "weak AI" to analyse customer behaviour to automatically set prices of products and services without the need for human intervention.

In both these instances, AI allows scale, constrained only by incremental investment in the computing power, to expand services and product lines and cater to however many customers the businesses wish to serve globally. Thus, even at the basic level of artificial intelligence, we have been seeing its applications explode over the past 10 years.

Investors should keep a close eye on companies that are quietly creating or adapting their operating models to the use of AI and paving the way to serve more customers more quickly, precisely and efficiently.

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

3 FUNDS TO WATCH

1 Munro Global Growth Fund

The fund aims to provide investors with absolute returns through exposure to global growth equities over the medium to long term while maintaining a capital preservation mindset. It has interests in such areas as digital enterprise, climate change, high-performance computing, internet disruption, ecommerce, digital payments and emerging consumer.

2 Perpetual Global Innovation Share Fund

It aims to provide investors with long-term capital growth by investing in quality global companies that are benefiting from technological change and innovation. The manager believes that changes in technology and innovation can have a significant impact on the future earnings and valuation of companies, and that by focusing on understanding new changes in technology and innovation this can lead to early identification of undervalued stocks.

3 Hyperion Global Growth Companies Fund

The fund offers a high-conviction portfolio of quality global listed equities from a research-driven, bottom-up investment philosophy. Its portfolio exhibits high-quality business franchises that have above-average growth potential, low levels of gearing and predictable medium- to long-term earnings.

STORY GREG HOFFMAN

Floats without fears

In a world of microscopic interest rates, investors wanting to make a fast buck or two should look before they leap

'Dear Gregory, the RAMS saver bonus rate will change to the new rate below…" Emails kicking off with this deflating news have arrived in my inbox with depressing monotony over the past few years.

In 2019, RAMS was paying the hardly inspiring (but still competitive) rate of 1.15% plus 1.4% bonus interest if certain conditions were met, for a total of 2.55%. With this latest missive, the rate is now 0.1% plus 0.05% conditional bonus, for the grand total of 0.15% (the bonus rate was slashed from 0.45%).

Contrast that with the almost 200% return for those who bought Airtasker shares in its float and sold on its first day of listing. It's chalk and cheese.

When markets are firing, as they have been over the past year or so, there seems to be plenty of easy money in the offing. You've surely heard about people making fast money in cryptocurrencies and maybe even non-fungible tokens (NFTs). In the sharemarket, the allure of fast bucks is usually strongest when it's attached to new floats. Nothing is for free in finance, though. It may not feel like it right now in the heat of a buoyant market, but the trade-off for potential higher returns is higher risk.

While earning hardly anything, your money in the bank is safe and will be there when you need it. That is certainly not the case when it comes to sharemarket investments (or cryptocurrencies and NFTs, for that matter). Individual companies – and even the entire market – can be sideswiped by unexpected events, as we all experienced with the Covid-19 pandemic. As a result, your investments might be worth substantially less tomorrow, next month or next year than they are today.

Emotional barometer

Firing up people's greed glands, as they often do, floats can serve as something of an emotional barometer for sharemarket investors. When investor confidence is low and fear rules the day, as it did in March last year, there's little appetite for new floats.

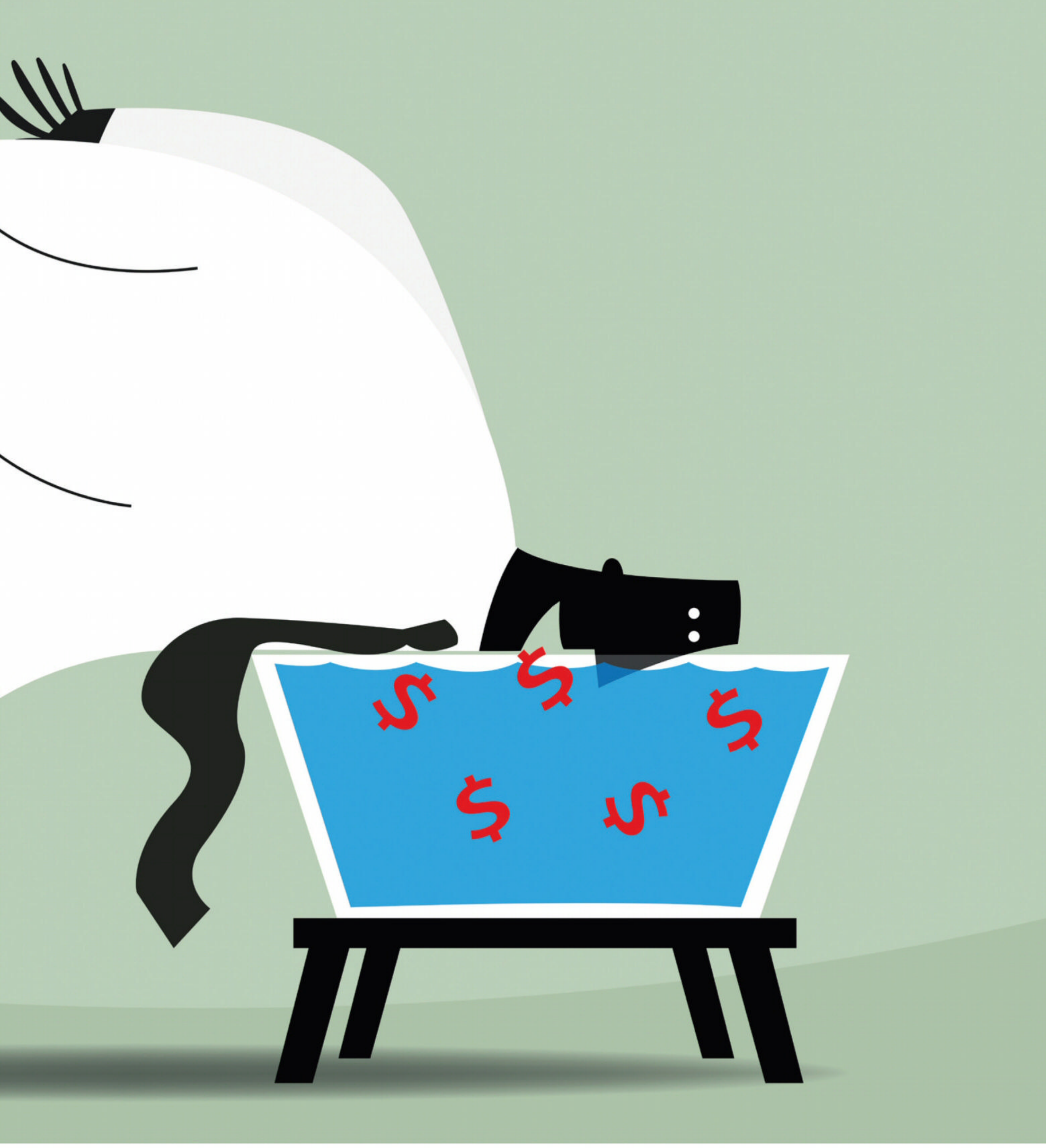
Right now, the reading on the emotional barometer of greed is rising quickly. Apart from the spectacularly successful float of Airtasker, we've recently seen consumer finance giant Latitude Group float after several failed attempts.

We've also seen car dealer Peter Warren Automotive and pet services business Mad Paws join the ASX. Retailer Best & Less is also mooted to be lining up a float, which may be further progressed by the time you read this.

If you're attracted to the idea of investing in floats, I'd like to share some questions that are worthwhile asking before you take the leap.

QUESTION 1: Do you understand the business?

When markets are euphoric, the biggest gains are often made in esoteric assets. Of



all the people I've spoken with about them, I'd say less than 2% deeply understand cryptocurrencies. To date, that hasn't been an impediment to making money. But history is littered with people who made substantial losses after investing in something they didn't really understand.

The sharemarket is no different. If you're considering investing in a float but you don't really understand the business, its risks and opportunities, then perhaps it's best to give it a miss. Or, at least, accept that you are speculating rather than investing and adjust the amount of money you're risking accordingly.

QUESTION 2: Where is your money going?
When you buy a typical share, the money you pay goes to the seller of the shares. But things aren't so clear-cut when it comes to floats. Often the money goes to selling shareholders, but sometimes it goes into the business to fund future growth. And sometimes it's a bit of both.

In the case of Latitude, the prospectus was very clear: "No proceeds of the offer will be received by the company."

Airtasker was modestly better, with $15 million of the $83.7 million being raised going to the company to be spent mostly on marketing and product development.

With Peter Warren Automotive, the balance was the other way, with selling shareholders taking only 12.5% of the $260 million in proceeds from the offer.

Mad Paws was the exemplar of what I prefer to see, with all the money from the float going to the company for marketing, product development and operations (less the obligatory costs to the investment bankers, of course).

QUESTION 3: What is the company's track record and what are its prospects?
Is this a business with a long history of profitability? If so, is there anything about its future that gives you cause for concern? Is the world turning the company's way, or against it?

Conversely, if the business has a history of making losses, like Airtasker and Mad Paws, do you have good reason to believe that the situation will change? There is sometimes great money to be made in finding businesses that are ready to make the transition from being unprofitable to profitable. But there's also a trail of tears to be found at the feet of many unprofitable companies that stay that way for too long.

QUESTION 4: How reliable and talented is the management team?
Is the business being run by its founder (my personal preference) or perhaps by someone like Latitude's Ahmed Fahour, who has run a wide variety of businesses? Some career CEOs are worth following (I think Tyro Payments' Robbie Cooke is one of them), but they are few and far between, in my view.

I prefer companies to be run by CEOs who have a long track record of success in the seat and demonstrate a high level of long-term commitment to the cause.

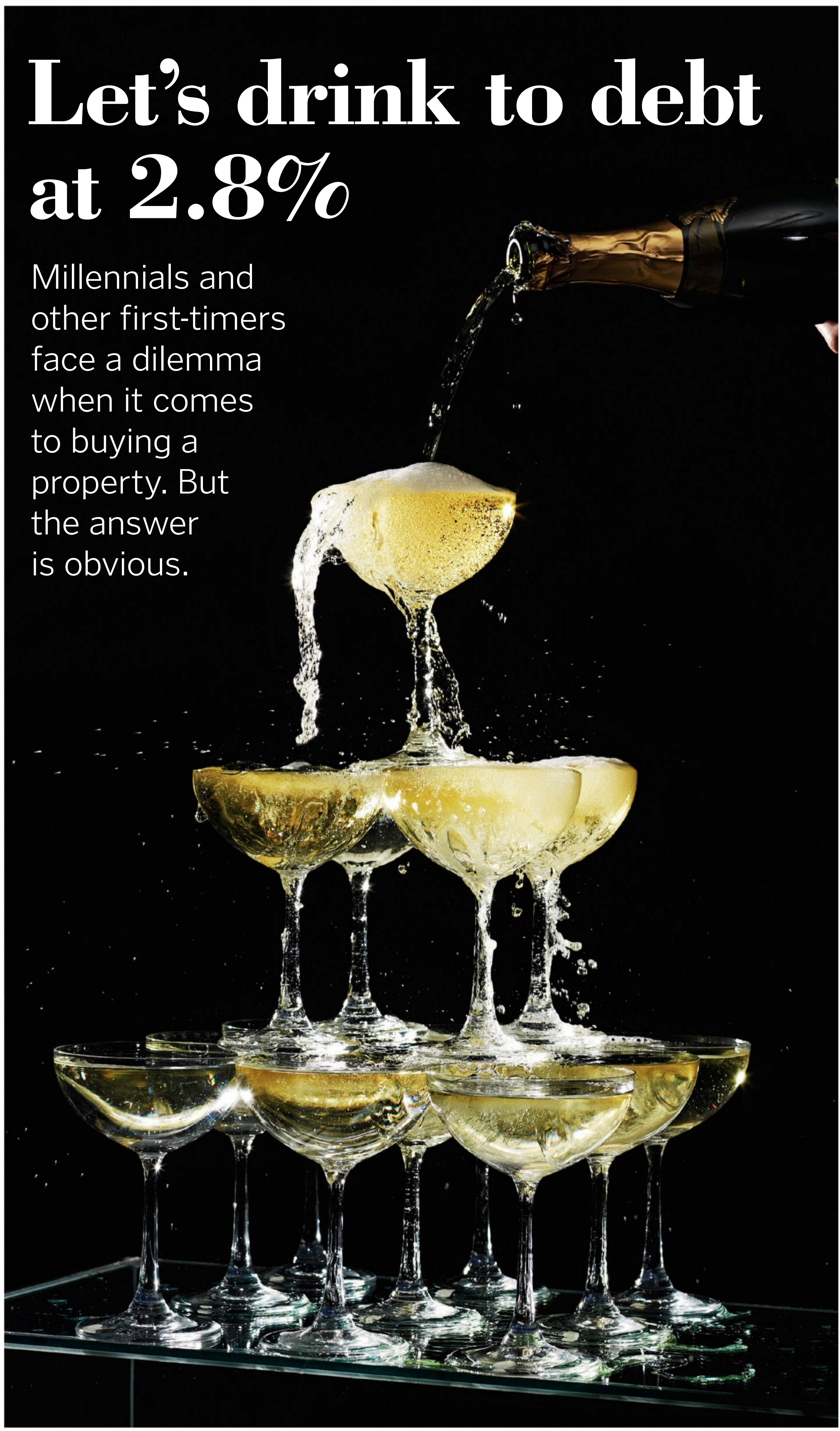
QUESTION 5: Is the price attractive?
This question is worth a lot of consideration, especially if the answer to question 2 is that your money is going to knowledgeable insiders who have decided to sell out at this point.

Without becoming completely cynical, you should bear in mind that there are usually well-paid advisers who have assisted in any float. If they've done their job well, they should have presented the figures in the best light possible. It's a case of buyer beware.

If you think about it strategically, it's highly unlikely that out of the thousands of stocks listed on the ASX the most attractive long-term investment available on a given day is one being promoted for sale by advisers to knowledgeable sellers. That's the main reason why it's been well over a decade since I've made an investment in a float.

So, with the float game pretty much ruled out for me, I'll patiently wait until the emotional barometer dips towards fear and more value appears. In the meantime, my spare cash will remain safely on deposit and I'll cop those emails from RAMS on the chin. On the bright side, without resorting to exorbitant fees or negative interest rates, they can only reduce what they pay me by a further 0.15%.

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).



Let's drink to debt at 2.8%

Millennials and other first-timers face a dilemma when it comes to buying a property. But the answer is obvious.

My first car was paid for with the cash I earned cutting watercress in Whitwell in the UK for 10 hours a day, six days a week, for 10 weeks in the summer of 1979. I had to stand or kneel all day in water, bending up and down. Health and safety at work was a thing of the future. The car was a Deux Chevaux, or 2CV6 as it was known – 600cc of raw French soft-top power for £500. It was all I could afford. I never want to see a blade of cress again in my life.

When I moved into my first rented flat in London I slept on a camp bed with a sleeping bag until I could afford a bed. Furniture was a luxury. And as for holidays, it was Minehead in Cornwall – muddy beaches and a windsurfer. Skiing was the stuff of James Bond.

Those were the days. If you didn't have the cash, you didn't buy it, and if you really wanted it, you went and earned it first. There was a thing called "saving up" in those days. Remember that? The pre-debt boom days. Frugal days, realistic days, debt-free days. Glorious, simple, straightforward.

Then it all changed. I think it was when the Yanks arrived in the financial sector of London in the 1980s that the stockbroker I worked for offered me a company car I didn't need and a subsidised mortgage I didn't ask for. They had discovered an access to credit we had previously known nothing about and they handed it on to us. I went straight from a 10-year-old Mark 4 Cortina (which I loved) to a brand new Black Ford XR31 with fat, low-profile tyres and racing stripes (still the best car I have ever had).

I didn't know what a mortgage was, but with a 5% deposit they told us we could borrow three times our salary. So we did. I moved from Brixton to Clapham, Clapham to Putney, Putney to Chelsea, and had a stream of over-priced mortgages to match. The rat race had begun and for the next 30-odd years, I regret to tell you, I was enslaved by debt, paying a significant cut of my total earnings to a bank, on

the wrong end of the eighth wonder of the world, compounding. Mortgages are compounding in reverse. No wonder the banks are the biggest institutions in almost every Western country, and no wonder the property markets in these countries are so huge, inflated, profitable.

Of course, I could have paid my mortgages off much earlier if I had "saved up", but it wasn't fashionable, it was the 1980s. It was a time to live and debt was the lubricant. If I had taken money seriously in the '80s I would have been driving a 2CV6 instead of a Jaguar XJS, I might not have gone skiing 10 years on the trot, toured Europe, raced motorcycles down the banks of the Seine, drunk Chateau Lafite at Chateau L'Evangile, heard the French horns at the INSEAD Ball or driven the Le Mans 24 hours grand prix. And one thing is for sure: without debt, and a relaxed attitude to debt, I would never have made a fortune in residential property.

Chickens don't make money, and in a world that has seen nothing but property and equity price increases since I donned a suit and took out my first loan from Lloyds Bank in Pall Mall in 1985, debt has served us extremely well. I may have been on the wrong end of compounding, but I was also on the right side of the asset bubbles.

And that brings us to today's dilemma.

> **Property has a return and value – and you can live in it. Unlike Bitcoin, non-fungible tokens and baseball cards.**

To my kids' dilemma. To the millennial dilemma. To my dilemma. Should we continue to borrow to buy property?

My conclusion is why not? What else are you going to do? Speculate on some asset class that doesn't do anything. Like cryptocurrencies, non-fungible tokens (NFTs) or baseball cards? There is no value in these "assets" other than the price someone is prepared to pay for them.

Compare that to the real-world value a property delivers. Somewhere for you and your family to live, somewhere safe. Property does so much more than sit there. It provides stability, certainty, security, a home, and on top of that it is an asset you can rent. Property has a return, property has value. Significant value. Cryptocurrencies, NFTs, baseball cards are speculative asset classes. Not investments.

A real asset ... Marcus Padley bought Glebeside Cottage in 1998 for £210,000 when interest rates were 15%; now it's worth £780,000 (about $1.4 million).

Property is an investment. It serves its owner in a way that almost no other asset class does. And, laughably, property is more affordable now that it was in 1998. That was the year I bought Glebeside Cottage in Henham in England for £210,000 (Google it). Interest rates were 15%. I was paying £31,500 a year in interest. That very same house is now valued at £780,000 (about $1.4 million) and at 2.8% would cost its buyer £21,850pa in interest – 30% less, and since then the average wage in the UK has doubled.

Your risk in property is twofold, and many of you will give in to the fear: the fear that interest rates go up or that property prices collapse.

Take it from someone who once paid 17% on their mortgage – interest rates are very low at the moment, but not only that, they are very stable and are staying low. They are not going anywhere significant. The central banks won't allow it. Yes, they might inch up, they might even double, but you can allow for that. It's called borrowing within your means.

And as for a property market crash. If it happens there will be a lot more wrong with the world than your property price. The world will have gone to hell in a basket, and if it does you will be in the same boat as the rest of Australia with a lot more to worry about than property prices. Like your job, the government, the war, the rubbish piling up on your nature strip. It's not going to happen. And even if it does, Bitcoin, NFTs and baseball cards will have dropped a lot more than property. And you can't even live in those.

I once lunched with a very wealthy man who told me: "I envy you. I roll out of bed at 11am without purpose and passion and to the sideways glances and obvious disappointment of my wife. You, on the other hand, have four kids, a mortgage and a business. You bounce out of bed with purpose."

It's the liabilities in your life that push you to be everything you can be. I wouldn't let a little bit of debt scare you. Not at 2.8%.

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

Take a punt on

STORY GRAHAM WITCOMB

Tabcorp has had a tough year, but an opportunistic bid for its wagering business seriously underplays its true potential

There are two things to know about Tabcorp's current state: its money-for-jam lotteries business is even better than it looks, and its wagering division is being grossly undervalued by a recent takeover offer.

Let's start with lotteries. As the pandemic took hold last year, we suspected Tabcorp's lotteries monopoly would be one of the few businesses to benefit. With a year's worth of data in hand, any doubt is now long gone.

While retail outlets were closed, punters migrated online: digital sales now represent 32% of lotteries turnover, up from 27% before the pandemic. The difference was even more pronounced for Keno games, whose digital share rose from 7% to 17%.

Online sales are a blessing for Tabcorp. For one thing, the added convenience and ability to buy impulsively means online customers spend 52% more on average.

Margins are better, too. When a ticket sale originates through a retail outlet like a newsagent, Tabcorp pays the agent an 8% commission – put another way, for a $1.45 Oz Lotto ticket, Tabcorp keeps $1.33 before payouts and taxes. If, however, the ticket was bought on Tabcorp's website, it keeps the full $1.45.

After deducting payouts, taxes and operating costs, we estimate that digital sales have an operating margin of around 26% compared with just 16% for standard retail sales.

How does that square, then, with the lottery division's lousy 2020 result? Total revenue rose only 1.6% in the final six months of the year. The shift to digital sales helped margins, but operating profits rose just 5%.

The devil is in the detail. Many punters buy tickets every week, rain or shine, but there's a larger garrison waiting on the sidelines that only gets excited by large prizes. Jackpots over $15 million attract more punters and more spending, and also stimulate a wave of free advertising.

Tabcorp doesn't have any control over the actual jackpot size each week, which is determined by luck and the regulated odds built into its games. 2019 was a bumper year for jackpots – there were 49 over $15 million compared with the expected 38 based on game probabilities. In 2020, however, luck swung heavily in the opposite direction, recording just 31 major jackpots. This is why 2020's revenue and profits were poor: the big-ticket players had nothing to get excited about. It was all down to luck.

Here's the thing, though. While the irregular punters bought fewer tickets due to the lack of jackpots, the base of small jackpot players rose 50% – way above average. These punters are far more valuable to Tabcorp over the long term because they come back week after week.

So, the pandemic happened to coincide with an unusually low jackpot year, which disguised excellent underlying growth. And the fact that growth persisted all year, long after lockdowns ended and other gambling venues reopened, suggests that many new punters are here to stay.

Benefits of a digital shift

The expanded base of weekly players means the next good run of jackpots could produce phenomenal revenue and profit growth, particularly given the shift online.

While lotteries is Tabcorp's main breadwinner, the wagering division contributes around $2 billion of revenue and $169 million of operating profits, or roughly 30% of the total.

UK-based sports betting group Entain has offered to buy the wagering division for $3.5 billion. This offer has since been exceeded by Apollo's $4bn. No one could accuse us of liking the segment, and we've previously said that wagering and lotteries "sit at opposite ends of the quality spectrum". But even we think the Entain deal is a joke.

hidden value

True, wagering had a rough 2020 due to venue closures and race cancellations. Operating profits sank 35% for the 12 months to December, but this was mostly due to the 70% fall during lockdowns early in the year. Earnings have recovered since then and were down only 5% in the second half.

One of our biggest issues with wagering is also shrinking: the capital-intensive TAB retail network.

Lockdowns encouraged people to use Tabcorp's apps, and digital turnover now sits at 62% of the total, up from 42% before the pandemic. That's a monumental shift, with long-term benefits to margins and returns on capital. Tabcorp can speed up the closure of its expensive retail network and focus on the growing, high-margin online business.

Wagering had operating profits of $169 million for the 12 months to December, but we expect them to increase to between $250 million-$280 million in the year ahead, similar to the pre-pandemic level.

That being the case, Entain's $3.5 billion offer for the wagering division is roughly 13 times underlying operating profits. That's wildly undercooked. Entain's own enterprise value is 23 times operating profits, despite it owning a set of bookmakers similar to Tabcorp. Flutter Entertainment – owner of Tabcorp's biggest competitor, Sportsbet – trades on roughly 30 times. Tabcorp itself stayed in the 18–25 range before merging with Tatts when it was still mostly the wagering business.

Demerger would be fairer

No matter which way we cut it, the wagering division is worth at least $5 billion-$6 billion, and even $7 billion-$8 billion if we use more aggressive assumptions around the post-pandemic recovery and shift to online betting.

Tabcorp has said its board of directors is considering the deal, but we hope, and expect, the board will reject it. The offer is clearly opportunistic while earnings are masked by the pandemic, despite wagering being in better shape now than before once you cut through the noise. The board is also considering a potential demerger of the business, which would be a fairer alternative for shareholders, letting them own each division separately.

We think the lotteries division is worth $10 billion–$11 billion depending on how many new weekly punters stick around. To this we can add $5.5 billion for the wagering division and throw in another $600 million for the gaming services segment.

After deducting the company's $2.3 billion of net debt, we're left with a value of $14.3 billion, or roughly $6.45 a share. There's still lots of upside at recent prices.

Tabcorp had a better 2020 than its raw results suggest. With many competitive advantages, good growth prospects and an improved balance sheet after last year's capital raising, its future looks bright. Below $4 a share, we'd again upgrade to buy but it's a HOLD up to $6.50.

Graham Witcomb is an analyst at Intelligent Investor (AFSL 282288), owned by InvestSMART Group. Disclaimer: The writer owns shares in Tabcorp, as do other members of the InvestSMART staff.

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	1-year return	1-year rank	5-year return (pa)	5-year rank
Vanguard Growth Index Fund	VAN0110AU	0.29%	20/11/2002	$6,565m	7.7%	21	9.1%	15
Vanguard Balanced Index Fund	VAN0108AU	0.29%	20/11/2002	$6,331m	5.2%	59	7.5%	34
QIC Long Term Diversified Fund	QIC0002AU	0.60%	6/03/2002	$5,477m	5.0%	60	7.0%	44
Vanguard High Growth Index Fund	VAN0111AU	0.29%	20/11/2002	$3,857m	10.2%	4	10.7%	3
Vanguard Conservative Index Fund	VAN0109AU	0.29%	20/11/2002	$2,898m	2.8%	86	5.7%	67
AVERAGE*		0.73%		$575m	4.9%	115	6.6%	101

Top 5 Australian Equities funds by size

Name	APIR code	Mngmnt fee (pa)	Start date	Size	1-year return	1-year rank	5-year return (pa)	5-year rank
Vanguard Australian Shares Index Fund	VAN0002AU	0.16%	30/06/1997	$15,113m	7.1%	67	10.9%	49
Fidelity Australian Equities Fund	FID0008AU	0.85%	30/06/2003	$5,416m	11.2%	37	11.2%	39
Bennelong ex-20 Australian Equities Fund	BFL0004AU	0.95%	2/11/2009	$3,429m	29.4%	1	15.3%	5
Dimensional Australian Core Equity	DFA0003AU	0.28%	3/07/2006	$3,139m	10.5%	40	11.9%	27
Hyperion Australian Growth Companies Fund	BNT0003AU	0.95%	31/01/1994	$2,030m	28.4%	3	14.1%	12
AVERAGE*		0.81%		$660m	9.1%	118	10.1%	104

Top 5 International Equities funds by size

Name	APIR code	Mngmnt fee (pa)	Start date	Size	1-year return	1-year rank	5-year return (pa)	5-year rank
Vanguard International Shares Index Fund	VAN0003AU	0.18%	30/06/1997	$18,429m	7.9%	80	12.6%	46
Magellan Global Fund	MGE0001AU	1.35%	1/07/2007	$13,112m	-4.3%	126	11.1%	69
Platinum International Fund	PLA0002AU	1.35%	30/04/1995	$8,633m	14.9%	34	10.5%	74
T. Rowe Price Global Equity Fund	ETL0071AU	0.94%	15/09/2006	$5,455m	28.2%	11	21.2%	3
MFS Global Equity Trust	MIA0001AU	0.77%	24/04/1997	$5,224m	5.7%	93	12.4%	52
AVERAGE*		0.92%		$786m	9.7%	143	12.2%	106

Top 5 Multi Sector funds by 5-year return

Name	APIR code	Mngmnt fee (pa)	Start date	Size	1-year return	1-year rank	5-year return (pa)	5-year rank
Fiducian Ultra Growth Fund	FPS0014AU	1.45%	1/09/2008	$241m	16.4%	2	11.6%	1
MLC Wholesale Horizon 6 Share	MLC0397AU	0.95%	1/07/2001	$309m	9.5%	6	10.8%	2
Vanguard High Growth Index Fund	VAN0111AU	0.29%	20/11/2002	$3,857m	10.2%	4	10.7%	3
Fiducian Growth Fund	FPS0004AU	0.99%	1/02/1997	$185m	9.4%	7	10.3%	4
IOOF MultiMix Growth Trust	IOF0097AU	0.96%	29/04/2008	$659m	7.8%	20	10.2%	5
AVERAGE*		0.73%		$575m	4.9%	115	6.6%	101

Source: Rainmaker Information. Data sourced as at February 28, 2021. *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. For more information, visit **www.rainmaker.com.au**

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INDUSTRY INTELLIGENCE

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Top 5 Australian Equities funds by 5-year return

Name	APIR code	Mngmnt fee (pa)	Start date	Size	1-year return	1-year rank	5-year return (pa)	5-year rank
Bennelong Australian Equities Fund	BFL0001AU	0.95%	30/01/2009	$788m	27.6%	4	17.3%	1
Bennelong Concentrated Aust Equities	BFL0002AU	0.85%	30/01/2009	$1,477m	22.3%	9	17.1%	2
Australian Unity Platypus Aust Equities	AUS0030AU	0.76%	28/04/2006	$222m	14.0%	24	15.6%	3
Bennelong ex-20 Australian Equities Fund	BFL0004AU	0.95%	2/11/2009	$3,429m	29.4%	1	15.3%	4
Australian Ethical Australian Shares Fund	AUG0018AU	1.10%	13/01/2012	$451m	24.2%	7	15.0%	5
AVERAGE*		0.80%		$682m	9.1%	113	10.7%	100

Top 5 International Equities funds by 5-year return

Name	APIR code	Mngmnt fee (pa)	Start date	Size	1-year return	1-year rank	5-year return (pa)	5-year rank
Hyperion Global Growth Companies Fund	WHT8435AU	0.70%	1/06/2014	$1,172m	49.2%	4	25.2%	1
Fiducian Technology Fund	FPS0010AU	1.36%	1/05/2000	$188m	30.6%	9	24.0%	2
T. Rowe Price Global Equity Fund	ETL0071AU	0.94%	15/09/2006	$5,455m	28.2%	11	21.2%	3
Zurich Concentrated Global Growth	ZUR0617AU	1.11%	19/10/2015	$68m	17.6%	26	20.8%	4
Franklin Global Growth Fund	FRT0009AU	0.90%	1/10/2008	$528m	26.8%	13	20.1%	5
AVERAGE*		0.90%		$786m	9.7%	143	12.2%	106

Top 5 funds by 1-year performance

Name	APIR code	Mngmnt fee (pa)	Start date	Size	1-year return	1-year rank	5-year return (pa)	5-year rank
Ausbil Global Resources Fund	AAP5928AU	1.35%	31/05/2018	$29m	115.8%	1		
Forager International Shares Fund	FHT0032AU	1.25%	8/02/2013	$234m	54.5%	2	18.3%	7
Hyperion Global Growth Companies Fund	WHT8435AU	0.70%	1/06/2014	$1,172m	49.2%	3	25.2%	1
Lakehouse Global Growth Fund	OMF1140AU	1.30%	1/12/2017	$297m	42.5%	4		
Loftus Peak Global Disruption Fund	MMC0110AU	1.20%	15/11/2016	$171m	37.1%	5		
AVERAGE*		0.82%		$738m	8.1%	301	10.1%	252

Bottom 5 funds by 1-year performance

Name	APIR code	Mngmnt fee (pa)	Start date	Size	1-year return	1-year rank	5-year return (pa)	5-year rank
ClearBridge RARE Emerging Markets Fund	TGP0015AU	1.23%	15/8/2008	$116m	-20.3%	374	1.8%	308
Magellan Infrastructure Fund (Unhedged)	MGE0006AU	1.06%	1/7/2013	$950m	-18.8%	373	4.0%	295
Maple-Brown Abbott Global Listed Infrastructure Fund	MPL0006AU	0.98%	18/12/2012	$1,037m	-17.2%	372	4.0%	296
Invesco Australian Equity Efficient Income Fund (Class A)	GTU0516AU	0.85%	29/11/2019	$12m	-15.8%	371		
Vanguard Global Infrastructure Index Fund	VAN0023AU	0.49%	30/11/2007	$1,022m	-14.7%	370	7.6%	214
AVERAGE*		0.83%		$688m	8.1%	374	9.9%	309

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 contains information to help you compare super funds. It showcases publicly available MySuper investment options offered by some of Australia's biggest funds. Rainmaker categorises them into risk options based on percentage of growth assets in their portfolio. The high-growth risk option has more than 85% in growth assets (growth has between 75% and 85%), balanced has between 55% and 75%, and capital stable products have less than 55% growth assets.

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

The table only lists funds designated AAA, Rainmaker's Super fund quality rating. Rainmaker Information prepared this research. **www.selectingsuper.com.au**

DATABANK

Best Super Funds: Top 20 MySuper – February 28, 2021

RANKED BY 3-YEAR RETURN

FUND & INVESTMENT OPTION NAME	Strategy	Growth assets	Risk category	1-year return	1-year rank	3-year return (pa)	3-year rank	5-year return (pa)	5-year rank
UniSuper* - Balanced	S	68%	Balanced	8.4%	3	8.3%	1	9.2%	5
Australian Ethical Super Employer - Balanced (accumulation)	S	70%	Balanced	7.0%	15	8.0%	2	8.3%	21
TASPLAN - OnTrack Build	LC	86%	High Growth	7.4%	8	7.9%	3		
Virgin Money SED - LifeStage Tracker 1979-1983	LC	90%	High Growth	7.5%	7	7.7%	4		
AustralianSuper - Balanced	S	66%	Balanced	7.2%	11	7.4%	5	9.5%	2
LGS Accumulation Scheme - High Growth	LC	95%	High Growth	8.9%	1	7.3%	6	9.8%	1
QSuper Accumulation - Lifetime Aspire 1	LC	61%	Balanced	4.0%	41	7.2%	7	8.0%	26
Vision Super Saver - Balanced Growth	S	70%	Balanced	8.0%	4	7.2%	8	8.9%	9
Cbus Industry Super - Growth (Cbus MySuper)	S	73%	Balanced	7.5%	6	7.1%	9	9.0%	7
Mine Super - Aggressive	LC	89%	High Growth	8.5%	2	7.0%	10	8.8%	11
Aware Super Employer - Growth	LC	68%	Balanced	7.1%	14	6.9%	11	9.0%	8
VicSuper FutureSaver - Growth (MySuper)	S	68%	Balanced	6.7%	21	6.9%	12	8.7%	13
Media Super - Balanced	LC	67%	Balanced	5.3%	37	6.8%	13	8.6%	14
smartMonday PRIME - MySuper Age 40	LC	86%	High Growth	5.6%	34	6.8%	14	9.4%	4
Telstra Super Corporate Plus* - MySuper Growth	LC	89%	High Growth	7.2%	10	6.8%	15	9.1%	6
HOSTPLUS - Balanced	S	81%	Growth	5.7%	32	6.8%	16	9.4%	3
ANZ SCSE - ANZ Smart Choice 1980s	LC	89%	High Growth	6.1%	26	6.7%	17	8.8%	12
Sunsuper Super Savings - Lifecycle Balanced Pool	LC	77%	Growth	6.3%	24	6.6%	18	8.8%	10
Mercer CS - Mercer SmartPath 1979-1983	LC	89%	High Growth	6.9%	17	6.6%	19	8.4%	18
HESTA - Balanced Growth	S	69%	Balanced	5.9%	30	6.5%	20	8.4%	17
Rainmaker MySuper/Default Option Index				**6.1%**		**6.3%**		**8.0%**	

*Limited public offer fund.

Rankings are made on returns to multiple decimal points.

Rainmaker Benchmark Indices – Workplace Super

INDEX NAME	Performance to February 28, 2021		
	1 year	3 years (pa)	5 years (pa)
Rainmaker MySuper/Default Option	6%	6%	8%
Rainmaker Growth	7%	7%	9%
Rainmaker Balanced	5%	6%	7%
Rainmaker Capital Stable	2%	4%	5%
Rainmaker Australian Equities	8%	7%	10%
Rainmaker International Equities	13%	9%	11%

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

WHAT THEY MEAN

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

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

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

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

Relax – and carry on spending

The status quo is order of the day for the US economy and, by extension, our own

"It's not time to make a change, just relax, take it easy," sang Cat Stevens. This is the US Federal Reserve's message to the markets at the conclusion of its April Federal Open Market Committee (FOMC) meeting in its efforts to calm concerns over rising inflation expectations that would eventually force its hand into tapering policy accommodation.

After two days of deliberation, the committee decided to maintain the status quo: keep the federal funds rate at 0%-0.25% and increase its bond purchases by at least $US80 billion a month and agency mortgage-backed securities by around $US40 billion a month.

"And I know that it's not easy, to be calm when you've found, something going on ..."

That "something" is the sharp improvement in economic activity underpinned by low interest rates, trillions of dollars of government support to households and businesses, falling coronavirus infections and the acceleration in vaccinations.

These is not lost on the Fed. "Amid progress on vaccinations and strong policy support, indicators of economic activity and employment have strengthened," it noted. "The sectors most adversely affected by the pandemic remain weak but have shown improvement."

The US national accounts released the next day back up the Fed's statement. Preliminary estimates showed the US economy expanded at an annualised rate of 6.4% in the March 2021 quarter following the 4.3% in the previous three months.

As for the definition of "annualised growth rate" – the rate that would be registered if the quarterly change were maintained for a full year – both the IMF and the OECD's most recent 2021 US GDP growth forecasts are on the ball, at 6.4% and 6.5%, respectively.

The conventional year-over-year measure also provides reason to be raving as calculations show the US economy expanding by 0.4% in the year to the March 2021 quarter following three consecutive quarters of contraction.

The first-quarter growth was driven by a 10.7% annualised jump in consumer spending – the one that accounts for about 70% of the US economy. The revival in consumer confidence suggests continued strength, if not further increases, in US consumer spending and, by extension, the general economy.

The conference board's survey showed consumer confidence surged to a reading of 121.7 in April – the highest level since February last year and the fourth straight month of improvement. Similarly, the University of Michigan's improved to a reading of 86.5 in April – the highest since March 2020 – from 84.9 in the previous month.

There'll be plenty more where this came. More so if consumers expect good jobs prospects, continued monetary policy accommodation and increased fiscal largesse.

The latest Conference Board consumer confidence survey for April found that "the percentage of consumers saying jobs are 'plentiful' increased from 26.5% to 37.9%, while those claiming jobs are 'hard to get' declined from 18.5% to 13.2%".

And there are president Joe Biden's $US1.8 trillion "American Families Plan" and, although still in the works, his broader $US4 trillion-plus plan (including $US2.25 trillion in infrastructure spending).

For sure and for certain, this deluge of money will lift economic growth higher and higher, but it will also put upward pressure on consumer prices.

"But take your time, think a lot, think of everything you've got ..."

As for the Fed, while measured inflation has risen, it's largely temporary and "the ongoing public health crisis continues to weigh on the economy, and risks to the economic outlook remain. The path of the economy will depend significantly on the course of the virus, including progress on vaccinations."

Covid-19 continues to devastate many parts of the world, resurging in others and/or seeping into countries, like Australia and New Zealand, that have successfully contained infections.

The Fed and other central banks and world governments cannot rest easy until the pandemic is effectively managed and controlled.

Benjamin Ong is director of economics and investments at Rainmaker Information.

"I like to invest in red bricks and blue chips and hang on"

What was your first job?
My first job was at Coles in Adelaide. I was the microphone attendant and I used to be able to say things like "we have a red spot discount" and "are you having a bar mitzvah or party happening? We have specials today in aisle … " When I was 15 I went to the ACTU to ask for a job and they said either get a job in a trade and work for a union or go to university and study law or economics. Their best people had been economists, so they suggested I get an economics degree. My first real job was as a cadet international economist at the Reserve Bank under [future RBA chief economist] Glenn Stevens, at age 20. It was my first time in Sydney – bright lights, big city. I was interested in politics, international relations and international stuff so I managed to combine it at the ACTU. When I was at the ACTU, [ACTU secretary] Bill Kelty asked me about my loves and I said international trade and Aboriginal affairs. I got both those portfolios and that's how I got my next job at Austrade.

Tim Harcourt

Tim Harcourt is the "Airport Economist". That is the title of the book he wrote when he travelled widely to get an anecdotal feel for other economies as well as the numbers. The name was originally used to insult the American economist Milton Friedman, who made prognostications about Australia just after stepping off a plane here for the first time. However, Harcourt feels his moniker is preferable to that of an armchair economist who uses data without real life. *The Airport Economist* was released in 2008 and was followed by a TV series, which visited thriving markets across Asia to learn more about these economies. His work has now expanded globally.

What's the best money advice you've ever received?
George Shultz [former US Secretary of State] told me, "Do what you're really interested in and let the money look after itself." It was his dad's phrase. His dad wanted to be a history teacher but after the Depression had to do what he needed to do. Shultz said only take that kind of job when you have to; don't take it for 20 years.

What is the typical reaction when you tell people what you do?
They get a little bit jealous or get very interested. One thing that's great about Australia is that I can get into a taxi and ask the driver where they are from and it can be Kazakhstan or India or wherever, and I can talk to them about it because I've usually done a show there and written about it. I've been to 60 countries in six years. I joke that people are jealous, but they're usually more positive or curious.

What have your career highlights been?
When I started I wanted to work for the ACTU like Bob Hawke, represent Australia overseas and write a book. I did all that and the book became a TV series. Highlights have included interviewing Megan Gale in Milan for an Australian tourism ad. I saw Sachin Tendulkar bat in India and I interviewed Miss Universe in India. I went to London with former South Australian premier Jay Weatherill and on our way to a SA University alumni function found there was a huge crowd gathered. It was for Sacha Baron Cohen, who was filming *The Dictator*. I told him I was going to Kazakhstan and, staying in character, he said "Say hello to my friend Borat."

What's the best investment decision you've made?
Family, education and superannuation. I bought a house early when I moved from Sydney. Adelaide people get afraid of Sydney property, I bought as early as I could. I like to invest in red bricks and blue chips and hang onto them for the long-term.

What's the worst investment decision you've made?
I had a view that I had to have my personal library with me wherever I went, so I'd be shipping books to Canada, America, Israel when I really didn't need to.

What is your favourite thing to splurge on?
Apart from my family, I do like nice holidays and they don't have to be far away. I love nature and going and seeing wombats in Tasmania or South Australia, or quokkas in Western Australia, or whale watching.

If you had $10,000 where would you invest it?
I'd put it on my mortgage – I know it sounds a bit conservative. I might also buy a pair of R.M. Williams boots and an Akubra hat – but I have to disclose they're my sponsors!

What would you do if you only had $50 left in the bank?
I'd put it on the trifecta at Randwick. My grandfather and his brother were the racing Harcourts, professional punters in Sydney, Perth and Melbourne. My grandfather was a rabbi who became an atheist and he and his brother changed their name from Harkowitz to Harcourt.

Do you intend to leave an inheritance?
Yes, I have two children – a daughter from China, a son from Taiwan, so we have to do a very careful diplomatic split. My daughter refers to Taiwan as "runaway China" when she's annoyed with her brother. I will also donate to the foundation to preserve the northern hairy-nosed wombat.

What's been your best money-making career move?
Every time I've got a new job I've doubled my salary, so I think being good at your job and giving your employer a long-term commitment but then making a move when you need to.

Finish this sentence: money makes …
life easier. JULIA NEWBOULD

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