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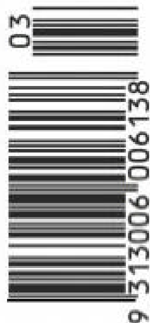

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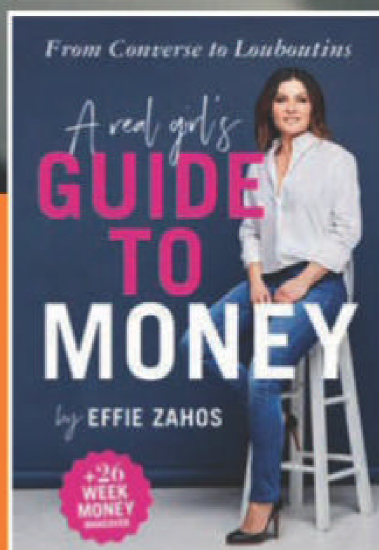

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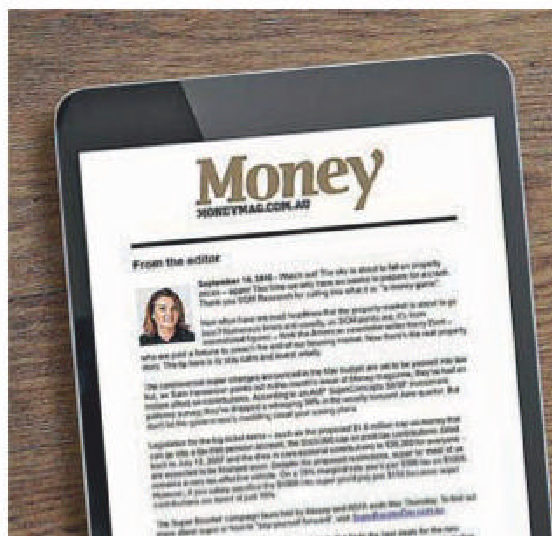

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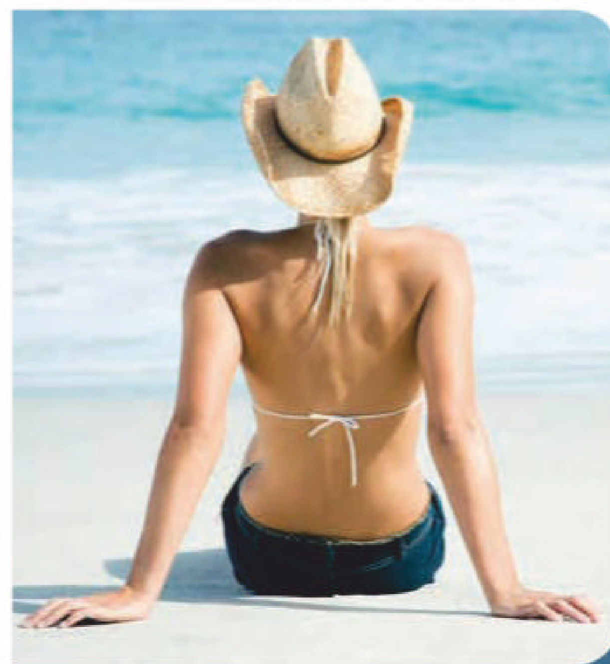

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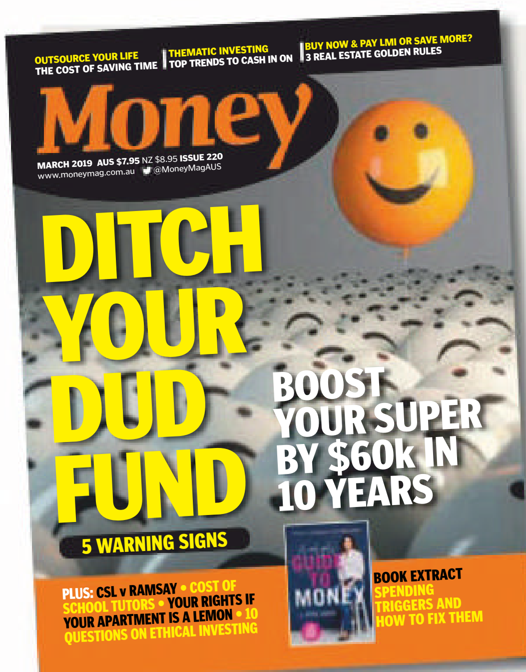

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Welcome shake-up for super

The release of the final report of the banking royal commission has certainly gone some way to resolving investor uncertainty. But did it go far enough for everyone?

Some victims of misconduct have suggested that the commission should have named and shamed. Some analysts have suggested that it's actually a win for the banks in that the recommendations won't have a big financial impact on them – vertical integration has been left untouched.

Investors clearly liked what the report recommended as the big four banks saw solid share price gains, pushing the S&P/ASX 200 to close at 6005.9, the highest point since October last year. At the time of going to the printers, though, the reality of slowing credit growth has caused investors to be cautious again, with all four down by as much as 2% after surging by 7% following the release of the final report.

Overall 76 recommendations were made by Commissioner Kenneth Hayne, along with 24 referrals to regulators for potential civil and criminal misconduct. While the government has agreed to take action on all recommendations, the most controversial involves mortgage brokers: borrowers rather than lenders should pay the broker for their services and lenders would be banned from paying trailing commissions to brokers for new loans. You can read more about this in the Buzz (page 12) while our cover story takes a look at what impact the report could have on super.

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Feedback

Letter of the month

Sense of entitlement is disgraceful

It saddens me to see time and again letters from near-retirees who are shooting themselves in the foot when it comes to structuring their retirement.

In December, one reader said she was advised to blow $900,000(!) to get the age pension. At her age, an annuity-style investment in growth assets could pay an income stream of $50,000-$60,000 a year for the rest of her life.

Instead they prefer to buy a nice place and live off the $22,000 pension (at taxpayers' expense), which will be quickly eaten up by stamp duty, rates and repairs.

At the other end of the scale, it's troubling to see a retiree complaining about the possible loss of $55,000 in franking credit refunds. "Earning" that level of refunds requires dividend income of at least $128,000, suggesting a portfolio value of around $2.8 million and net cash income after franking of $180,000-plus.

The sense of entitlement in wanting to continue paying a zero-tax pension rate on that level of income (and capital growth), while ordinary median wage earners are slugged tens of thousands to compensate for raising the required tax revenue, is disgraceful and inconsistent with the notion that the tax system should treat everyone fairly and equally.

Martin

Multiple accounts are a big waste of our savings

Thank you for your publication. I look forward to it every month and it has helped build my money knowledge over the years.

I have a question regarding superannuation. With so many people losing fees every year when they have more than one account, why is it that we are allowed to open so many? It is very easy to find and merge your accounts, so why isn't this the first port of call when someone goes to open a new account?

I know the super funds don't care as they would prefer to eat away at your account with fees, but surely it benefits the government and all Australians for this not to happen? These are our retirement savings and they are supposed to relieve the stress on the pension as the nation grows older.

It would also make the super funds work even harder for us, as to get our one super account they would need to have low fees and good returns.

I'm interested to hear your thoughts. Thanks and keep up the great work.

Paul

Ed's note: Your letter couldn't have come at

As Kirby Rappell from SuperRatings points out in his royal commission wrap-up: "We see the report as a step in the right direction ... All Australians need to listen up and pay attention as the decisions they make now regarding their superannuation will affect them later in life."

On a personal note, I am super excited about my book, *A Real Girl's Guide to Money: From Converse to Louboutins*, available on March 1. It's for every woman who has that voice in her head: "How can she afford that? Where the hell is my money going? Will I ever be able to afford a home?"

You'll find an extract on page 50. Don't worry, though, if you're not into Louboutins: the strategies work just as well for men.

Effie Zahos,
Editor, *Money* magazine

> ***It's not your salary that makes you rich it's your spending habits.***
>
> **CHARLES A. JAFFE, AUTHOR**

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a better time. Our cover story does tackle this and, yes, for the record I think we can do much better around the portability of our super fund to prevent multiple accounts.

Just the right mix

Thanks for *Money* magazine. I look forward to every issue. Just writing to say how much I enjoy the current content, layout and mixture of different stories. To me this is the ideal balance of expert advice, interesting reader stories, charts, analysis, data, etc.

Sometimes I have found that magazines decide to make major changes often just for the sake of change. Please don't change anything. You have a really great magazine, so don't let anyone convince you to change it.
Robert

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If you didn't have to work for money what would you do?

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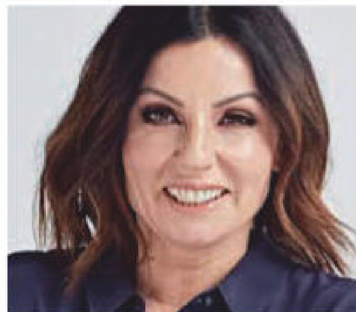
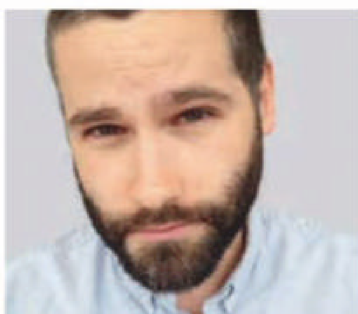


EFFIE ZAHOS
Effie is *Money's* editor and author of *A Real Girl's Guide to Finance* and *The Great $20 Adventure*. Effie says: "For richer or poorer I'd probably still do what I'm doing but with a few tweaks. No boss, a three-day work week and an office in Milos, in Greece."

MARCUS PADLEY
Marcus is the author of the daily sharemarket newsletter Marcus Today. Marcus says: "I would travel the world with Emma, playing golf. It is a competitive, social and endlessly challenging sport that lends itself to international travel. But most of all it is a fantastic sport for couples and, as they say, couples that play together stay together."

CHRIS GRAY
Chris is CEO of Your Empire Buyers Agents. Chris says: "I invested and worked twice as hard in my 20s so I've been lucky that in my 30s and 40s I haven't really had to work too hard. I travel overseas 10 to 15 times a year to learn new things and meet new people, I still love teaching people about property and I love driving my 1912 Ford Model T."

MARK STORY
Mark, director of Prime Strategy Media, says: "I would establish a charity that's less about begging-bowl, last-resort aid and more about empowering and facilitating, by using the blockchain to both crowdfund and disintermediate those institutions and ne'er-do-wells who put their own survival ahead of real progress."



RICHARD SCOTT
Richard, a freelance writer and former *Money* staffer, says: "With two tyrants under four, I cannot truthfully say I get much work done at all, if any. But if money was no longer a concern I'd most likely buy up an old farm in the middle of Tasmania and let those little ratbags run feral."

PHIL SLADE
Phil is behavioural economist and psychologist for Suncorp. Phil says: "I love what I do. Seriously, I would do what I am doing now, with a bit more world travel and music. I've always tried to do what I love, do it well and find ways to earn money from it."

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We are certainly poorer for having paid off the mortgage

We humans are a strange breed when it comes to investment. Over the summer months, I've had a stack of people asking about the big drop in the sharemarket in the November to January period and even more about the fall in property values in many parts of Australia, but in particular Sydney and Melbourne.

These questions are not in the least bit strange, because shares and property are important assets for most of us. But what is strange is that questions about a decline in share values are nearly always linked to "Should I sell?". But when it comes to property the questions revolve around "Is it time to buy?", with comments about "bargains" in the market.

What is it with property? We Australians have a really deep desire to own a home to live in. That is very normal – home ownership brings a variety of emotional and security-related issues into play. My wife and I have this deep in our DNA. You will have heard and read about my bias towards home ownership over my nearly 40 years of commenting on money. We are certainly financially poorer for it but since we first had a mortgage in 1984 we have striven to pay it off. Children coming along and moves to houses with more bedrooms saw our mortgage fall and then jump.

We finally got rid of mortgage debt some 20 years after we first had one, in about 2004. I get the "lazy equity" argument, meaning we did not use our home to borrow against to invest. This was a blessing in the inevitable big downturns but over the decades we were a net financial loser.

> At any time some of my shares are having a rough time, others a good time

As you would expect, investment returns on decent assets greatly outperform the cost of debt in the long run. This was obvious to us in 1984 and it remains obvious today. We could borrow against our home at, say, 4%. Do we think property and shares will do better than 4% over time? Of course we do. The income yield alone on shares is more than this, and rental returns on property would pretty much cover it. Then there is the potential for capital growth. But we made the choice to become debt free on our home, then lock away the title deeds for a really strong emotional reason. We sleep better at night.

Property has a mythical status for Australians and I don't mind that. Hence when prices fall, we still love it and so if it is cheaper it must be "even better". It is really illogical, though, to not apply the same discipline to shares.

But the history of share ownership is very different from that of property. When I started working in the world of money back in about 1980, some 3% of us owned a share. So while we have seen shares do very well, arguably better than property over the past four decades, we don't have a deep DNA-type attachment to them. Maybe this is why when they fall, a typical human response is a desire to sell.

A real plus for property is that when it does fall, it is really hard to sell. So we shrug and say "it will pick up". With shares we have total liquidity and you can sell in a few minutes. We buy most as prices rise, and the most near market peaks. We sell as markets fall, and the most near market bottoms.

We have different experiences with shares. For example, I've held Commonwealth Bank shares since the float. The price was $5.40. Since then I have seen them at nearly $90, down to $24 in the GFC and now about $70. I am not silly, so I hold a diversified portfolio. At any given time some of my shares are having a rough time, others a good time. What I love is the flow of dividends. My portfolio, which is just shares you know, sends us about 5% a year with no effort on my part. Lovely!

Now I think about it more deeply, maybe we are not strange at all. Property is just so familiar to us. When it falls we think "it'll be right". As our population is growing so quickly, with a long-term perspective that view will be correct. But so will it be for shares. More people, living longer, with higher levels of wealth than at any point in history will also drive demand for goods and services produced by companies.

So in a strong and growing economy, with a growing population, my answer is that the time to buy quality property or shares is whenever you can. But it is an even better time to buy in a falling market. The only proviso here is that you have a long-term view and never overborrow.

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

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NEWS & VIEWS

THE BUZZ

Big blow for brokers

Would-be home buyers won't want to pay to get a loan

Of the 76 recommendations that Kenneth Hayne made in the royal commission's final report, the suggestion that the consumer should pay a mortgage broker to get a loan has surprisingly caused the biggest uproar.

Naturally a lot of the noise is coming from the industry itself. This is understandable given that the 20,000 or so brokers who write nearly 60% of home loans stand to lose the most.

But how do consumers feel about it? Are you prepared to pay about $2310 for a broker to help you find a home loan?

That's the number that CBA gave to the royal commission. Its final report also noted that "the upfront fee will necessarily be regressive and work to the disadvantage of borrowers of smaller amounts".

Hayne's recommendation is to first prohibit lenders from paying trail commissions to brokers for new loans, then prohibit lenders from paying other commissions to brokers.

I tend to agree on the trailing commissions – what other industry gets paid each year on the assumption that you will use their services again?

As for brokers charging an upfront fee, I'm in two minds. Here's why:

Consumers (at least for now) won't want to pay for a home loan. They don't see it as receiving financial advice – the planning industry has enough trouble getting people to pay for investment advice let alone home loan advice. Then there's the affordability issue: when you're borrowing $500,000 for a home, the last thing you want is to pay $2000 to get the loan.

A recent Consumer Access to Mortgages Report from Momentum Intelligence confirms this. Well over half (58%) of respondents said they would not be willing to pay a broker a fee.

OK, you could add it onto the home loan but $2000 amortised over 25 years on a $500,000 loan equates to an extra $?? in interest.

And going to a broker who sells you the wrong loan can add tens of thousands of dollars too.

I never liked the fact that the cheapest loans are often not recommended by brokers, as they don't get a commission.

Having said that, though, you don't go to a broker to get the cheapest deal – this you can easily find yourself. You go to a broker to get your loan across the line. Now that's when the value of a broker will be missed.

Effie Zahos, Editor

ON MY MIND

Open banking's double benefit

The impending open banking regulations are set to fundamentally change the way customers and organisations interact for mutual benefit. By sharing data electronically with credit providers, time spent on filling out paper applications will be mitigated, while real-time data on income and outgoings will give lenders an accurate view of affordability, enabling fairer decisions. Competition will also improve with richer price comparison capabilities, and businesses can build better profiles of your wants and needs.

But, most significantly, open banking will give banks the ability to better understand your financial situation. By the time most people are in difficulty, it's too late. Open banking will help institutions sooner identify someone at risk and re-engineer mortgage or loan repayments to reduce the risk of default, or offer better terms.

Additionally, those previously denied access to certain financial services owing to a lack of comprehensive credit data will also be able to demonstrate their ability to pay, even with no credit history, receiving better and fairer deals.

Poli Konstantinidis, executive general manager, credit services and decision analytics Australia/NZ, at Experian

CALENDAR OF EVENTS

Tuesday, March 5
RBA interest rate decision

Thursday, March 7
Balance of trade

Wednesday, March 13
NAB business confidence

Thursday, March 14
Westpac consumer confidence index

Tuesday, March 19
House price index

Thursday, March 21
Unemployment rate

NEWS BITES

Robo adviser Stockspot now has a savings option. Stockspot Savings will invest client money into a high-interest cash ETF, currently the BetaShares High Interest Cash ETF offering 2.02% (variable rate). The minimum account balance is $2000 and there are unlimited transactions, free withdrawals, and no lock-in periods.

Qantas Frequent Flyer members can now earn Qantas points while they sleep using the Qantas Wellbeing app. You need to set up a bedtime routine and if you place your phone down at least 30 minutes before bedtime and don't move it until you wake up the next morning you'll earn up to five points per night. This rate only applies for the first month for members who are not Qantas Insurance policy holders. After that it is just half a point per night for those members.

InvestSMART (of which *Money's* Paul Clitheroe is chairman) is set to launch an ethical share fund. The active exchange traded fund is "designed for investors seeking a diversified selection of Australian companies that are sustainable and ethical". The fee will be 0.97%pa.

Bargain buys for investors

With changing market conditions in our capital cities, savvy property investors should widen their search and consider investment opportunities in Australia's regional areas.

Regional areas boast substantial population growth, buzzing local economies, improved amenities and infrastructure, and affordable housing.

BMT Tax Depreciation data shows that the majority of property investors buy in their local area. Therefore, they are likely to miss out on opportunities available outside their geographical comfort zone.

According to the CoreLogic Home Value Index for January 2019, regional areas offer an affordable entry point into the market, with a combined median value of $377,422 and a total return of 4.2%.

Investors looking to secure a bargain in regional areas can reduce holding costs by claiming depreciation. In 2017-18 BMT found our clients an average of $8212 in deductions in the first full financial year.

By buying regionally, investors can achieve capital growth and take advantage of depreciation deductions to increase their cash flow.

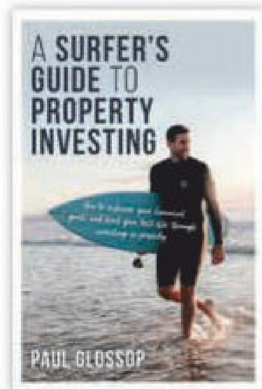
Bradley Beer, CEO, BMT Tax Depreciation

7%

of Aussies never take a lunch break, according to research by Hays. Just 28% take their full break with the remaining 65% taking a partial one. This is despite 93% admitting that their productivity benefits from taking a lunchtime break away from the office and 65% saying getting away from their desk to eat lunch helped keep them fresh and alert.

NEWS & VIEWS

BOOK OF THE MONTH



A SURFER'S GUIDE TO PROPERTY INVESTING
Paul Glossop
Major Street Publishing
RRP $29.95

Professional property investor Paul Glossop shares his tips on how to "lead your best life through investing in property". He starts by sharing how to "find the perfect wave", identifies the key issues to consider "before you paddle out", helps readers "pick the right line" and ends with "mastery and living your best life".

Glossop covers budgeting and strategy, building your dream team, choosing a location, renovating, commercial property, secrets to building long-term wealth, exit strategies and more.

Five readers can win a copy.
In 25 words or less, tell us your tip for supercharging your property portfolio. Enter online at moneymag.com.au/win or send entries to Money, GPO Box 4088, Sydney, NSW 2001. Entries open February 25, 2019 and close April 3, 2019.

APP OF THE MONTH

MONEYSMART CARS
COST: FREE
OS: REQUIRES IOS 8.0 OR LATER, ANDROID 4.4 AND UP

Australians are among the world's great car lovers. We collectively buy over 1.1 million new cars, and twice as many used vehicles, each year. Picking up a new set of wheels is exciting but there is plenty of scope to underestimate how much it is really going to cost.

That's where the MoneySmart Cars app makes a difference. It's designed to help you identify all the outgoings associated with buying and running a vehicle. From your first deposit through to insurance, registration and loan repayments, the app shows how much the car of your choice will set you back over time.

It can be a real eye-opener, especially if you're buying a car for the first time, and it's a handy tool to make informed decisions at the car yard. The app can be used for both new and used cars.

NICOLA FIELD

TAX TIP

Higher rate for home office deductions

Increasingly, we demand flexibility in the way we work or run our business and it is now common for people to spend at least some of their time working from home.

The hourly rate that you can claim for deducting home office expenses is increasing to 52¢, up from 45¢, for individual taxpayers, effective from July 1, 2018.

If you claim deductions for work- or business-related home office running expenses, you can either claim a deduction for the actual costs you spend or a deduction calculated at the rate of 52¢ an hour. If you choose the cents per hour method, you don't need to keep detailed substantiation (invoices, etc). You only need to keep a record to show how many hours you work from home for a representative four-week period.

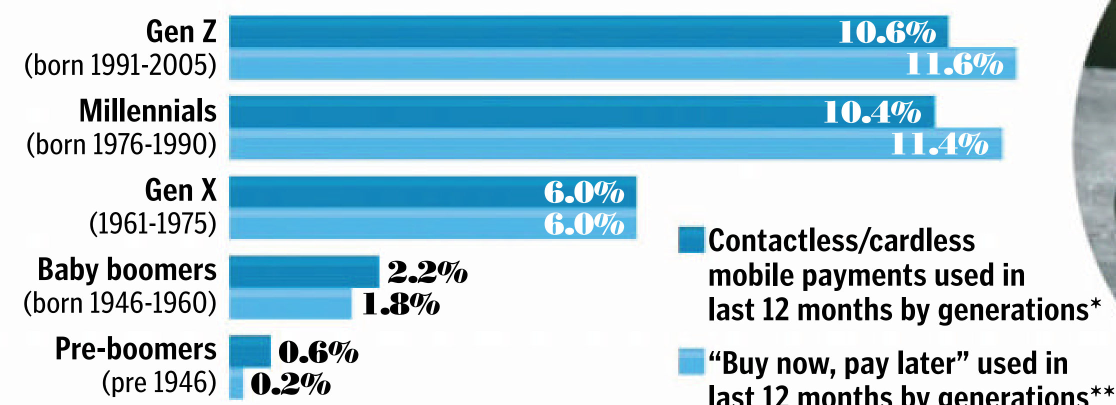
If you're claiming actual costs, among the deductions you can potentially claim are:

- Home office equipment, including computers, printers and phones. Claim the full cost (for items up to $300) or the decline in value (for items costing $300 or more).
- Work-related phone calls (including mobiles) and phone rental. You can claim a portion reflecting the share of work-related use of the line if you can show you are on call, or have to phone your staff, employer, customers or clients from home.
- Heating, cooling and lighting.
- Repairs to office furniture and fittings.
- Office cleaning expenses.

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

SNAPSHOT Gen Z leads the payments revolution

About 73% of Aussies used at least one digital payment method over the 12 months to November 2018. Bill payment services like BPAY and Post Billpay were the most popular option, accounting for 59.1%, followed by online payment platforms such as PayPal, Visa Checkout, Masterpass and Western Union Pay (43.9%).



Source: Roy Morgan Single Source (Australia).
December 2017-November 2018, n=50,561. Base: Australians 14+. *Excludes banks. Includes Android Pay, Apple Pay, Samsung Pay and Google wallet. ** Includes AfterPay, ZipMoney and ZipPay.

Active ETF

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MY MONEY

SAVINGS

Bank on a better return

Tom Godfrey, head of media and consumer advocate, mozo.com.au

For the many Australians who rely on a decent return on their savings, falling deposit rates will not be welcome news.

Mozo.com.au's latest analysis has found that although term deposit rates were trending up in the third quarter of 2018, we have returned to a pattern of more cuts than increases since then.

Bank Australia (down 0.15%), Greater Bank (0.15%) and ME Bank (0.5%) are leading the charge with significant cuts to their term deposit rates last month.

With the average rate for a six-month term deposit investment stuck around 2.37% and the average at-call savings rate sitting at 1.82%, it's worth considering what options are available to you.

For example, now might be a good time to consider fixing to secure your rate against potential cuts down the line. The best 12-month deposit rate now (at the time of writing) is 3% from Arab Bank Australia. To do better than that you have to look at longer-term commitments such as G&C Mutual Bank's 3.10% for two years or RaboDirect's 3.20% for five years.

Some at-call deposit accounts are offering bonus rates above 3% but if the Reserve Bank decides to cut the cash rate this year those rates will fall, so if you're after a guaranteed return this year a term deposit may be a better bet. Deposits held with authorised deposit-taking institutions such as your bank, building society or credit union are covered by the federal government guarantee, which protects each investment up to $250,000.

If you have a mortgage your best option might be to either pay money off the balance to reduce the amount of interest owed or to put the money in an offset account. The loan balance used to calculate the interest owed is reduced by the amount of funds held in the offset account, so if you're on a loan with a rate of 4%, you are in effect getting a 4% return on your savings.

There are other options such as peer-to-peer lenders and investment funds, but these are not covered by the guarantee.

▶ MORE MONEY STORIES ON P44-63

TOP 5 LOW-RATE CREDIT CARDS

Nexus Mutual 6.64%pa, 0 days interest free and $49pa; **American Express** 8.99%pa, 55 days interest free and $0pa; **Northern Inland CU** 8.99%pa, 0 days interest free and $0pa; **Community First CU** 8.99%pa, 55 days interest free and $40pa; **Easy Street Fin Services** 8.99%pa, 55 days interest free and $40pa. Source: Canstar as at 11-Feb-19.Ranked by rate, annual fee, then interest-free days.

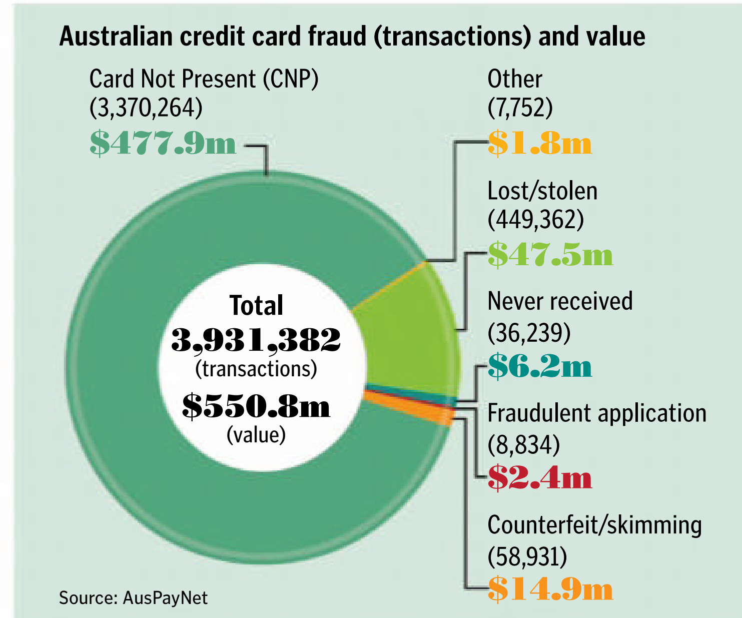
Fraud takes a big toll

About 85% of fraud on Australian credit cards in the 12 months to June 30, 2018 was card-not-present (CNP) fraud, according to figures by Australian Payments Network (AusPayNet). CNP occurs when valid card details are stolen and used to make purchases or other payments without the card, typically online or by phone, explains AusPayNet. There were 3,370,264 fraudulent CNP transactions totalling nearly $478 million.

If you are a victim of fraud you shouldn't be liable for any transactions as long as you have taken "due care". You might be liable, for example, if you didn't keep your PIN or password secret or you took too long to report your card as lost or stolen.

Leila Fourie, CEO of AusPayNet, offers these tips to keep your details safe:

- Treat with suspicion any unsolicited emails and texts from people you don't know. Don't click on the link provided and don't be tricked into divulging confidential data such as your password.
- Register for, and use, your financial institution's online fraud-prevention solutions whenever prompted.
- Do checks to make sure the business is legitimate.
- Always keep PC security software up to date and do a full scan often.
- Regularly check statements for any unusual transactions.

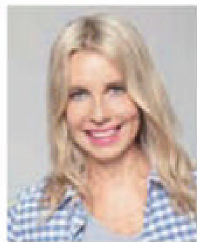


COMPILED BY MARIA BEKIARIS

PROPERTY

AIRBNB

How to be the perfect host



Cherie Barber, owner, Renovating for Profit, which now offers the online course Airbnb for Profit

In the year to January 2018, Australian Airbnb hosts turned over $978 million in revenue, from over six million guest arrivals. Sydney currently sits in the top 10 cities worldwide for Airbnb listings, rising from about 5000 in November 2014 to a peak of almost 28,000 in December 2017.

Glowing stats like these reflect the booming market in short-term rentals, as Australians cotton on to the financial benefits of renting out part or all of their property.

While the upside is obvious, too often people jump in without being fully prepared for the risks, effort and time involved in running a successful Airbnb operation.

So here are my top three things to consider before you jump in.

1 Make your listing stand out

The competition is stiff, so you have to convince potential guests to choose your property. Add as much detail as possible and emphasise what makes your property unique. Don't hide obvious shortcomings. If it's on a busy road, then say it; don't wait for guests to arrive and then post a negative review. Your description should accurately reflect your property. Have great photos and lots of them. Thoroughly outline the amenities and features, as well as any rules.

2 Aim for Superhost status

There's a tick list of requirements that will earn you Superhost status (an average 4.8 overall rating, 50% review rate or higher, etc). Potential guests look for this badge. From the very first contact right through to when your guests leave, you're aiming to be the perfect host: helpful, accommodating, responsive to all issues ... you're after that five-star review!

3 You need to work it

You don't just "set and forget". Running a successful Airbnb enterprise requires constant monitoring of booking requests. You need to jump on these as quickly as possible and scrupulously manage your calendar. Adjust your prices according to peak and low periods. And maintaining your property in tip-top shape doesn't just happen by accident; it needs constant vigilance.

Flood of units raises risks

Suburbs with a large stock of off-the-plan units are the riskiest investment areas for 2019, according to RiskWise Property Research, which has compiled a list of the top 10 "danger zones" throughout Australia. NSW suburbs Rouse Hill and Norwest have been deemed the riskiest: additional units coming onto the market will make up 309% and 207% respectively of the current stock.

Potential oversupply is just one factor that put these suburbs in the list of "danger zones". "Add to that tighter lending standards, the results of the royal commission, political uncertainty, a sharp drop in dwelling commencements and Labor's proposed taxation changes if elected, and you have the potential for major disaster," says Doron Peleg, CEO at RiskWise.

Buyers seem to be steering clear of off-the-plan units, turning their sights to other new options. House-and-land packages and townhouses had become much more popular, while larger inner-city apartment developments had received significantly lower inquiry, according to Bill Nikolouzakis, CEO of iBuyNew.

Peleg says that unless there was phenomenal capital growth, the value of off-the-plan units in many regions was likely to fall and it would become significantly harder for investors to enjoy capital growth, at least in the foreseeable future.

Australia's top10 danger zones

State	Postcode	Suburb	New units next 24 months	As % of existing stock
NSW	2155	Rouse Hill	1044	308.9%
NSW	2153	Norwest	1535	207.2%
WA	6162	Beaconsfield	1045	202.1%
VIC	3011	Footscray	2587	54.2%
QLD	4006	Fortitude Valley	2328	44.5%
QLD	4000	Brisbane City	3521	38.6%
VIC	3128	Box Hill	2018	38.5%
QLD	4101	South Brisbane	1939	33.5%
NSW	2017	Zetland	1466	27.5%
WA	6000	Perth	1497	26.4%

Source: RiskWise Property and CoreLogic.

COMPILED BY MARIA BEKIARIS

▶ MORE PROPERTY STORIES ON P64-67

CHEAPEST 3-YEAR FIXED HOME LOANS

Pacific Mortgage Group 3.82%pa, 3.61%pa AAPR[1], no additional repayments; **SCU** 3.85%pa, 3.72%pa AAPR[1], $10,000 max lump sum payment; **Tic:Toc Home Loans** 3.84%pa, 3.82%pa AAPR[1], $20,000 max lump sum payment; **Freedom Lend** 3.79%pa, 3.91%pa AAPR[1], $20,000 max lump sum payment. Source: Canstar as at 11-Feb-19, ranked by AAPR. [1]AAPR on $150,000 loan.

INVESTING

▶MORE INVESTING STORIES ON P68-75

METALS

Gold has a bright outlook

Nicholas Frappell, global general manager, ABC Bullion

Gold's outlook in 2019 is positive, with the price breaking up through a variety of resistance levels since the brief dip below $US1200 ($1700) in November.

Gold spent the middle part of last year on the defensive as markets expected – or feared – a rapid pace of tightening by the Federal Reserve in the US, leading to a sharp rally in the $US.

This year looks very different, as chairman Jerome Powell's policy statements implied that the Fed believes that the tightening cycle may be at an end. The January communique contained no references to a coming rate increase at all, merely that the committee would be patient in its judgement.

Meanwhile, the US economy continues to show signs of continuing strength, so there is some confusion about Fed policy, with some thinking that the US central bank is willing to risk a bit more inflation in the economy. Either scenario favours gold.

Elsewhere, fears of slowing growth, with notably weak data from China, supports gold relative to global equities. Brexit and Venezuela also provide a "risk" environment that is supportive for gold.

The improving outlook for gold is reflected in investor flows, with almost 71 tons being bought by exchange traded fund investors in January, in addition to the 72 ton increase in December. Likewise, open interest in gold futures in New York increased by about 270 tons between mid-December and January 18.

Which levels are important for gold now? It needs to break above the vital $US1375 level, a price point where gold has failed at, or just below, three times since 2016. Major support comes in at $US1263.

Given the uncertainties around the timing of the US interest rate cycle, gold could face volatility as perceptions change. However, I expect gold to continue within an upward trend channel through 2019.

For Australian investors, gold in Australian dollars is a good hedge against $A weakness if China slows further and as diminishing housing wealth affects consumption locally.

Advisers face big shake-up

Ten of the 76 recommendations made by Commissioner Kenneth Hayne in his final report on the royal commission into misconduct in the banking, superannuation and financial services industry, related to financial advice. "For some time now, a financial adviser has been something between a salesperson and a professional adviser," says the report. "The industry has moved from scandal to scandal, causing financial harm to clients, and damaging public confidence in the value of financial advice. This cannot continue."

Some of the key recommendations include:

- All ongoing fee arrangements must be renewed annually by the client and the planner must provide in writing details of what the client will be entitled to receive and the total fees that are to be charged.
- Repealing "grandfathered" commissions for conflicted remuneration.
- In 2022 there should be a review of the effectiveness of measures to improve the quality of advice.
- The cap on life insurance commissions should be reduced to zero.
- A new disciplinary system should be set up for financial advisers.

Rather surprisingly, vertical integration was left untouched, with Hayne stating that enforced separation of product and advice would be both costly and disruptive and he "cannot say that the benefits of requiring separation would outweigh the costs".

A number of larger financial institutions have already decided to leave the financial advice business and Koda Capital's Paul Heath has been quoted as saying that the new regulatory environment means it will be challenging for vertically integrated firms to manage conflicts of interest and that vertical integration is going to face significant regulatory headwind.

COMPILED BY MARIA BEKIARIS

TOP 5 SUPER FUNDS, AUSTRALIAN SHARE OPTIONS, BY 5-YEAR PERFORMANCE

Australian Ethical, 10.33%pa, 5-year return; **Catholic Super**, 7.88%pa, 5-year return; **Hostplus**, 7.47%pa 5-year return; **Intrust**, 7.34%pa, 5-year return; **Statewide**, 7.33%pa, 5-year return. Source: SuperRatings as at 31-Dec-18.

SHARES

ASX LISTINGS

Cool year forecast for IPOs

Marcus Ohm, partner, HLB Mann Judd

Despite total funds raised in initial public offerings (IPOs) in 2018 hitting $8.44 billion from 93 launches – up 106% on the 2017 total of $4.09 billion – the pipeline into 2019 reflects a softening of the market.

The underlying reason for the increase in amounts raised in 2018 was a small number of very large ($1 billion-plus) companies listing, with the three largest IPOs representing 56% of the total funds raised. These three companies (Viva Energy Group, Coronado Global Resources and L1 Long Short Fund) raised a total of $4.75 billion between them.

The remaining 90 IPOs in 2018 raised a total of $3.69 billion, with a decrease in average funds raised. It's a trend we can expect to continue and it means investors needed to carefully consider the fundamentals before deciding to invest in an IPO in the year ahead.

On average, IPOs in 2018 experienced an underwhelming share price performance after listing. New market entrants recorded an average first-day gain of 5% but only 47 listings ended their first day above their listing price – a rather poor result given that the issue price of these IPOs was typically discounted.

Year-end gains were disappointing too, as on average IPOs for the year decreased in share price by 18%. This is a worse performance than other market indicators, with the S&P/ASX 200 recording a decrease of about 7%.

The year-end losses made by a significant number of IPOs in 2018 and general market conditions suggest that there is the potential for a reduction in IPO activity in the coming six months.

Unsurprisingly, only 17 companies had applied to list on the ASX at the end of 2018, well down on the 37 that had applied at the same time in the previous year. They hope to raise $179 million, which is a 70% reduction on the $603 million sought at the end of 2017.

One positive note is the materials sector, with seven proposed listings, showing market sentiment still remains in this area.

The best performing small cap stock for the year was Adriatic Metals (up 188%), followed by Exopharm (17%). Other strong performers were Atomos (up 96%) and Keytone Dairy (75%).

▶MORE SHARES STORIES ON P76-86

HOLD ResMed

The Intelligent Investor Graham Witcomb

RECOMMENDATION

BUY	HOLD	SELL
below $10.50	up to $17.00	above $17.00

HOLD at $14.54

Source: Intelligent Investor; price as at 25 Jan 2019 close of business

The medical equipment supplier's revenue growth slowed compared with last year but sales still increased 11% to $US1.2 billion ($1.65 billion) for the six months to December after removing the effects of currency fluctuations.

The company's high-growth software-as-a-service business increased revenue by 44%. Software, however, accounts for only around 10% of sales.

ResMed's real breadwinner is its continuous positive airway pressure (CPAP) device and masks business. Sales were decent in the US, Canada and Latin America, where revenue rose 9%. Unfortunately, European and Asian sales came to a standstill at the end of the year, with device sales falling 2% on a constant currency basis. Also, mostly due to a price battle with competitors, it's ResMed's fourth consecutive year of declines in average selling prices.

The combination of falling prices in the US and falling sales in Europe suggests a highly price-conscious customer base. Both factors support our theory that the recent acquisition of MatrixCare for $US750m reflected a desperation to grow the company.

ResMed is trying to establish a software footprint to make patient record keeping easier and help with analysis, in the hope doctors will be more inclined to recommend its devices over others.

Falling prices this half were offset by a drop in general and admin expenses as a proportion of revenue from 33% to 25% over the past 10 years, but a business can only cut so many costs before product quality declines.

The price guide is unchanged for now but a PE ratio in the high 20s is becoming harder to justify without clear signs that ResMed's software strategy is supporting sales growth and selling prices. ResMed has now spent more than $2 billion pivoting to its software-as-a-service business over the past few years. Our recommendation remains HOLD.

Graham Witcomb is a senior analyst at InvestSMART.

TOP AUSTRALIAN EQUITY LICs BY 3-YEAR RETURN

NGE Capital Limited (NGE) 21.04%pa; **Westoz Investment Co. (WIC)** 16.31%pa; **Diversified United Investment (DUI)** 12.05%pa; **Concentrated Leaders (CLF)** 11.99%pa.
Source: ASX as at 31-Jan-19.

COMPILED BY SUSAN HELY

STORY ALAN DEANS

Are you being served?

When a designer tests a new product like a car or a computer they build prototypes and give them hell. Crash them, drop them, hand them to people to poke and prod. It's all done in the name of fixing faults and proving reliability so they are as perfect as possible when we buy them. The same now happens for services.

Service design has quietly emerged over the past 20 years or so, and is ingrained in many things we do day-to-day without really knowing it. The idea is to minimise the frustration people feel doing everyday tasks like seeking help from a bank, a hospital or commuting to work. Ideally, we should shed our angst and emerge as satisfied customers. A well-designed service should be simple and intuitive.

Here's how it's done on a grand scale. A huge test recently took place on the Sydney Metro, Australia's largest public transport project. It has a target to shift up to 40,000 people each hour. A total of 31 stations are being built from the far-flung north-western suburbs, through the CBD and on to the south-west. Another line will head west. The $8.3 billion first stage is due to open any day now, when driverless trains are scheduled every four minutes at peak times. Designer Damian Kernahan, founder of consultant Proto Partners, had the job to test the service before it was fully built and to fix any flaws.

"We bussed 150 people up to Cudgegong Road, a prototype Sydney Metro train station, which was built two-and-a-half years ago," Kernahan explains. The prototype station butts up against the real Tallawong Station, but it's for testing purposes only. "Everything was there. There were gate lines, elevators, there were bus entry points. We used Transport for NSW staff and organised six buses, took them up and spent a day prototyping. That included seeing what would it be like when two buses turned up and unloaded 150 people at the same time as a full Metro was arriving at the station with 150 people ready to disembark. There were people coming up from the platform and others going into the station. There was no real train, but we amassed people at certain points and set up six cameras to film everything. We had a film director calling 'action'. That signified the train and buses had arrived and people needed to start piling out.

"People were going through the turnstiles, waving their electronic tickets. Some had prams that had to go down the lifts. The whole idea was to check, ahead of time, that the stations would be set up the right way. Did they need wider gates, more gates, more elevators? We then feed the answers back into the design so Sydney Metro know how to ensure smooth peak time flows. It is a great example of how you can design something that doesn't exist by prototyping it ahead of time.

"Twenty years ago, they would have built the station with four entry points, and that's it. How would they know what it's like for 150 people coming one way and 150 people the other way unless they tested it? People used to think that they knew how things worked, but they found that products and services were being launched and not getting customer take up. They need to know why. They need to know what customers want."

Kernahan started out in advertising after leaving school, something he enjoyed because it was the visible side of marketing. He helped launch new beer brands for Carlton & United Breweries and milk products for National Foods, later working in New York for global drinks giant Diageo. On his return, Telstra and others were clients.

He formed Proto with a business partner months before the Global Financial Crisis struck in 2008, pitching it as a product innovation firm. It won contracts with Qantas and Schweppes, but the work soon dried up. "We were six months old, no-one had really heard of us and everyone closed their wallets for 12 months. That Christmas, my partner and I determined that we had different financial roadmaps. Mine was longer than his, so he had to find a job. We parted ways. My wife and I had

Fact file

Damian Kernahan

Founder of Proto Partners, a service design consultancy. Lives in the Sydney beach suburb of Manly with his wife and three sons; age 52.

First job at 11 was wrapping newspapers for his brothers to deliver, later having his own round; always wanted to be in advertising. His father Alan introduced the notion of investing by buying him minted collectible coins. A conservative investor who is focused on a self-managed super fund. Has been playing more golf: his scores are improving and slice disappearing.

Service design is about spending time with customers and truly understanding what their interaction is like with an organisation's brand

PHILLIP CASTLETON

our second son in December, and I came back in January and started Googling service innovation and design. I had been reading about design thinking for five to six years, but I realised that most innovation was in Asia, America or Europe. It's not really happening in Australia. There was a hole in the market but there was not really a market in the hole. So, I Googled 'service innovation and design' and found this thing called service design, which I had never heard of."

Google delivered Kernahan an epiphany. "I found an article called 'The Journey to the Interface' by a guy called Joe Heapy, the founder of Engine Service Design. They had been going seven to eight years, so it was an established discipline in England and Europe but it hadn't yet reached Australia. I printed his 80-page eBook and knew this was what I wanted to do. At that time, the share of GDP for services was around 68% and now it's above 70%. Nobody was focused on it."

Data hungry ... Kernahan relies on comprehensive research to get results.

He nutted out his own methodology of what a service design process and model should be, and approached a friend to ask if he could test it on one of his investments – a chain of women's gyms with about 200 outlets. He researched their customers, what was and wasn't working for them and designed his first customer journey map. Several months later, he picked up his first paying client – McGrath Real Estate – to design an ideal customer service by interviewing home buyers and sellers and combining their experiences with research such as Net Promoter Scores. The result? A new system for McGrath to interact with its customers so they felt good, were treated fairly and transparently, and were happy about the fees charged.

"Service design is about spending time with customers and truly understanding what their interaction is like with an organisation's brand," Kernahan explains. "There are a lot of interviews, online surveys, shadowing customers, going through the processes ourselves, doing walk throughs with them. I sit at a desk with them as they try to log on or go into a bank and work with them to get something done. I film them doing that, and get them to fill in diaries to understand their emotions. We get up really close and personal. It's much more than putting people in a focus group and asking

> **This is the age of the customer but we are just at the beginning**

questions. In terms of interviews, they could involve 20-30 people. In terms of up-close and personal, we might talk to 50-100 people. Then surveys, there could be several hundred to several thousand responses. Our approach is rigorous. There are walls of information.

"The data is synthesised to determine its relevance. We look at what's important to customers, what isn't working for them, what they value about the service, brand or product or what they don't find valuable. What would be the three to four things that they really want a supplier to deliver for them? Then we redesign that experience. It could be a phone call, and the dialogue that is held on that call. It could be communications, letters that go out. It could be response times. Our single organising idea is ensuring that we are seriously valuable."

How can people tell if this works? One sign is the amount of time we spend in time-sapping queues. How quickly do we get through checkouts? How does your phone company deal with your complaint? Are you still stuck on hold or is someone online who can quickly answer using text messaging? Do you use e-tickets on the bus or train, or still line up each week to buy paper ones? The answers lie all around us, but we don't always notice them.

"This is the age of the customer," Kernahan says, "but we are just at the very beginning of this journey. Large organisations have embraced it, but it has to filter down into the second and third tier levels. It has a long way to go, because even large organisations often don't have a clear customer proposition. Expectations have changed too. People want to know exactly where their parcel is and when it will be delivered.

"You don't have to spend $5 million, $10 million or even $20 million overhauling your website or putting in a back-end platform. That can make things more efficient and highly productive, but there are a whole bunch of things that you can improve before you do that." He cites a job Proto did years ago for Westpac, allowing customers to choose their own credit card PINs. Now, every bank does it.

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All the right moves

Regardless of age, it pays to check that your super still meets your needs

EAMON GALLAGHER

NAME: Wilfrid D'Cruz
STATUS: Aged 77, retired, a fit and keen ballroom dancer.
QUESTIONS: What is the best pension fund for me? How should I be invested so I don't run out of money – diversified, balanced or conservative options, given my age?
ANSWERS: Find a good adviser who is not linked (via their licence) to a fund manager and who has excellent qualifications with reviews from real clients. Consider joining the class action that is seeking compensation for the low return of the cash option you are invested in. SuperRatings recommends an account-based pension with strong long-term investment performance, competitive fees, flexibility and access to advice. Its top-rated pension funds include AustralianSuper, HESTA, QSuper, Sunsuper and VicSuper. Review the level of risk in your fund.

For the past 17 years Wilfrid D'Cruz has been living off the retirement savings that he accumulated while working as a teacher and in the Royal Australian Air Force. But the royal commission into misconduct in the banking, superannuation and financial services industry has made him question whether he is in the right pension fund.

Wilfrid transferred his superannuation to Colonial First State, which the royal commission's blowtorch questioning revealed had been charging fund members high fees, including commissions, and paying out uncompetitive cash interest rates. An avid reader of *Money* magazine and intrigued that CFS's pension funds never appear on the list of top funds, Wilfrid wants to know which one he should choose. He notes that industry super funds such as Hostplus, Cbus, AustralianSuper, CareSuper and Intrust were recently recommended by researcher SuperRatings for Australians in their 60s but what about people in their 70s? What investment option should Wilfrid choose?

His bank financial planner has invested around 40% of Wilfrid's pension in cash and local and global fixed income, plus 60% in Australian and global shares and property. About 10% of Wilfrid's pension sits in Aspect Wholesale Diversified Futures, a managed fund that trades in around 120 global futures, using short selling. It has a total management cost of 4.23%, including a performance fee.

Wilfrid understands a fair bit about investing, having taken courses run by the Securities Institute, such as ones on understanding company reports.

He owns some shares outside superannuation. "They have probably gone down but I don't worry. All you have to do is have sufficient money so that you don't run out." He says the prospect of being an old man with no money does haunt him.

COMPILED BY SUSAN HELY

Choose the best pension

KIRBY RAPPELL

Kirby is executive director of superannuation research house SuperRatings, which is owned by Lonsec Holdings, a privately owned financial services research and investment group. superratings.com.au

Wilfrid's story is an amazing one to read and everyone at SuperRatings hopes he can enjoy a relaxing retirement and lots of dancing.

The past year has seen a lot of discussion about super and many Australians are thinking about what is right for them.

For people starting an account-based pension in 2017, the average starting balance was around $280,000, so it is important to note that Wilfrid has a much healthier account balance than most. Despite this, the fear of running out of money remains a challenge for many people and is not always an easy one to resolve.

Fees for pension products range widely across the market but Wilfrid's current product seems to be charging a competitive amount on administration and product fees. The current level of drawdown on the account was also less than investment earnings for the year, so it's pleasing to see that Wilfrid's nest egg grew slightly.

We are seeing more volatility in markets in recent months and it may be beneficial for people to be thinking about the level of risk they are willing and able to accept. Wilfrid currently has a mix of around 60% growth assets, and it is worthwhile periodically checking that this remains appropriate. If you feel your current investment mix is not appropriate, we suggest speaking to your fund or an adviser to help you with your decision to ensure your portfolio continues to meet your needs.

The flexibility of account-based pensions also varies, such as the frequency of payment dates available and beneficiary options. This is something to keep in mind when considering whether or not to change providers.

Overall, for Wilfrid and many other people, giving your current arrangement a check-up from time to time is appropriate but it is good to see he is in a wholesale product that is on sale. This is always something to be mindful of.

This year SuperRatings' Pension Fund of the Year is QSuper. The top five according to our ratings for 2019 are (in alphabetical order): AustralianSuper, HESTA, QSuper, Sunsuper and VicSuper.

SuperRatings believes that the key features to look for when choosing an account-based pension are strong long-run investment performance, competitive fees, account flexibility and access to advice. These features are often not that easy to understand or compare, so it requires research and high-quality advice from an expert.

Overall, everyone should take their time to check their super and it is great to see Wilfrid is doing this. When we run the product through our tools, it seems competitive but talking to an adviser about his risk tolerance and portfolio risk could help address his concerns here.

Good advice is a must

STEVE GREATREX

Steve has worked in financial planning for 30 years and founded the independent financial planning firm Wealth on Track in Adelaide in 2009. He does not receive commission for any of the products he recommends. wealthontrack.com.au

Wilfrid, you need a good adviser. Look for one who is not linked (via their licence) to a fund manager; look for someone who has excellent qualifications; and look for someone who has reviews from actual clients. This combination is actually quite rare.

You withdrew your money from Defence Super when you retired. Was this something that was recommended by your adviser at the bank? If you had a defined benefit fund, you may have been better off leaving it there. This may have been a guaranteed payment for life. If so, you may have a cause for action against the bank. The process would involve complaining to the bank first. If you are not happy with the result, you could then take it up with the Australian Financial Complaints Authority (a brand new organisation).

The portfolio you have been given is typical of several that I have seen from unhappy clients of other advisers. That is, it has many different fund managers, in your case 11.

Some advisers (not me) see their value as picking multiple fund managers (or even individual stocks) for you. The sheer number means that some will go wrong over time.

In your case that was the futures fund. There is no good theoretical evidence that I am aware of to support investing in futures – assuming that is the purpose of the fund.

I note that you have an excessive amount of your money (13.6%) in cash. I understand that there is a class action against your provider for underpaying on cash – consider joining it.

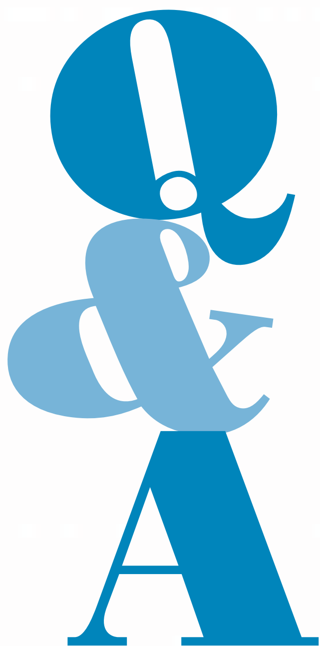
How much risk should you take as a 77-year-old? We know you have a significant share portfolio, so that may be an indicator of some appetite for riskier assets. A good adviser will have a detailed discussion with you about risk, possibly using a questionnaire to rate your appetite for it.

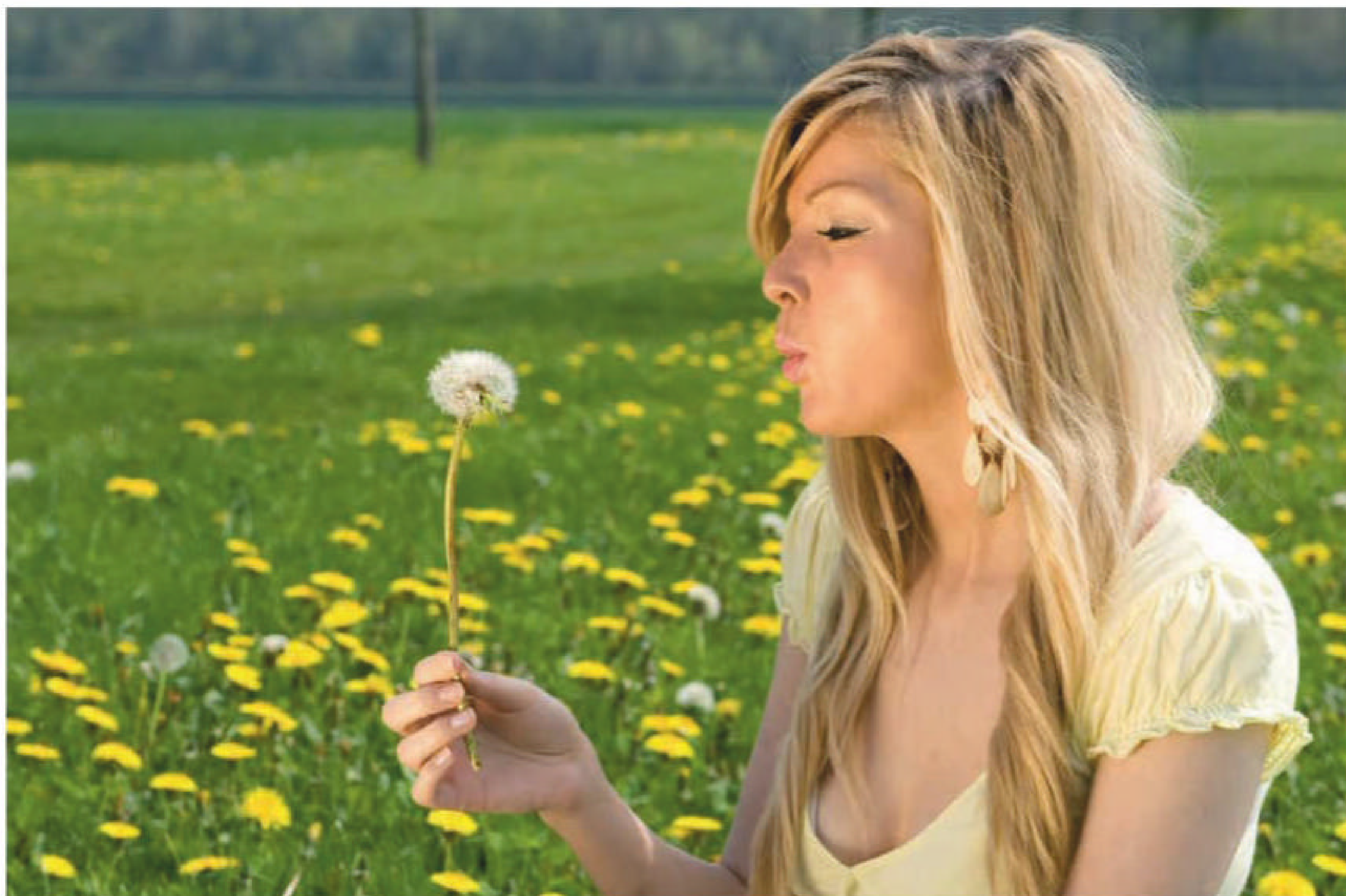
You have too many assets to be getting Centrelink benefits so changing funds should not matter. As you are in pension phase there should be no concerns with capital gains tax if you make investment changes as the pension phase of super is tax free. Your new adviser may even decide to use your current "platform" (FirstChoice Wholesale Pension) if they deem it appropriate and the investments they need are on it.

Also there is no problem going from a retail fund to an industry fund, or vice versa. You would need to allow for selling costs on the funds but they should be minor in the scheme of things. You could cross-check this with Colonial and your tax adviser or contact the industry fund.

As it happens, the manager that I have been recommending to my clients recently is not on your current platform.

The main thing is to find a good adviser who can give you advice tailored to your situation.





Jane's $100k windfall is a great opportunity so …

Don't fritter the money away

Q I've recently been awarded a tax-free death benefit amount of $100,000. I'm 29, work part time in a cafe and have no debts (I didn't go to uni, I never bought a car and I live with my parents, who rent). I come from a family and background that traditionally hasn't been good with money. I'm aware this is an opportunity and I'm scared to ruin it, especially since there's an emotional component (the death of my partner) to being given this money.

At the most I might buy sensible things like a small used car or maybe set aside some money to travel. I want to grow the rest of the sum but don't know where to start. Should I invest in going to a financial adviser? The recent news has made me wary of banks and advisers in all forms. I don't know what to do or what questions to ask.

I am really sorry to hear about your partner, Jane. Your comments around money are well made. This certainly is a financial opportunity you must not waste. I support planned spending on a small used car and for some travel. Right now I would suggest you just put the balance into a 90-day (or similar time frame) term deposit with a bank. Do take a look online at what rates are available. They won't be high but it means your money will grow. Most importantly, it can't be accessed until the term is up.

My greatest concern would be that it sits in your everyday account and you find in a few years it has all gone. If I was in your situation, I would be looking at this money as being a deposit on a home. Being good with money is not hard but it needs discipline. So what would really benefit you would to be to look at your budget and set up a savings program. Add to your investment on a weekly basis.

Do this and you will quickly become a successful money manager. I feel home ownership is really valuable, as once paid off it provides secure accommodation and in the long term will be a reasonable investment.

I suggest a three-step plan: first, secure the money you have; second, start a savings plan to add to the money; finally, plan to buy your own home once you feel confident to do so.

NEED PAUL'S HELP?

Send your questions to: Ask Paul, *Money* magazine, GPO Box 4088, Sydney NSW 2001 or money@bauer-media.com.au. Sorry, but Paul can't personally answer your questions other than in the Q&A column. By submitting your question to *Money*, you consent to having your question and the response you receive from Paul published in the print and digital edition of *Money*.

La Trobe financial

So what makes for a successful income investment?
Capital Stability - For over 65 years La Trobe Financial has been helping investors build wealth.

Jay is worried about losing his retirement savings but ...

Level of risk can be adjusted

Q More often than not you propose investing in superannuation as a tax-planning tool. Superannuation, like all mutual funds, invests in a range of areas, from equities to term deposits. Is it still worth investing in super when one is not sure, after 20 or 30 years, what the balance would be on the day one needs it?

Markets may be in freefall during that period and effectively one's life savings would be worthless on the day monies are to be withdrawn.

Good question, Jay. You are right, I do see super as a tax-advantaged vehicle and I also agree that the investments we hold today may not be appropriate in decades to come. But I don't find many funds these days that restrict you to just one investment choice.

Whether you are in a self-managed, industry or retail fund, I think you will find you can easily change your asset allocation. I have done this over the decades. My super used to be in very high-growth assets until my 50s, when I moved closer to a balanced portfolio. Now in my early 60s, I have increased the allocation to secure interest-bearing investments in my super fund.

So I would argue that super is not only highly tax advantaged but it is also flexible and can meet the level of risk that is appropriate to each of us.

With a better-paying job, it makes sense for Rachel to ...

Save hard for first house

Q I'm a 31-year-old single female with no savings or investments. I have no debts and own my car. I have been a low income earner for quite some time and have only had enough to make ends meet.

But I have just started a permanent job earning $61,214 a year before tax. My super contributions are the standard 9.5% and I have a total of $48,000 in my QSuper fund.

My current expenses are $250 a week. In the new job I have an abundance of extra money. I want to be sensible with it and want to start putting some away for retirement but also want to buy my first house.

I want to buy in the Brisbane area for around $350,000 but am unsure whether to start saving my money and putting it into a term deposit or whether to invest in shares and cash them in when I am about to buy. I am aiming to buy as soon as I can but would need at least 20% to avoid having to pay mortgage lenders insurance. Or do I hold off and rent? I would be looking at $250 a week, at least, and see this as wasted money.

I also remember going from my part-time university bar job into a full-time job and being astounded at how much money I had each fortnight. But it is really easy to get used to spending it, so I am in strong agreement that you lock in your capacity to save.

With expenses of around $250 a week and potential rent of another $250 a week, you will still be able to save some $25,000 a year. This will quickly build into a 20% deposit.

If the market was booming, you may well worry about falling behind rising prices but this is not a concern at present. Brisbane prices, like those in most of our big cities, are pretty weak at the moment and likely to remain so for some time. This really suits savers, so my advice is to get stuck into building a deposit.

And...
Track record of performance - Our approach has been tested in every economic cycle.
La Trobe financial

To keep building wealth, Sarah could ...

Build a share portfolio using low-cost funds

Q I am 40 years old, my husband is 44 we have two kids, 9 and 7. We earn about $140,000 each, we own our home worth $800,000, we own our cars and other than credit cards we have no significant debts. Both kids are in private schools (about $25,000 a year in total) and we go on holidays (roughly $10,000).

I work for the private sector and salary sacrifice $1000 a month; my husband is in a government defined benefit scheme, to which he is also co-contributing, and it should pay him $100,000 super each year when he retires at 60.

I have about $250,000 in super and as a way of growing our investments we bought an off-the-plan apartment in the inner city for $500,000. It will be built in 2020 and we will look at renting and negative gearing. I also hold some shares (about $10,000) and have a high-interest savings account with UBank.

We aim to save about $3000 a fortnight, which we put into the high-savings account. Other than salary sacrificing super and putting money into a high-interest account, we don't have any active investment strategies and we're concerned we are not being proactive enough.

What is the best investment strategy in terms of putting our savings towards something? Do we need to buy more property, get into the sharemarket or set up a family trust?

You have made life easy for me, Sarah, as you have your finances very much under control. Simply doing what you are doing now until you are around 60 would mean super will provide the lifestyle you want. You are in great financial health.

This leads me to what I think is the key issue: your work plans. With your husband's defined benefit scheme, I am sure the projected $100,000 a year will only apply if he works into his early 60s. So if early retirement is an option, this will need some planning.

However, it sounds as if you will wait for the defined benefit plan to pay out the maximum, so the issue right now is what to do with your $3000 a fortnight in savings. You could apply your $78,000 a year to buying another property or investing in shares and other liquid investments.

As you already own an investment property, plus your home, and you are topping up your super, it would make a lot of sense to start to build a portfolio of local and international investments. A simple way to do this would be to use a low-cost indexed manager such as BlackRock or Vanguard or one or more exchange traded funds (ETFs).

While you have two children under 18 I don't think a family trust will be of much value. They are expensive to set up and run each year. Where they are useful is if you have non- income-earning adults who you can distribute income to.

If Tom can save a deposit he'll be able to ...

Buy while prices are down

Q I am 25 years old, live in inner-city Sydney and earn about $100,000 a year. I have an investment property worth around $300,000 (with a loan of $250,000) in a regional centre. My super is just starting to accumulate and is currently around $25,000. I have around $30,000 in cash (with ING Savings Maximiser) and I am looking for the best investment option for the future.

Should I save up a deposit and buy an inner-city apartment in Sydney now that prices are falling, go for another regional property or pursue an index fund, like one of Vanguard's, for diversification? I'd like to make the most of my time now to set myself up for the future, as expenses are quite low and I'm saving around $1000 a week. Do you have any recommendations?

At 25 my sole asset was a 10-year-old Datsun 1000, so I am very impressed with your money skills, Tom.

My view, which I discuss a lot with our three adult kids, is that this downturn in prices is a terrific opportunity to buy a property for investment or to live in. Sydney, like Melbourne, will have a population of over 8 million in the next 30 years. Property values are driven by demand, mainly caused by a growing population. So it is hard to imagine that values will not increase over time.

So while I agree that regional centres will also do well, it is hard to go past inner-city suburbs, which have plenty to offer, with excellent public transport, cafes, restaurants and entertainment.

Your idea of building a deposit and buying a property during this quite substantial downturn makes a lot of sense to me.

Susie's admirable aim is to be ...

Mortgage free by 40

Q My husband and I are 33 years old with one child (and planning another in the next 12 months). I have my own business so will be paid throughout my months of "maternity leave".

We currently earn a combined income of $144,000 (net). We owe $438,000 on our family home (worth $900,000). We pay $2000 off our mortgage fortnightly (36% of our income) and put $1000 to savings fortnightly (19% of our income). The rest of our income is spent on: 36% expenses (needs and wants), 7% spending and 2% towards our annual family holiday. We have $2500 in shares (Vanguard, Australian Foundation Investment Company and Super Retail Group). I have $90,000 in super and my husband has $120,000, with an employer contribution of 12.75%. My husband also salary sacrifices $211 a fortnight. All our bank accounts offset our mortgage.

Our goal is to own our family home by the age of 40 and be mortgage free, therefore having less pressure to enjoy our family and lifestyle.

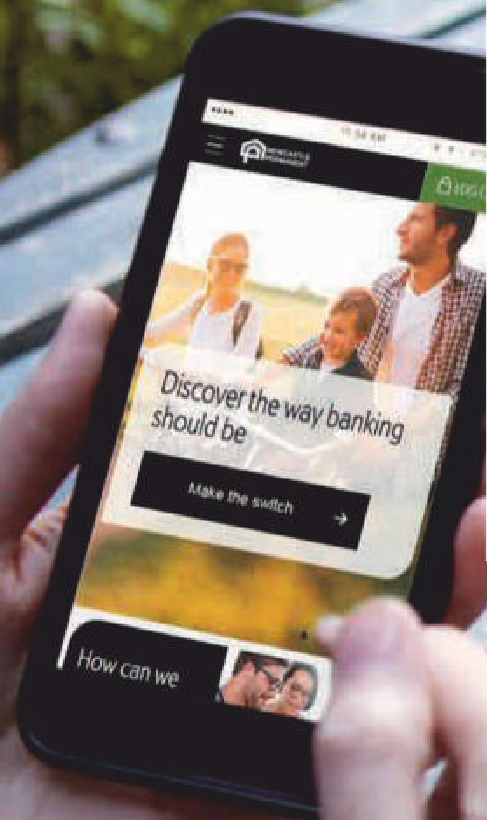
Should we keep the $1000 a fortnight being saved into the offset account, pay down the mortgage, invest some (for example, 50%) in shares or buy an investment property? Or stretch ourselves to do all of the above if we can?

Another well-organised *Money* magazine reader! I am really impressed with the breakdowns you provide, Susie, showing what percentage of your budget goes where.

But I do think you answer your own question. You have set out a clear objective: "Our goal is to own our family home by the age of 40 and be mortgage free." This is a cracking plan and you should go for it. For me, this means you should direct a decent chunk of your $1000 a fortnight into the offset account.

Age 40 is seven years away for you and I do appreciate that this is probably enough time to invest in shares and seek to earn higher returns and pay your mortgage off by 40. So a 50/50 plan, with half going into the offset and half into your share investments, is a perfectly sensible idea. It is a question of risk. The offset is risk free but with low returns. Shares offer higher returns but with more risk.

I am not keen on you gearing into another property, in particular with plans for another child. I think you would want to hold a property for longer than seven years and I do like to see people manage risk intelligently by using diversification.



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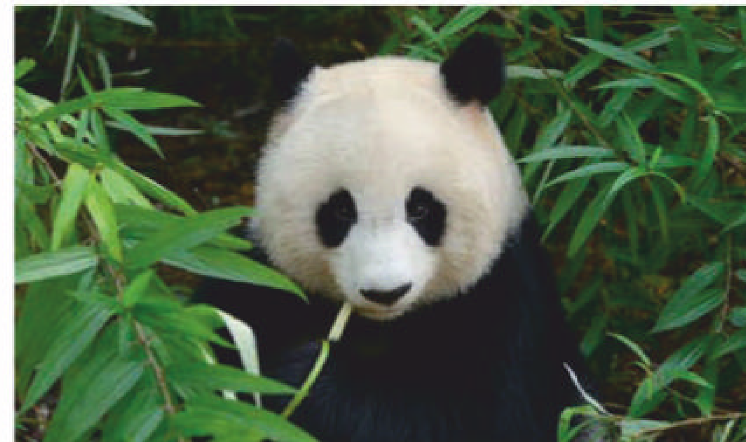
SMART SPENDING

Destination China

Heart of China ... clockwise, from above, the spectacular Yangtze River; a giant panda in the Chengdu breeding facility; spicy fare at a hot pot restaurant; and the old town of Ciqikou within modern Chongqing.



Five things to do

1. Visit: The Research Base of Giant Panda Breeding in Chengdu, the capital of Sichuan province, gives visitors an up-close view of these adorable creatures in their natural habitat. Despite the giant panda's status as a Chinese national treasure, its population dropped dramatically and this facility was opened in 1987 to rescue and breed wild pandas. Strolling through the tall, cool bamboo forest that houses the base is an awesome experience, or hop on one of the open tourist buses.

2. Eat: For a tasty and fun dining experience, pop into a Sichuan hot pot restaurant in Chengdu. A pot of bubbling stock with a second, inner pot of spicy broth sits at the centre of each table and diners dip all sorts of things, including exotic mushrooms, dumplings, wontons, cocktail franks, duck intestines, shredded beef and chicken, tofu, seafood and seaweed, into the broth of their choice.

3. Cruise: Book a Yangtze River cruise and visit the Three Gorges Dam, one of the world's largest hydropower projects. My ship, the China Goddess 2, was very modern with a maximum of 400 passengers. It was very peaceful gliding along the calm river through stunning gorges and past massive cities. There's plenty of entertainment and at least two shore excursions every day.

4. Float: Board a small boat and then an even smaller 20-seater motorboat to navigate the narrower passages of the pristine Lesser Three Gorges. The Qutang and Wu gorges are often referred to as a gallery because the sheer cliffs are adorned with artefacts including the ancient plank road, Meng Liang stairway and mysterious hanging coffins.

5. Experience: The old sits amidst the new in Ciqikou, an old town preserved in the sprawling modern metropolis Chongqing. Ciqikou's steep and narrow pedestrian streets house porcelain and handicrafts shops and tea houses, which give visitors an insight into what many areas of Chongqing were like before the metropolis became a vast urban area with a population of more than 30 million. PAM WALKLEY

DRIVING PASSION

Newcomers set to shake up the market

This year is already proving an exciting one in terms of all-new cars arriving on Aussie shores, particularly for buyers of more affordable mainstream vehicles. Perhaps the biggest of these will be the Mazda3 due in May. It takes the popular Japanese small car to all-new levels of refinement, ride comfort and style from around $22,000. One of its rivals, the Ford Focus, gains a new family member, the high-riding Focus Active ($29,000), which takes the well-respected hatchback into small-SUV territory.

The Chinese-owned British brand MG is introducing its very well-equipped HS medium SUV, priced from $27,000. If you prefer things on the rugged side, the new Suzuki Jimny has just landed, offering true off-road capability from just $23,990.

Meanwhile, Europhiles on a budget can look forward to the second-generation Audi A1 hatchback due in April. Priced from around $30,000, it will be one of the most affordable entry points into the premium German brands.

DAVID BONNICI, WHICHCAR.COM.AU

$23,990-$25,990

Suzuki Jimny

Suzuki's little four-wheel-drive SUV is rolling into showrooms with a ready-made cult status and hatchback-rivalling pricing. The new Jimny boasts huge increases in equipment, refinement and off-road capability over its veteran predecessor. Its three-star ANCAP safety rating is unlikely to affect its popularity.

Pros: Retro styling, off-road capability, improved refinement.

Cons: Low safety rating, tight cabin, bouncy highway ride.

suzuki.com.au

$22,000-$36,000*

Mazda3

The Mazda3 is perennially Australia's second-best selling passenger car behind the Toyota Corolla but this fourth-generation model could see them swap places. It will arrive in May with vast improvements over the outgoing model in terms of driving dynamics, comfort, cabin quality and style.

Pros: Engine smoothness, steering, cabin comfort.

Cons: Bigger but not roomier than previous model.

mazda.com.au

* estimated

$29,000

Ford Focus Active

Described by Ford as a passenger car rather than an SUV, the German-built Focus Active will bridge the gap between the regular Focus hatchback and Ford's SUV line-up. Due in the middle of 2019, it features plenty of standard kit and rugged off-road-inspired exterior despite being front-wheel-drive only. It's powered by a frugal but punchy 1.5-litre three-cylinder turbo.

Pros: Sharp crossover styling, equipment levels, economical.

Cons: No AWD.

ford.com.au

EXTRAVAGANCE

Scents of humour

Enjoy a touch of whimsy while you infuse your surrounds with fine home fragrances from the Fornasetti range.

***How much:* From $270-$770 *Where to buy:* mecca.com.au**

WINE SPOTLIGHT

2018 Thorn-Clarke 'Sandpiper' Eden Valley Riesling $20

Both the budget-priced Sandpiper label and its Eden Valley riesling offer consistent value. In 2018, this is bright and vibrant with lemon-lime flavours given some complexity by chalky minerality on a fresh, clean, dry finish of good length. Perfect in the warm weather.

SPLURGE

2016 Sutton Grange Syrah $55

Sutton Grange is now home to 2015 *Gourmet Traveller Wine's* Young Winemaker of the Year, Melanie Chester, and shows her influence on an impressive range. This full-bodied red has depth and tremendous concentration yet is fresh and succulent. It drinks well young and offers plenty for the future. There are bright fresh mulberry, blackberry and brambly flavours, silky texture and a balanced finish of considerable length. PETER FORRESTAL

SMART SPENDING

SMART TECH

Game on for the bargain hunter

Once upon a time, computer and video games were pricey. Really pricey. For a range of reasons to do with distribution, manufacturing and technology, games in the 1980s, 1990s and 2000s cost significantly more than they do today, when we're pretty much spoilt for choice in terms of bargains.

In fact, lots of gamers joke about having a backlog of games they've snapped up cheaply and haven't had time to play. For those of us afflicted with this problem, it's no laughing matter!

But seriously, it's a great time to be a gamer, whether on PC or console. So this month we're highlighting a few of the most popular gaming bargains available, although there are loads more to consider.

On PC, Valve's online Steam store hosts regular sales but also check out GOG.com (formerly Good Old Games) and the new Epic Games store, which has free giveaways rolling out every fortnight. To keep track of gaming bargains across all platforms, the website OzBargain makes for essential reading, listing Australian deals across popular stores such as EB Games, Amazon, JB Hi-Fi, The Gamesmen and more.

PETER DOCKRILL

What is it? Humble Bundle
How much? Varies
Pros: Few content distribution services demonstrate the radical disruptive potential of the internet better than the Humble Bundle. The site offers bundles of PC games (and other media) for which you can nominate your price. If you pay more than the average punter, you unlock additional titles, plus bonuses (such as soundtracks). These days, it also offers a full regular store as well, plus subscription content.
Cons: None, and you can even donate what you pay to charities.
humblebundle.com

What is it? PlayStation Plus and Xbox Live Gold
How much? $79.95 annually (monthly/quarterly packages also available)
Pros: Depending on your flavour of console, Sony and Microsoft have equally compelling subscription services that offer free games on a monthly basis (while unlocking online multiplayer for all games). This is a great way to build up a library of titles cheaply. Members also get exclusive discounts on their platform's digital game purchases.
Cons: "Free" games only playable while your subscription remains active.
playstation.com
xbox.com

What is it? Nintendo Switch Online
How much? From $5.95 (pm) to $29.95 (pa)
Pros: For the Switch console, Nintendo has taken a different route from the Virtual Console store available with previous systems. Instead, it's offering an affordable Netflix-style subscription service with dozens of retro NES-era games to play at any time and new titles added each month. Like Xbox/PlayStation, the service is also mandatory for online multiplayer.
Cons: Only NES games at present but hopefully games from more recent systems will emerge soon.
nintendo.com.au

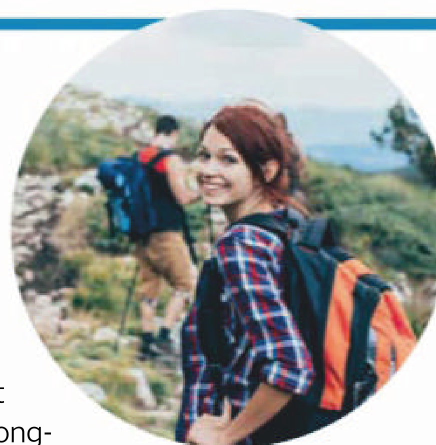
GIVE IT UP

Oxfam Trailwalker

What is it? A team-based challenge that raises money to tackle global poverty.

Where your money goes: Oxfam Australia's work includes long-term development projects designed to improve the lives of disadvantaged people around the world. In Australia, Trailwalker has raised more than $70 million since 1999.

How to donate: Those who have done the walk often say it is a life-changing event. Teams of four undertake an endurance challenge, walking up to 100 kilometres through bushland in under 24, 36 or 48 hours. It's a mental and physical challenge that can test even the strongest team spirit but Oxfam provides support through training programs and a crew of volunteers to help you prepare for – and survive – the walk. All you have to do is raise sponsorship money.



Events are held in Melbourne (March 29-30), Brisbane (June 21-23) and Sydney (August 23-25). Not keen on trailwalking? Think about raising a hand to be a volunteer. See trailwalker.oxfam.org.au. NICOLA FIELD

WEBFIND

OZBARGAIN.COM.AU

OzBargain is an online community of bargain hunters dedicated to sharing the latest deals on anything from supermarket specials, freebies and giveaways through to discounts on power tools and tech gear – pretty much anything. The deals posted can be on-the-spot specials, so it pays to check in regularly. NICOLA FIELD

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Where to raise $65k to pay for a PhD

We are in our early 50s, with two teenage sons at home. We are focusing on paying down the mortgage ASAP. There is $180,000 to go with $75,000 in an offset account and $30,000 in a managed fund. We earn about $90,000 between us. My husband has decided to complete a doctorate part-time over six to eight years – the cost would be about $65,000. What would be the best way to pay for this?

Our options are:

1. Use our offset and fund to pay upfront.

2. Add it to the mortgage.

3. Use the federal government's FEE-HELP scheme (if he is eligible).

4. Take out another loan.

Angela

Paul's verdict: Apply for a scholarship or other financial support

If all else fails, use the money in your offset account

Hi, Angela. Taking on a PhD is a big task but a really worthwhile one. I imagine your husband has already completed quite a bit of study at undergraduate level and also a master's, so after much study working out how to best finance the PhD is really important.

I am sure both you and your husband will be well versed in university funding but this really is your starting point. Universities greatly value their elite PhD students and my understanding is that most students at this level get support in the form of a scholarship or part scholarship, some tutorial work, cost of living expenses or some such help. Obviously, this would be really valuable as it does not cut into your family finances.

Next, if he is eligible, the FEE-HELP scheme is a huge support to students. When compared with credit card debt, personal loans or other forms of high-interest debt, a FEE-HELP loan is a cracker. It has no interest, it is only indexed and you only start to repay it when you earn a bit above $50,000. So there are no repayments until you are earning a reasonable income, no interest and no pressure to repay it.

Where his eligibility may be impacted is if he has used FEE-HELP to fund other study he has undertaken. There is a lifetime cap of a bit over $100,000. There is always debate about whether this is too generous or too low but my view is that it is pretty fair. Regardless of this debate, though, the lifetime cap may well impact your husband's use of FEE-HELP.

Even so, FEE-HELP is clearly my second favourite choice, the first being university support via a scholarship or other means.

Let's move from the best options to the worst. I have no doubt that this is your option 4. Taking out another loan will involve costs and I am sure a high rate of interest. One option is a personal loan but here interest rates can vary from 8% to much higher and I suggest this idea be discarded.

Presumably you are paying around 4% on your mortgage and making good progress on getting it repaid. You now owe $180,000 and you have $75,000 in your offset account, leaving you with effective mortgage debt of $105,000. If you chose to use the $75,000 in your offset account, the cost of this money is the rate of interest you are paying on your mortgage and I would much prefer you pay 4% than 8%-plus. Using the offset should be the same as adding the cost to your mortgage.

Once you have checked out the university support options, the next issue is paying upfront. If the PhD cost you have to meet is $65,000 and this is a fixed amount over the six to eight years, I see no point paying upfront. At best your money will be costing you around 4%, so you would be better off paying each year.

The question to ask is whether the amount increases each year. If it does, and this would be more than 4%, then paying upfront would make sense. Also, the university may offer a discount on payment upfront. I have to say, though, that with a six- to eight-year period of study, paying upfront represents a real risk of your husband not completing the PhD through bad health or other family reasons.

So my opinion is to approach this funding issue as follows:

1. University support in the form of a scholarship or other support.

2. FEE-HELP, if eligible.

3. Your offset account, most likely paying on a year-by year-basis.

My best wishes to you, your husband and family.

ASK YOUR QUESTION

If you have a question, email money@bauer-media.com.au or write to GPO Box 4088, Sydney NSW 2001. 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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Ditch your dud fund

The super industry has been ripping of workers for years with high fees, poor performance, multiple accounts and worthless insurance. But thankfully those days are numbered and our five warning signs will help you avoid the wrong options and choose a better place for your precious retirement savings.

After three years in the making, the Productivity Commission's damning 722-page review of Australia's seriously flawed $2.7 billion superannuation sector calls for a seismic shake-up. There's also a concentrated focus on reforming the 1.6 million underperforming accounts held in MySuper funds, which after going unchecked for years have seriously damaged members' retirement incomes.

By taking a blowtorch to the sector's two single biggest issues – namely, the avalanche of unintended multiple accounts that command unnecessary fees and insurance (aka zombie policies) plus dud MySuper funds, the Productivity Commission hopes its proposed reforms will collectively save members $3.8 billion annually.

But the sector's issues extend well beyond MySuper, with around five million accounts currently held in chronically underperforming funds, which if left to languish would cost the member an estimated 13 years' pay over a working lifetime.

According to the commission's report, a third of super accounts (around 10 million) are superfluous given that members already have a primary fund. The report also found that despite retail funds making up just nine of a group of 29 funds identified as underperformers, over three-quarters (77%) of accounts within these 29 are in retail funds, which have been "systematically outperformed" by not-for-profit (industry) funds.

While the commission is scathing of how individual super funds are managed, it also attributes much of the sector's shortcomings to outdated structures and to a closed-shop mentality around where people's money goes – namely, an obsolete default system. For example, chances are you've acquired a new super account with one or more employers, based on a set of funds decided by various industrial agreements.

One account for life

To permanently address the issue of duplicate accounts and fees, the Productivity Commission, together with the Hayne royal commission, wants members to only ever hold one (default) account, typically when they first join the workforce. When people change or add jobs, their super contributions would go to their current active account unless they nominated otherwise.

These changes are likely to see super funds denied millions of new accounts, each of which accrues fees and charges every time a worker begins at another employer. As a result, the number of Australians incurring unnecessary costs on the three-plus super funds they accumulate on average during their working lives should progressively fall.

The commission is also recommending changes to the default super system so that new workforce entrants are encouraged to consider choosing from a "best in show" model comprising 10 to 20 funds that, based on their track record, are most likely to continue performing strongly in the future. As a result, smaller and less competitive industry funds, currently guaranteed new business by virtue of being listed as the default in workplace agreements and awards, also stand to suffer.

The commission would also like to see all APRA-regulated funds carry out an annual outcome test across their portfolios. Those that repeatedly fall short of their stated benchmark by more than 0.5% a year over a rolling eight-year period would have 12 months to sharply lift performance or risk being forced out of the market.

The net effect would also see perennial underperformers get out of super altogether, which would potentially migrate millions of Australians into stronger funds. Based on commission estimates, moving from the bottom 25% of funds would deliver an average gain of $188,000 to someone entering retirement.

$533k boost for nest egg

Proposed changes to default super aside, the commission has made another 30 or so key recommendations to turn superannuation around. Assuming these recommendations are implemented (the coalition government has agreed to them in principle), the commission claims Australians entering the workforce

would be up to $533,000 better off by the time they retire.

Based on other proposed changes to put both industry and retail sectors under increased scrutiny and competition, the commission also expects those in their mid-50s to be $79,000 better off in retirement.

Included with other proposed reforms are plans for all super accounts that have a balance less than $6000 or have been inactive for 13-plus months to be consolidated into one account by the tax office and APRA to ensure money goes to the right individual. The commission is also calling for a ban on all trailing financial adviser commissions from MySuper accounts, with all fees charged by super funds to be levied on a cost-recovery basis.

Engage with your super

The royal commission's final report will be looked upon as a key fork in the road for the super industry. It highlights clear issues that have developed over numerous years and emphasises the importance of addressing them.

The commission has clearly shown the cost for consumers of not being engaged with their super. For many Australians, this disengagement may already have had some impact on their retirement (through poor returns, high fees, duplicate accounts or insurance), so getting involved now is better than waiting to see what the future may bring.

Duplicate accounts have contributed to the erosion of super balances over time, with a new account being created each time you change jobs, if you don't provide your new employer with your existing super details. The report recommends that all Australians have one super account for life, which would prevent further creation of unnecessary accounts that eat away at your retirement nest egg.

There are also a number of recommendations to support better protection of consumers when making decisions about their superannuation, with proposed changes to financial advice, insurance and selling practices. In particular, any existing commission payments ("grandfathered commissions") to advisers from super accounts are proposed to cease by January 1, 2021.

A major issue that came out of the royal commission was members being charged for advice they either weren't aware of or weren't accessing, such as fees for no service.

People who do not choose their super fund are defaulted into a low-cost, no-frills MySuper account. A major proposal is a ban on the deduction of any advice fees from MySuper accounts (except for intra-fund advice).

As well, there is a set of conditions that would have to be met for a fund to be able to charge you ongoing fees for advice if you are in a "choice" account (if you have chosen your fund). These include limitations on the types of investments the advice could relate to and written consent to the charges on an annual basis.

A prohibition on all forms of unsolicited offering of super products is also proposed. It would mean a fund would not be able to contact you without your express consent that you were interested in hearing about the super account it has on offer. Given the complex nature of superannuation, this would be beneficial for consumers and ensure that when they enter into an arrangement they are prepared to have the discussion.

All in all, with an election due later in the year, the path toward implementing these changes will take time to become clear. But we see the report as a step in the right direction, to support better outcomes for Australians.

In saying that, we all have a part to play too. All Australians need to listen up and pay attention as the decisions that they make now regarding their superannuation will affect them later in life.

Our advice is to engage with your super and spend time understanding the fund that you are in, as well as the advice and insurance services that go along with it.

Kirby Rappell, executive director, SuperRatings

PERFORMANCE

Look for the warning signs

It's probably your single biggest asset after the family home but chances are you're giving less attention to your super fund than you are to planning your next holiday. Admittedly, a "set and relegate to the bottom drawer approach" to super may have been appropriate before the GFC hit. But given that at least 1.6 million default accounts holding $57 billion have ended up in underperforming products (eroding nearly half their balance by retirement), ignoring your super is no longer a smart idea.

Even though your retirement might be years away, remaining blissfully unaware of your super fund's performance from one year to the next means seriously compromising your long-term wealth potential.

Putting up with a fund that's performed badly over a couple of years isn't necessarily grounds for switching though. As a case in point, with the average super fund return having dived from around 10% in 2017 to between -1% and -2% a year later, even good funds can be dragged down by a tough market.

Compare each year's return

The trouble is that too few members know what kind of fund they have, let alone what a good return looks like, or the hallmarks of a fund likely to continue delivering poor returns. For starters, Kirby Rappell, executive director at SuperRatings, recommends annually benchmarking how your fund has performed relative to its peers. You'll find all the data you need on the annual statements for the years to June 30.

Based on SuperRatings research, the median return for a balanced-style fund – with allocations to growth assets such as shares and property of between 60% and 80% – over the 10 years to December 31, 2018 is around 7.8%, while the highest and lowest returns were 8.6% and 4.9%. "The stark reality is that if your fund has languished in the bottom quartile for 10 years, it's already seriously impacted your retirement," warns Rappell.

Join the leaders of the pack

Productivity Commission calculations suggest that a 21-year-old starting on a salary of $50,000 who defaulted to a bottom-quartile MySuper product verses a top-quartile MySuper product would be $500,000 worse off at a retirement age of 67.

Then there's SuperRatings data that suggests over a working life of 45 years the difference between being in a top-performing rather than a worst-performing fund means you could be $337,310 better off.

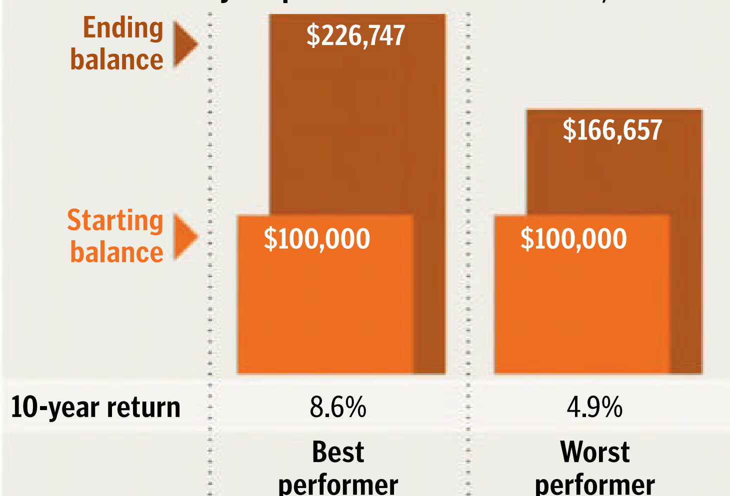
Switching funds much later in life can also pay off in spades, with SuperRatings data suggesting that a 50-year-old who moves from the worst fund to the best one would be $198,769 better off at 65.

10 TOP-PERFORMING FUNDS OVER 10 YEARS TO DECEMBER 31, 2018

FUND & OPTION	RETURN (PA)
QSuper – Balanced	8.6%
TelstraSuper Corp Plus – Balanced	8.5%
AustralianSuper – Balanced	8.4%
UniSuper Accum (1) – Balanced	8.4%
Rest – Core Strategy	8.4%
CareSuper – Balanced	8.4%
Equip MyFuture – Balanced Growth	8.3%
Hostplus – Balanced	8.3%
Cbus – Growth (Cbus MySuper)	8.2%
Catholic Super – Balanced (MySuper)	8.2%

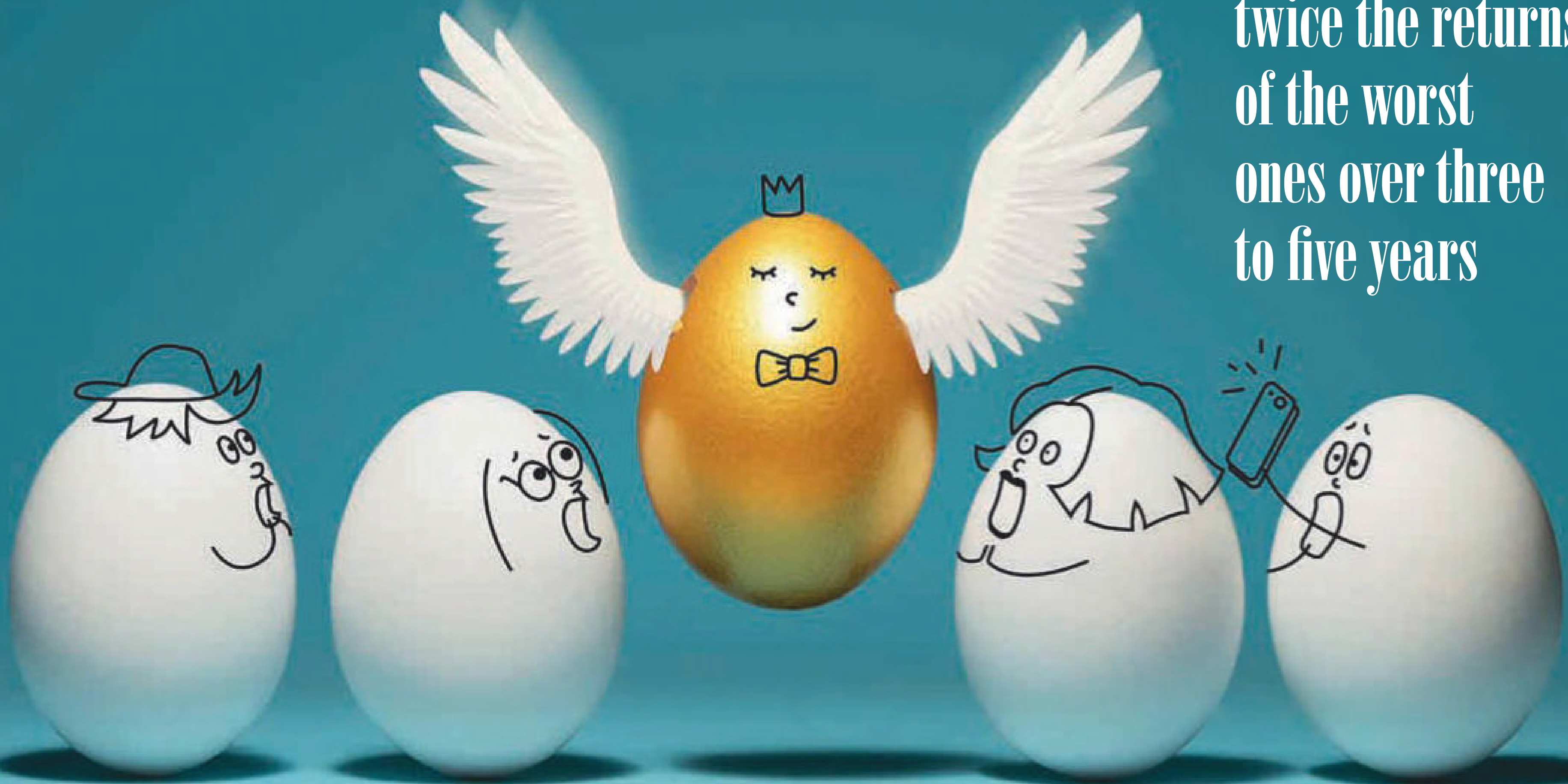
• Top 10 performers were selected from the SR50 Balanced (60-76) Index for the 10 years to December 31, 2018.
• Returns are net of investment fees, tax and implicit asset-based administration fees.
• While performance data is shown to one decimal place, rankings are based on more precise, unrounded information within the SuperRatings database.

SR50 BALANCED (60-76) INDEX



Best and worst performers were selected from the SR50 Balanced (60-76) Index for the 10 years to 31 December 2018.
Returns are net of investment fees, tax and implicit asset-based administration fees.

Source: SuperRatings



Ideally you want to be in a fund that's in the top quartile on the performance tables. But while no one can predict future performance based on past performance, Alex Dunnin, director of research at Rainmaker Information, says it's important to note that performance tables allow investors to pick funds more likely to perform consistently well.

What the tables reveal, adds Dunnin, is that the funds leading the pack three to five years ago tend to stay in that pack. As a rule of thumb, he says the best funds tend to deliver almost twice the returns of the worst funds (see chart).

"There's a 70% chance the funds in the top-quartile group three to five years ago will remain in that top quartile going forward," says Dunnin. "It's hard for funds repeatedly in the bottom quartile to get above water, and if your fund's performance is so far below average that it's not even in the league table, then it's time to worry."

Industry (not-for-profit) funds have, on average, performed better than their (bank-owned) retail counterparts. Based on analysis by research house Chant West, much of this outperformance can be attributed to not-for-profit funds' higher (20%) exposure to unlisted infrastructure, unlisted property and private equity, which have a cushioning effect when sharemarkets are weak. By comparison, retail funds generally have less than 5% in these assets.

However, both industry and retail fund sectors – despite now having comparable fees, averaging between 1% and 1.2% – have their share of dud funds. But when trying to assess why one fund performed well while another didn't (even within the same asset class), Dunnin reminds investors that there's no relationship between fees and performance.

It's not your job as a super fund member to second-guess the skill of your fund manager. However, what the tables (taken at face value) really reveal, says Dunnin, is that some fund managers have better investment strategies than others, and/or are simply better at both managing and mixing asset classes.

Get to know your fund

But it's impossible to seriously compare your fund and its performance, the calibre of fund managers, and their investment strategy until you know what kind of fund you actually have, says Dunnin. "Ask yourself how you ended up in that fund and what other benefits [such as insurance] it offers, and while you shouldn't join a fund based on fees alone you want to avoid paying too much for it."

In addition to tabling past performance, independent providers of super fund research also rate funds based on different criteria. In addition to investment performance (which accounts for 22%), SuperRatings scrutinises fees, insurance, marketing services, admin and governance. Based on these measures, it will rate funds into four quartiles from platinum (top-performing) through gold, silver and then "others" (the worst performers).

Another telltale sign of a dud super fund, says Rappell, is whether they're closed to new members. For example, while legacy products may still command higher administration/investment costs and have commissions flowing to related-party businesses (such as advisers), it's not necessarily incumbent on fund managers to point this out.

Best estimates suggest there are around two million member accounts with $127 billion in these (legacy) products, which on average charge double the industry average of around 1%. However, not all closed funds are necessarily uncompetitive, with Rappell reminding anyone lucky enough to hold a defined benefit fund to never close it. "Another trap for those changing jobs is to assume that the [super-related] benefits provided by your previous employer will carry over to the new job. Often they won't."

FEES

Savings can take a hit

In response to consumer, political and regulatory pressure, the fees members pay to super funds (for both administration and investment) have come down significantly in recent years. However, excluding insurance premiums, we still pay a whopping $30 billion-plus in fees each year and, based on a recent Productivity Commission report, high-fee products remain embedded in the super system.

While retail funds generally remain the biggest fee collectors, they too now offer low-fee options. As a result, the fee gap between retail and industry funds has narrowed considerably.

Fees are charged as a percentage of funds under management (your assets) and as a general rule most super fund members pay between 1% and 1.2%. While many funds charge much less, there are currently 2 million accounts (worth $127 billion) that remain in what are called legacy products – old-style funds, typically closed to members and paying commissions to related-party businesses – which, on average, charge around 2.2%.

Having spent the past three years studying competition and efficiency in super, the commission concluded that super products that exceed 1.5% are high fee. In other words, if your annual statement shows you're paying more than $1500 annually for your fund to manage a $100,000 balance, you're paying too much and you should consider looking for a cheaper option. Clearly, the lower the super balance the greater the impact that fees will have on fund performance.

Best of both worlds

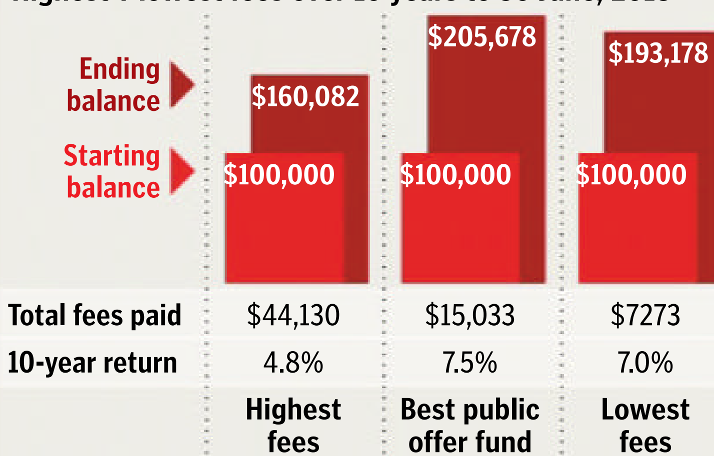
While Kirby Rappell, executive director of SuperRatings, urges fund members to check fees, cheapest isn't always best. The opposite is also true, with 80% of actively managed funds, which tend to charge higher fees, struggling to outperform the index.

Nevertheless, Rappell reminds members that while a key driver of outperformance is access to alternative asset classes such as infrastructure, emerging markets and hedge funds. They're typically not cheap. "You'll find that funds accessing these types of asset classes tend to be at the top of the performance tables," he says.

But given that many of the top-performing funds also have fees below 1%, Xavier O'Halloran, head of advocacy, Superannuation Consumers' Centre, at Choice, reminds investors that it's also possible to have the best of both worlds with low fees and strong performance.

BALANCED FUNDS

Highest v lowest fees over 10 years to 30 June, 2018



Highest and lowest fees were selected from the universe of public offer balanced (60-76% growth assets) funds over the 10 years to 30 June 2018.
The best public offer balanced fund performer was added to show the importance of viewing investment earnings alongside fees.
Returns are net of investment fees, tax and implicit asset-based administration fees.
Source: SuperRatings

Based on the commission's definition, a little under a fifth (17%) of super money, comprising $275 billion across four million accounts, is within high-fee retail funds. It found that funds charging higher fees tend to deliver lower returns after fees are taken into account.

Admittedly, while some retail funds do well, most have below-average net returns, which the commission concludes is prima facie evidence of fees driving persistent underperformance. Over time, higher fees can cost your fund dearly, with ASIC's numbers suggesting that a 1% difference in fees can lead to a 20% difference in the value of a balance over 30 years.

Rappell also warns super fund members to watch out for the exit fees that are charged on around 60% of accounts. While non-profit and retail funds charge a modest fixed fee, others can charge exit fees as a proportion of assets.

Rappell also advises members to watch out for buy/sell spreads – an added impost for changing the underlying investments in a fund – and trailing commissions for financial advice, which Productivity Commission research suggests can still be charged even when no advice is delivered. "You need to know that buy/sell fees exist," he says. "Understand what impact they would have, and avoid making unnecessary changes to your investments within super in an attempt to try to time the market."

INSURANCE

High price to pay for cover

The beauty of paying premiums for the three types of life insurance available in super – term life (or death benefit), total and permanent and disability (TPD) and income protection – is that you don't have to find the money from your household budget. In addition to having policies renewed automatically, paying for life insurance within super, to cover those years when you'd need it most, can give you volume discounts, and very often there are no medical tests required.

While insurance through super can provide you with more affordable cover than you'd be able to get from a stand-alone policy, the Productivity Commission in its recent report concluded that the value of this cover to many of the 12 million Australians who have it is questionable. That's especially true for younger and lower-income people, says Xavier O'Halloran, head of advocacy, Superannuation Consumers' Centre, at Choice.

Given that young people typically have a super fund opened for them when they first start working, O'Halloran says they are among the people most affected by default insurance. "Many younger workers have discovered to their horror how their small super balances have been eroded by insurance fees they neither knew about, need, nor asked for," he says.

Since most young people are years away from having a family and paying off a mortgage or school fees, O'Halloran recommends opting out of any default cover they don't need. As a result, he urges you to consider consolidating multiple accounts – each of which could be charging fees for default insurance cover – into one.

Drag on performance

Based on the Productivity Commission research, a 20-year-old who is on a lower income, has a higher-risk job and pays for insurance via super can be $85,000 worse off in retirement if they maintain a default fund. Then there's the impact of "unintended multiple accounts", which based on commission estimates cost members almost $1.9 billion annually in excess premiums.

Over time, the commission says, these multiple accounts can leave the typical worker with 6% less ($51,000) at retirement.

To safeguard young people from unknowingly paying for insurance they don't need within default super, the Productivity Commission recommends that insurance through super be opt-in for members under 25. It also recommends trustees stop all insurance cover on accounts where no contributions have been made for 13 months.

Right cover at right time

To ensure you receive the insurance cover that suits you and you're getting the best value, it's important you take out the right amount at the right time. For example, research firm Rice Warner suggests that people consider taking out term life cover equal to around 10 times what they would typically earn in a year. For a working couple with a mortgage and young children this may make perfect sense but it doesn't for someone starting out in their career with few liabilities.

It's equally important to know how long you should have insurance cover for. The need for it tends to progressively decrease the closer people get to retirement. This usually happens once the mortgage is paid off and school-aged children become more financially independent.

But knowing how long to hold insurance can be also be an art. For example, previous research by life insurer TAL showed that the average age at which a person takes up some form of life insurance is 37.5 years, and it is discontinued 7.5 years later at 45. However, the average age for a claim is 46.5 years, which means after 7.5 years of paying premiums people can find themselves without cover in their hour of need.

When comparing the benefits of paying for life insurance from pre-tax earnings via super with the tax benefits of holding it outside super, it's important to seek professional advice.

MULTIPLE FUNDS

Consolidate to cut costs

Given that Australians over their working lives will on average have up to five careers, spanning 17 jobs, it's hardly surprising that most end up with a handful of super funds. While a few sophisticated and/or well-off investors may find value in a multiple fund strategy, for most investors this is a really bad idea.

Multiple accounts are more often the unintended consequence of people – especially young people and gig economy workers – being defaulted in a MySuper fund by an employer when moving to a new job. The net effect of failing to nominate an existing account for compulsory super payments when changing jobs has resulted in the average Australian owning three or more accounts.

Based on Productivity Commission estimates, around 10 million (or a third of all accounts) are the "unintended" multiple variety, which means that an unnecessary doubling-up in costs erodes members' balances by up to $2.6 billion annually.

Drilling down beyond the headline numbers, the commission found further evidence that culling your accounts is a no-brainer. For example, individuals in the category it calls "funds many" can find themselves shortchanged to the tune of $51,000 – that's 6% less at retirement.

The biggest impost that those with multiple accounts ideally want to avoid isn't the administration fee per se, which is a percentage of funds under management, but rather fixed fees, exit fees and a doubling-up on insurances, says Alex Dunnin, of Rainmaker Information. Given that you can't be over-insured, he says there's literally no point in paying for multiple life cover through different funds unless you're topping up to the maximum benefit, which is typically 75% of your salary.

When it can pay off

However, Dunnin says there could be instances when holding multiple funds is in your best interests. Whatever you do, he warns, never close a defined benefit scheme – where your retirement benefits are calculated by a predetermined formula – or you could be kissing goodbye extremely lucrative employer benefits.

While it can be a way of diversifying, Dunnin also reminds investors that using more than one fund can potentially deliver tax and insurance benefits. For example, it's not uncommon for those setting up self-managed super funds (SMSFs) to leave a balance in whatever fund they were in before to preserve the insurance cover.

SMSF members aside, Helen Dundon, an adviser with Baillieu Holst Financial, says a multi-fund strategy typically works best for people in their mid-50s and older who are looking to separate concessional and non-concessional contributions to generate longer-term tax savings.

This has estate planning benefits as pre-retirees can avoid a death benefits tax of at least 15% being whacked on super left to their adult children by separating concessional contributions that deliver deductions (such as salary sacrifice) from non-concessional contributions, as only the former gets taxed.

It's a five-minute job

If consolidating your super makes sense, the act of rolling one fund into another has never been easier. Once you have the necessary details, rolling over a fund online can be completed within five minutes. It can also be done through the MyGov website, where you'll find access to all your super accounts, including some you may not even be aware of.

You can use any number of websites (including apra.gov.au) to compare funds in the top-performing quartile with any funds you're contemplating exiting. Equally important is to consider any penalties such as exit fees, changes to insurance cover, admin fees, any loss of benefits and whether investment options stack up.

All you need to rollover one fund into another is your tax file number, your super fund member number and the details of the super fund you're planning to roll into. But remember, you can't roll one fund into another unless you've opened the new account first. Once you've done so, provide the details to your employer so they can pay your super into the new fund.

Ask the hard questions

Huge dissatisfaction with financial institutions telling them how to invest drives around 60,000 Australians into the arms of self-managed super funds (SMSFs) annually. However, many who have chosen the DIY option end up being punished for their efforts with relatively high costs and low returns.

Despite the headaches associated with running one, a recent Productivity Commission report found that large SMSFs earn broadly similar net returns to funds overseen by the Australian Prudential Regulation Authority. But an estimated 200,000 smaller ones, with less than $500,000 in assets, perform significantly worse on average.

Given that around 42% of all SMSFs are deemed too small to make a reasonable return, compared with MySuper products, the commission maintains that self-managed funds need a minimum of $1 million to be viable.

But what's often overlooked when reviewing the lower investment outcomes achieved by the SMSF sector is that they're much more risk averse with their asset allocations, says Rainmaker's Alex Dunnin. When trying to analyse SMSF performance, Rainmaker research discovered that a major indicator of how an SMSF invests its funds is size.

For example, small SMSFs are heavily invested in cash, medium ones have a mix of cash, property and some shares, while large ones have a regular mix across asset classes, which tends to explain their superior returns.

It's evident from this analysis, says Dunnin, that SMSF members as a group, even those in the pre-retirement accumulation phase, often undermine the freedom associated with being DIY investors by behaving conservatively. In light of these results, the Productivity Commission wants investors to focus less on the fees associated with SMSFs and look more at the returns they should deliver.

Dunnin urges people to ask themselves why they're choosing the DIY approach to investing in the first place. "If you're going to set up an SMSF you've got to do so as an investment, not just as a means to minimising tax," he says.

Know what you want

To help you discover whether an SMSF is the right structure for your retirement savings, the regulator ASIC says you need to clearly understand what it means to run your own fund, the responsibilities associated with being a trustee and the consequences of getting it wrong. For example, if you put money into a dud investment, you're on your own.

To work out if an SMSF is right for you, Kurt Ohlsen, senior financial planner with Profile Financial Services, suggests investors ask themselves what a successful outcome looks like. He says that while running an SMSF may deliver a worse financial outcome, it may still be a better overall result if it's meeting the members' minimum financial goals and covering the all-important "sleep at night" factor.

Most clients who approach Ohlsen about an SMSF want greater transparency on fees and their underlying investments than a black-box super fund provides. Or they want to buy an investment property. However, if the super balance is low and the cash flow poor, he says property can be one of the most overused drawcards of an SMSF and it may not stack up if something goes wrong.

If you struggle to identify what a successful SMSF outcome looks like, Ohlsen recommends running a spreadsheet to identify whether the benefits are real or at best marginal. Compare the accounting, audit and actuarial costs of an SMSF versus the admin, trustee and cost recovery fees listed on your annual super fund statement.

"Instead of making the decision on fees alone, ask yourself, 'What am I losing going from super to a SMSF – like insurance and other benefits, cheaper fees and/or access to wholesale investments – and what do I gain – like greater investment flexibility and next-level transparency?' " says Ohlsen.

"Remember, an SMSF is a trust that requires onerous amounts of time to manage, so ask yourself if added transparency is worth the extra paperwork." *M*

Give chores the finger

STORY RICHARD SCOTT

Whether it's mowing the lawn or assembling a cupboard, there's someone ready to take it on

Let's be honest, nobody actually enjoys housework. Yet assuming you weren't raised with a butler, housekeeper and chambermaid, for most of us it's a necessary evil. Until recently, that is: the rise of online outsourcing sites, such as Airtasker, Oneflare and ServiceSeeking, has seen an explosion in households subcontracting their chores and bores. In fact, approximately half of our household activities are currently outsourced, with an estimated cost of almost $500 billion for the last financial year, according to the Ruthven Institute. "The average household now spends over $51,000 per annum paying for chores and activities that were then do-it-yourself, but are now do-it-for-me," says John Nguyen, socio-economic analyst for the Ruthven Institute.

So why have outsourcing sites taken off so recently? Are we, as a nation, getting smarter or lazier?

"We're simply more connected," says Kate Browne, managing editor at financial comparison site Finder. "Twenty years ago we were limited to the classifieds, word of mouth and ads on telegraph poles. Online outsourcing sites [today] allow us get in touch with people, suburbs or even oceans away."

How it works

Essentially, these sites act as a marketplace for our local odd jobs. Post your job online; you'll then receive quotes from those willing to take it on. You can access a bidder's profile, read previous reviews and ask questions before selecting the right candidate for the job. Most sites are free to use for the poster (bidders pay a commission fee or membership costs) and you're under no obligation to engage anybody's services at any stage.

What domestic duties are we outsourcing most?

According to Airtasker, of its 2.7 million users, the most popular assignments are removal work, followed closely by cleaning, gardening, handyman jobs and furniture assembly. "Cleaning, by far, is one of the top tasks," says tasker Tara Somerville, 22, from Sydney's inner west, who

specialises in everything from general house cleaning to baby-seat installations and de-cluttering. "Personal organising is getting really popular," she says. "It's probably one of the main jobs I'm asked to do these days."

Who pays to offload these chores?

"All sorts, really," says Somerville. "My clients range from students to slightly older professionals to the elderly who can't, or would prefer not to, do a job themselves anymore. Generally, you're looking at the time poor: people who are just too busy, whether that's families who don't have the time for themselves or business types that don't have the time left over after work."

Wouldn't it be cheaper doing it yourself?

"It all comes down to how skilled you are at the task and how much it costs," says Finder's Browne. "If it'll take you five hours to mow the lawn unevenly, it might be better to pay a professional who can do it cheaply in three hours. Likewise, if it's a task you dread or know you won't do well, there's a good chance that someone [online] will be happy to be paid to do it – like ironing shirts, contacting school books or putting furniture together."

What will it cost?

What you'll pay will differ widely based on the bidder, and size and scope of the job. For instance, Somerville charges $40 an hour on Airtasker. Estimating the average one-bedroom, one-bathroom place in Marrickville (Sydney) would take her between one and a half to two hours to clean, she'll quote between $60 and $80 a job. As a rule, according to Airtasker's average prices for 2018, one can expect to pay about $127 for a basic home maintenance clean, $108 for a larger gardening task and $128 for flat-pack furniture assembly. Most of the smaller jobs, such as ironing, front-lawn mowing or picture hanging will come in at under $50.

How can I get my money's worth?

Never accept the first bid that comes along, suggests Browne. "Always get at least three quotes – that way you can compare what different [bidders] charge."

Additionally, the price quoted may not be set in stone. A bidder must quote one price to open a dialogue but the final cost may be negotiable. And just because these platforms are convenient doesn't guarantee you're getting the best price, says Browne, who recommends tallying up the price online with your traditional local service providers. "Still keep an eye out for leaflets in your letterbox," she says. "These are often from new businesses offering introductory rates to get started. Paying in cash can sometimes lower the cost too."

How to avoid cowboys

Be wary of accepting the lowest quote at the detriment of a good job. According to Somerville, one of the benefits of using outsourcing sites is the ability to vet all potential workers based on their previous job history, completion rate and customer evaluations.

How much you'll pay

$25 Dog walking

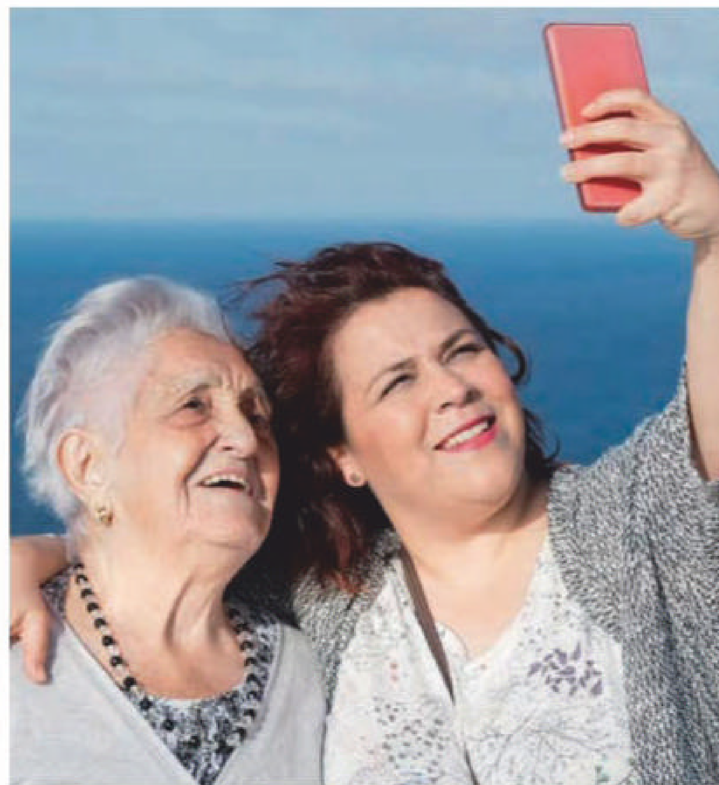
$165 Garden clean-up

$125 House cleaning[1]

$50 Ironing

$100 Pool cleaning

Source: Airtasker and ServiceSeeking.
[1] Based on a 3-bedroom house of 150-250 m^2 with one bathroom.



Stress-free trip to the airport

Digital colourist Vincent Taylor, 46, moved to New York for work and was expecting a visit from his mother, aged in her mid-80s, last year. The problem was she needed help getting to the airport in Brisbane, and his sister was out of state on holiday.

"My mum is very independent but it's very stressful taking an international flight at the best of times, let alone when you're older," says Vincent. "So I really wanted her to have some support – not just in getting to the airport but even going through everything once she was there."

He'd put the word out on Facebook with little success, and then when a friend suggested Airtasker he found himself inundated with responses within the hour. He was able to vet each candidate based on their credentials and experience working with the elderly. And for $120, his mother was picked up and driven to Brisbane international and helped with her bags, the check-in process and getting to the gate on time.

"It turned out [the tasker] was absolutely wonderful," says Vincent. "She was super patient, and even sent me a selfie with my mum from the airport, and a follow-up confirmation when she was safely on the plane. This was the first time I'd used Airtasker but it offered me a huge sense of relief."

The more accomplished bidders will also display portfolios with photos of past deeds.

"When all the offers come in for your postings, just balance up all the options with the price quoted and the standard of the work based on their profile and reviews," says Somerville. "Importantly, many will display any relevant verification badges, including Working with Children and Police Check." Of course, this all depends on the specificity of the job. For example, while all taskers have had their identification verified by Airtasker, not all will be qualified, registered or insured for the job you post. (See below.)

Pitfalls to watch for

Legally, certain jobs require a licensed tradesperson or building contractor. For instance, according to NSW Fair Trading, workers must hold and display a valid contractor's licence for services including residential building, wiring, plumbing, draining, gasfitting, air-conditioning or refrigeration work (except plug-in appliances). Check all credentials before accepting such jobs.

You'll need to consider insurance too. While an unqualified worker may be capable of performing simple tasks around the home, they might not be insured personally or be covered by your home insurance. Check the platform has public liability. For example, taskers with a "verified" badge on Oneflare have had their public liability insurance and ABN confirmed; those with the "home care guarantee" are covered by Oneflare's limited policy (offering up to $500 in repairs). Airtasker covers the tasker for their liability to third parties for personal injury and property damage while performing certain tasks. Check the small print.

Tips for posting

Be specific, advises Somerville. "It pays to give as much information as possible about the work you need doing to get the best possible result at the best possible price." While you needn't take out the tape measure for each room, she says, it's best to include clear descriptions and photos to give the tasker an indication of the size of the job. For your own safety, try not to include too much of your personal information (such as full name, address, email or phone number) in the task description or in any comments.

Next, unless your task is relatively obscure (see breakout) expect plenty of private messages, emails or phone calls from potential bidders, and be sure to take down the post as soon as the position is filled. If your task requires specific licences, such as asbestos removal, confirm with the tasker beforehand. Then once you've accepted a quote, try to arrange an on-site inspection beforehand to avoid future disappointment.

But can we all afford the luxury of paying someone else to do our dirty work? "I think it's less about the money spent than the time gained," says Somerville. "People are embracing the new platforms they have available to them, whether that's for household chores, ridesharing or takeaway food. There are people that will come directly to you, instead of you running around yourself. And that's a huge advantage." *M*

Task force

JOB	AVERAGE COST
Car washing	$75
Change lightbulb	$55
Babysitting	$90
Decluttering	$118
Errand runner	$60
Fridge cleaning	$59
Home cooking	$59
Laundry (wash, dry and fold)	$50
Lawn mowing	$60
Mobile dog-wash	$50
Netflix setup	$60
Outdoor cleaning	$208
Personal shopper	$100
Rubbish removal	$140
Weeding	$90
Window cleaning (exterior)	$187

Source: Airtasker and ServiceSeeking.

Here's a job for spider man

Of course, there's more to online outsourcing than simply dog-walking and furniture assembly. Here are some of the more unusual jobs advertised on Airtasker recently:

Who: Queuer
Task: Line up for new iPhone
Budget: $200
Last September, when the iPhone XS was officially released, one Sydney user put the call out for somebody to queue outside the Apple store, on George Street, overnight on her behalf. "Need someone who is up for the adventure of camping," she posted, somewhat incongruously.

Who: Scuba diver
Task: Find GoPro
Budget: $100
In January, a Cottage Point man needed a diving tasker to help track down his missing underwater camera. Apparently his GoPro had snapped off its hand-held grip during a rock jump at Jerusalem Bay, NSW, and sunk 2 metres to the bottom. Unfortunately, the device was never found.

Who: Italian speaker
Task: Sort rental car dispute
Budget: $30
After holidaying in Italy last August and hiring a car for a week, a Melbourne couple received two fines from the authority of Siena and two additional fees from the rental company. Disappointingly, the car hire office repeatedly hung up on them every time they spoke English. Eventually a fluent Italian-speaking Airtasker was able to resolve the matter.

Who: Some brave soul
Task: Spider removal
Budget: $30
Sarah, an arachnophobic, needed somebody to haul off a deceased spider from her property in New Farm, Queensland, in February. "Spider has been sprayed. Not sure where it has gone. Body must be located. Bed may need to be turned onto its side," she posted. Sadly for Sarah, no offers were made on this task.

Who: Greek home cook
Task: Produce cookbook
Budget: $200
James, a culinary resident of Narellan in Sydney, is advertising for someone Greek to help curate 56 recipes for a traditional Greek cookbook he's putting together. Successful applicants must have past experience in Hellenic cooking and/or recipe development. Perhaps *Money*'s Effie Zahos and Maria Bekiaris could be of some assistance ...

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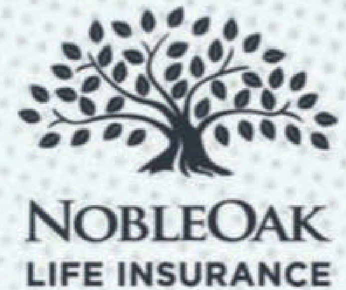

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The first month free offer is available if you apply for cover before 28 March 2019 and you will not start paying premiums until one month after the commencement date of the cover. This offer is available once only per new customer and may not be used in conjunction with any other offer.

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Best of both worlds

TPD cover in super has serious shortcomings but a back-up plan will ensure you are properly protected

STORY VITA PALESTRANT

Getting married, starting a family and buying a new home often prompt people to check their life insurance. It's a time when financial responsibilities are at their peak and money is tight. Having premiums deducted from a superannuation account can provide welcome relief.

Not only does it help with cash flow, it is paid with pre-tax dollars. Even so, people need to know they have the appropriate level of protection. Unfortunately, many assume their group cover inside super will do the job should the worst happen.

While members may automatically get life and total and permanent disability (TPD) cover of about $300,000 when they join a fund, it is unlikely to be enough for those on median to high incomes. It is also basic cover with restrictive TPD definitions. And if you do qualify for a lump sum disability payout, the death benefit will be reduced by the same amount.

There are other disadvantages. If you want to switch super funds you may not get the same insurance deal, especially if your health has deteriorated. The new fund might "take over" your cover but exclude pre-existing conditions.

While premiums inside group insurance used to be cheaper compared with the cost of retail life policies outside super, this is not always the case now.

So where does that leave the consumer who wants flexibility, superior benefits and the ability to fund their insurance from their super account? They might look to insurance companies that offer more individual cover.

All life insurance companies have a super-compliant policy that allows you to fund life and TPD cover from your super account. Once your individual policy has been underwritten you can cancel your fund's group cover. With your insurance no longer tied to your super fund, you have the freedom to move super providers without having to worry about insurance.

Plus there is an additional TPD advantage: the definition of disability inside super has more onerous terms and conditions – you can only get a payout if you can't work again in "any occupation". So the insurers use a little-known solution called "policy linking" or a split policy.

Under this solution they link your policy to the more comprehensive TPD cover available outside super, which has an "own occupation" definition. Under this definition, the benefit may be payable if the insured is unlikely to ever work again in their own occupation.

As this TPD component is held outside super, it can only be paid with after-tax dollars.

"Virtually all major life insurance companies have released this concept of a linked benefit. It has become a standard benefit combination and has been available for about five years," says Mark Kachor, managing director of research firm DEXX&R. "It involves issuing two plans – one being a TPD benefit payable inside super and the second with a TPD benefit definition payable outside super. You get the best of both worlds this way."

HOW IT WORKS

Roy Agranat, a specialist in personal and group benefit insurance and director of Fairbridge Financial Services, says the set-up allows you to hold life cover inside super with TPD cover held both inside and outside super.

"Approximately two-thirds of the TPD premiums can be paid inside super with a third of the TPD premiums paid outside super," he says. "It's commonly known as split TPD. The insurer will assess any claim under the 'any occupation' definition inside super first, and if the definition cannot be met they will look to utilise the 'own occupation' definition outside super."

BENEFITS OF RETAIL POLICIES

- Guaranteed renewability – so long as the premiums are paid, the life cover cannot be cancelled or changed to your detriment. Within super fund group cover, the trustee has the right to alter the terms and conditions or cancel the cover at any time.
- You will be able to access the more comprehensive "own occupation" TPD definition that is not available inside superannuation.
- Flexibility – your insurance will not be tied to your super fund so you will be free to consolidate or move super funds without impacting your insurance cover.
- Competitive premiums – the ability to compare premiums across the market and use the most competitive insurer without being restricted to the (sometimes higher) premiums your super fund is offering.
- Funding options – ability to pay the majority of the premiums as a rollover from any super fund, or personally from available cash-flow which will be eligible for a tax deduction.
- Comprehensive cover – the TPD "own occupation" definition is the most comprehensive on the market, and includes the ability to remain covered during periods of unemployment.

Source: Fairbridge Financial Services

All the cover held within the super environment can be paid as a rollover from your super fund, or paid personally and a tax deduction claimed. The remaining third of TPD "own cover" held outside super will need to be paid for from your bank account with after-tax dollars.

"Remember, to get your money out of super, you have to meet the condition of release," says Agranat. "How it works in practical terms, if you become disabled and you meet the super definition, they pay it as a super disability. If you are not disabled enough, and don't meet the definition, they will say, 'OK, we will pay you the benefit as a non-super, own occupation definition because you paid a third of your premium outside super.' But you don't get a choice.

"You have to first see if you meet the definition inside super. If you do, they don't pay it as non-super. The first port of call is super," he says. If the TPD benefit is paid within super there may be tax payable.

This is a complicated arrangement and advice should be sought so it is correctly set up.

HOW AN ADVISER CAN HELP

"An adviser is essential to discuss the various options, including the differences between the products and insurers in the market," says Agranat. "Any recommendation should include a detailed consideration of your needs and objectives with appropriate levels of cover." There should be consideration given to all product providers in the market, not simply a recommendation made for one in-house product, or a restricted list of providers.

"If existing cover is being replaced, a comprehensive analysis comparing the new and old policies needs to be provided, highlighting any benefit that may be lost or reduced," he says.

As your circumstances change, you may want to restructure the cover so it is no longer held in superannuation. You may have adult children who would otherwise be taxed on the death benefit. If not done correctly, it could result in unintended tax consequences, warns Agranat.

"You might keep it inside super until they turn 18, and then turn it into non-super after they turn 18. You don't have to go through any underwriting to do that, you still have the same cover – you are just changing it from super to non-super."

Or you might be divorced and don't want to leave your money to your ex-spouse or new partner, only your adult children, and therefore want to change it to non-super.

The insurer will reissue the policy if you so wish, says Kachor: "Say, for instance, you had a terminal disease and you had $1 million cover inside super. Before getting your terminal illness benefit, you could ask the company to move the policy outside of super, and provided they don't apply pre-existing condition exclusions and you get their agreement in writing, you can then move it outside super.

"Once it's outside super, it depends on what your will says. If you are getting a terminal illness benefit and you will likely die within the next 24 months, then you would be paid. There's no tax on it and you could gift it any way you like before your death," he says.

An adviser will also take you through any claims process. "The majority of clients that have disputes with an insurer at claim stage do not have the benefit of having an adviser acting on their behalf. The percentage of claims paid is much higher when an adviser is used compared to when an adviser is not involved," says Agranat.

HOW MUCH IT COSTS

If you go to an insurer directly and want to buy $1 million worth of cover, they are going to charge you the standard rate, which includes commission, says Kachor. "So you might as well go to a suitably qualified adviser because you are not going to get it any cheaper.

"The only way of getting it cheaper – say the premium is $10,000pa – is when the adviser might say I will dial down your premiums by 10% [by forgoing some of their commission]. In the process, you will pay 90% of what you would have paid had you gone directly to the insurer.

"If premiums are only $4000pa, given the cost and all the things the adviser has to do to be compliant, then you are probably going to be paying the standard rate. Which is no more than you would've paid anyway if you didn't have an adviser involved."

Kachor says that "getting a policy under advice will be superior to group cover and in most cases it will be at the same or less cost". *M*

AVOID THE TRAPS

All cover held within super has restrictions on who may be nominated as the beneficiary, with differing tax treatments being applied. Children under 18 and your spouse will get the death benefit tax free. Adult children are taxed up to 32%, including the Medicare levy.

If the TPD cover is paid within the super environment under the "any occupation" definition, there may tax payable.

When going through the underwriting process, ensure that there aren't any new exclusions placed on the cover before cancelling any existing cover.

Any premiums paid personally to super will be counted towards your annual concessional contributions cap of $25,000 if you claim the tax deduction in your personal capacity.

If possible make extra concessional contributions to your super balance to make up for the premiums paid – but don't exceed the cap overall.

Source: Fairbridge Financial Services

I earn $150k, why am I still broke?

STORY EFFIE ZAHOS

Getting off the emotional spending treadmill could free us from financial anxiety

I drive a 2009 Volkswagen Touareg. I bought it new. Now before you say that's not the smartest money move (which is probably right), I do believe that just once in your life you should be able to enjoy that new car smell. Plus I didn't need to borrow any money for it and I intend to run it into the ground. But when I drive to school sports on Saturdays and park my car, I feel as though I've entered a luxury car dealership. There are some seriously wealthy people who go to my kids' schools, hence the Maseratis, BMWs, Mercs, Teslas, Porsches and even the odd Ferrari. I'll be honest and say that sometimes I feel a little poor – but am I?

As I was watching a game, one mother came up to me and said she had just purchased a book about saving and making money. I did question why she would need to read such a book: she is a lawyer and I believe her husband is high up in the finance industry, so I'm pretty sure they are flush with cash. Her response was simple: "We can't save a cent!" As she drove out of the car park in the latest Porsche Cayenne, it got me thinking that earning a six-figure salary may still be a sign of status and success but it doesn't mean you're immune from financial woes. Whether you're earning $150,000 or $60,000, there are some very simple reasons why you may be feeling broke, and money may have nothing to do with it.

If you're not happy with your financial situation and

you're earning a decent income, it's time to ask yourself some tough questions – and I'm not talking about where you are spending but why you are spending.

Money is intrinsically linked to our emotions. Most of us probably get this. We know that if we're stressed we look for relief (Bellini, anyone?); if we're not feeling that beautiful we look for things that make us feel good (shoes do it for me); and if we're feeling a little blue we look for things that make us happy.

Given the complexity of why we do what we do, I thought it best to get the help of a behavioural economist – even better, a behavioural economist who's also a psychologist. Phil Slade is just that! He's had more than 15 years' experience in the industry and currently works for Suncorp across digital innovation, strategy, cognitive bias and human-centred design.

The problem with earning a great income

When you're earning six figures, there's probably not as much pressure to track your spending, which may explain why you're feeling broke. But Phil says the answer may be more about feeling exhausted.

"Whether it is working in a stressful job or simply not getting enough sleep, when we are tired we are more likely to spend money to avoid doing 'painful' or effortful things like cleaning, property maintenance or food prep. We're even more likely to spend more on modes of escapism like entertainment and alcohol. These relatively small expenses can have a huge impact on savings."

This cycle – where we need to work longer hours to increase our income, which then leads us to spend more on products and services, in turn forcing us to earn even more money – is a vicious one that I'm sure plenty of us can relate to. So why do we trap ourselves in this cycle? Phil says it's because our actions are now locked on autopilot.

"Scientifically, why we become mentally exhausted is explained as bounded rationality or limited cognitive capacity, which basically means that our brain has a finite amount of thinking energy before it needs to recharge, and once you've spent your thinking energy, if you don't allow yourself to recharge, your decision-making gets set to autopilot."

Why can somebody on $50k save as much as somebody on $100k?

I understand how somebody on $50k may be able to save as much as somebody on $100k. On $50k you're probably young, starting out with no debt, at least not as much as a 40-year-old with two kids. And if you're like most 20-somethings who are serious about saving, you're quite happy to share accommodation, maybe even rent a couch and just live on two-minute noodles.

But assuming we are talking about two people of similar age, stage and circumstance, how is it possible for the lower income earner to be able to save more. When I asked Phil this question, he said that a "fascinating psychological phenomenon comes into play here – it is a problem of relativity, it is a struggle with loss aversion. Basically, if someone on $50,000 (@ $961.54pw) considers spending $500, the pain of the loss relative to their income is much greater than the loss felt by the person on $100,000 (@ $1924.08pw) when considering the same $500 purchase. Therefore, because a large part of our spending consists of many smaller purchases, the person on $100,000 is likely to spend more because it doesn't feel so painful when each 'loss' seems small relative to their overall income (rather than the immediate state of their bank account). This can have the effect of making money more fluid and harder to save. The person on $50,000 feels a greater pain for every small purchase, making money less fluid and therefore easier to track and save."

Triggers and fixes

The good news is that it is possible to change your money behaviours. The trick is to see saving as a skill rather than an intellectual competency. This way you know that if you practise you will get better.

"If you want to start running, you don't just enter a marathon; you train and see yourself slowly improving. If you started with the marathon you would simply fail and then never try to run again, living with the belief that you can't," says Phil. Finances are the same; you can just say, "I'm no good when it comes to money." Often there is a reason why you do what you do and this can come down to the triggers that trip you up.

A trigger is simply something that encourages you to spend money needlessly. Emotions are the general culprits for setting off triggers but things like easy credit and a simple sale can be, too. While there is nothing wrong with acting on your emotions, they need to be acted on debt free. If it doesn't fit within your budget, best you substitute spending with something to help celebrate or make yourself feel better.

"In the long run, giving in to these things that trigger your spending will only make you struggle with your budget or lead you into a great deal of debt down the road. You must learn to control your emotions, disempower them; they are not your friends. If we can't keep our emotions in check, then we're unlikely to be able to keep our spending in check either," says Phil.

Here are three triggers to watch out for and Phil's solutions to not tripping up

Trigger 1: I had a shitty day

Whether it's because of work deadlines, the stress of getting the kids to school and then coming into work an hour late, a fight with your partner or just not feeling 100%, stress can definitely trigger your spending. You are looking for a distraction to take away the pain.

A similar thing happens if you have a great day. Sometimes you just want to celebrate feeling great. Maybe a pay rise got you in a good mood, you reached your

CHECKLIST

- Link your emotions to purchases. For one week keep a journal of what you buy.
- Write what you were feeling when you bought each item.
- Learn what triggers your spending and where possible find a substitute to address those triggers rather than resort to spending.
- If you can't find a substitute, hold off at least 24 hours before you spend your money.
- Share your money goals with you partner or friend(s) and set up what Phil Slade calls SMART goals (Specific, Measurable, Attainable, Relevant and Timely).
- Accept your financial station in life and never apologise for what you can or can't afford.
- Stay away from negativity.

sales target or you've managed to take your lunch into work every day this week. The attitude of "I deserve it!" often justifies a spending binge.

So what do you do? Organise dinner with friends on Saturday night even though you can't afford it. Hit the shops for a quick retail fix ... whatever takes the stress away or heightens your feelings of joy.

What Phil suggests you do: Trick yourself with multiple accounts. He suggests splitting your bank account into multiple accounts and naming them for specific purposes. It limits spending to the account you have your card attached to, it highlights the consequences of robbing one account that's earmarked for a particular expense and it means you are less likely to spend large amounts. This last impact is fascinating, because although it doesn't make rational sense, if we have 10 accounts with $1000 in each, it feels as if we have less than if we had a single account with $10,000 in it. Therefore, spending $500 out of an account with $1000 in it feels like more of a hit than spending $500 out of an account with $10,000 in it. In the first instance, you have lost 50% of your money and in the second you've only parted with 5%. This phenomenon is called mental accounting – we just seem to be wired to need to put things in "buckets". While it may make financial sense to put all your money in one high-interest account, it doesn't always make good human behaviour sense.

Trigger 2: But it's on sale!

Our brain does funny things when we see a 40%-70% off sale. We start focusing on the savings rather than the spending. Throw in free shipping, "limited offer" or "only one left" and we jump on it!

So what do you do? Buy it, of course! "I'm saving 70%."

What Phil suggests you do: There is an old negotiation saying that goes, "If you can't walk away from a deal then you won't get a good deal." Picture yourself walking away from the purchase and see if life goes on. If so, then maybe you should let it go. Still want to buy it? Then try mitigating the effects of "anchoring" – a little trick retailers use to present a number directly preceding a sale price (the "original" price or RRP) in order for our brains to judge how valuable something is. The higher the number presented, the higher the perceived value, the more people will pay for something. Avoid being tricked by using your phone to search other stores for the price of the item. Psychologically this "anchors" you to a more realistic number and gives you a better idea of the real value. If you do find it cheaper elsewhere tell yourself, "This will be my gift to myself in a few days." Finding relevant information and practising "delaying gratification" reduces FOMO, stops you making impulse buys, and changes the "loss" equation to focus on how much you are losing out of your account, as opposed to losing out on a great deal.

Trigger 3: Keeping up with the Joneses

When we earn more we are more likely to gravitate to communities which reflect our income, or our aspirational income at least. Within these communities there are unspoken norms that influence the type of car you drive, the type of clubs you belong to, the events you go to, the way you spend your recreational time, how lavishly you entertain, even the expected price of a good cup of coffee.

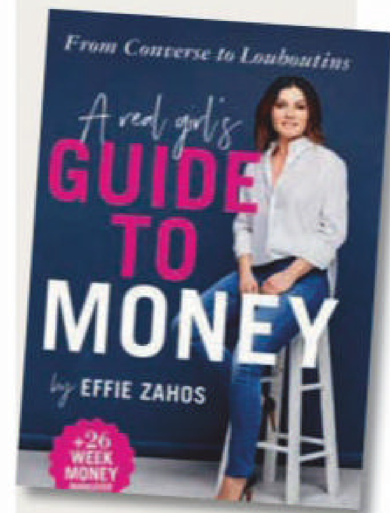
So what do you do? You keep up with appearances, spending loads of money until you can't afford those "necessary" luxuries.

What Phil suggests you do: Have a savings buddy or share your goals. "We need to learn to be content with who we are and our real socio-economic status. The greater the distance between the selves we present to others and our "real" selves, the greater the chances we will make poor decisions that compound our financial stress. Resist the fear of being judged and revel in the fact that you are getting better, rather than focusing on how much worse off you think you are relative to someone else. Imagine if we created savings groups that acted like running groups, where we shared our savings progress and congratulated each other simply for improving on our monthly personal best? Imagine that!"

A word on emotional spending

Phil talks about having a 500kg ape strapped to our back that we can't see and often forget is there. Our ape represents our instinctive, emotional, reactive responses. You can feel your ape rising up when someone speaks against your loved ones, or you see that piece of chocolate cake in the fridge at the end of a long day at work.

"Apes tend to not make good financial decisions," says Phil. "And yet they make nearly all of our financial decisions because money is so strongly linked with our emotions and our sense of self-worth. The last time you bought a house or a car, how much influence did 'it just felt right/good' have on the purchase? You must learn to control your emotions, disempower them; they are not your friends." *M*



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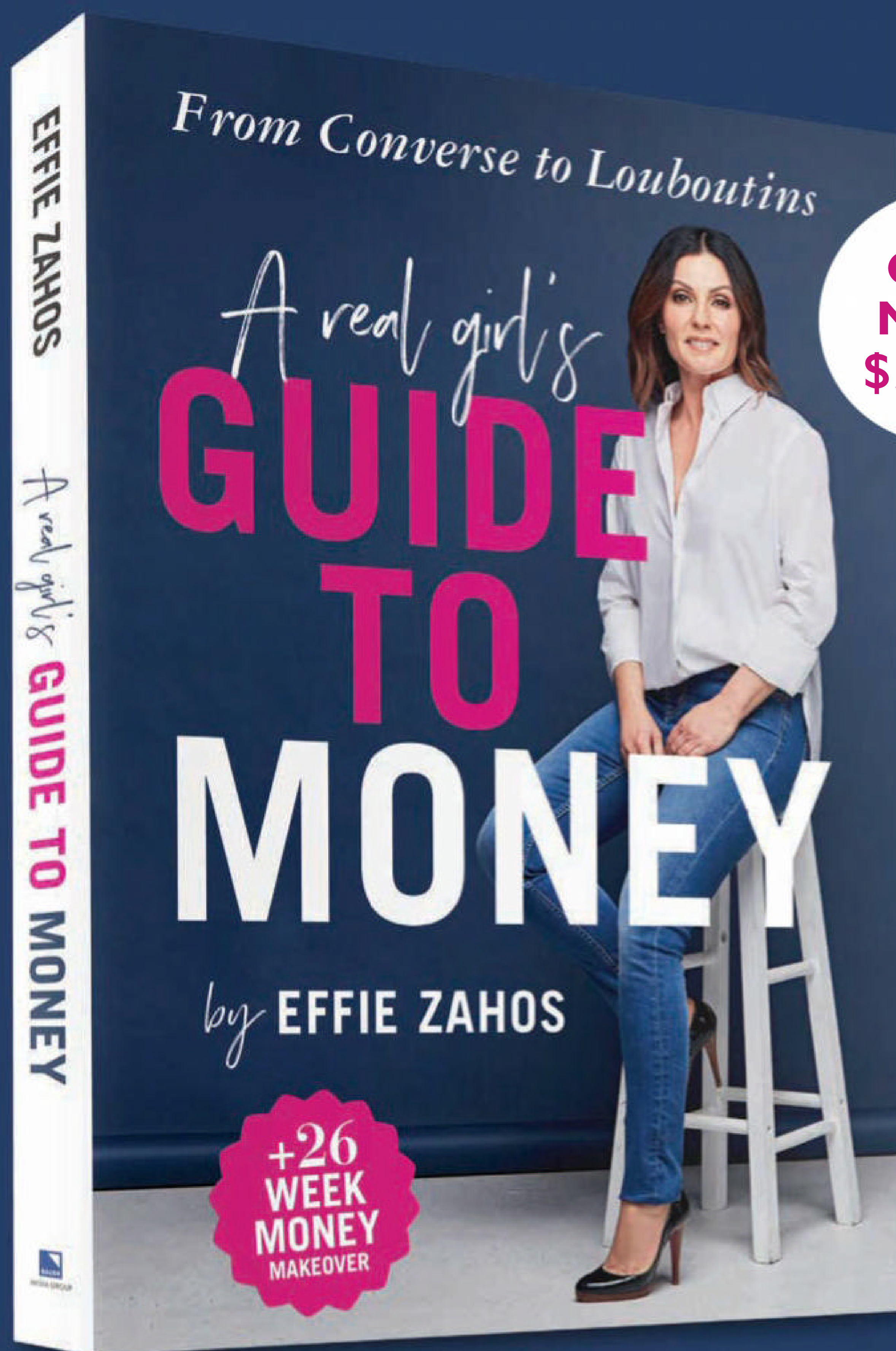

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STORY SUSAN HELY

Young heads for business

Kids who can cash in on a bright idea learn skills that will help carry them through life

When your kids come up with an idea, be sure to listen carefully because you never know where it will lead. Take the American eight-year-old Abbey Fleck, who was cooking bacon in the microwave with her dad, Jon. They were running out of paper towels to soak up the fat and Abbey suggested that they drape the bacon over a plate – like washing on a stand. They made a T-shaped rack out of wooden dowels and bits of plastic coat hangers, attaching them to a plastic plate. It worked. The bacon cooked in the air rather than in fat. Jon thought it was a great idea and found a factory to make microwave-safe plastic dishes that they called Makin Bacon. They have sold 2.7 million Makin Bacons through Walmart.

This shows that your kids are never too young to become entrepreneurs.

There are plenty of other examples of how entrepreneurial children grow up with a head for business. For example, at the age of seven, Warren Buffett, now a renowned investor, borrowed a book, *One Thousand Ways to Make $1000*, from the Omaha public library. It sparked many entrepreneurial ventures, such as selling chewing gum, cola bottles and weekly magazines door to door. He worked in his grandfather's grocery store. In high school he delivered newspapers, sold golf balls and stamps, and cleaned cars. On his first income tax return in 1944, Buffett made a $35 deduction for the bicycle he used on his newspaper run. Perhaps his best early business was buying a used pinball in high school with a friend for $25 and setting it up in the local barber shop. Within months they owned several machines in three barber shops before they sold the business later in the year for $1200.

Kids who earn money from their own business endeavours are learning valuable skills. For a start, they learn about budgeting, by tallying up the costs and the sales revenue and working out the profit and loss. It teaches them about saving and planning, not to mention the art of selling. There are tax file numbers to track down, business names to register and payment systems to master. While some go all the way and build sophisticated websites, in many cases their business venture has the added bonus of getting them away from screens, with many making their own products and spending time communicating with customers.

Motivations vary

For Melissa Nicholson, who spent most nights as a child counting up the cash takings from her father's shop, understanding how a business works provided her with a multitude of life skills. It is one of the reasons she has set up a Kids Community Market on the Fleurieu Coast in South Australia, a market organised and hosted by kids. A mother of two children, aged seven and one, Nicholson runs compulsory financial literacy and business workshops for the kids who sign up as well as organising courses on food safety standards. "Kids learn by doing, not by being told," she says. "They pick up life learning skills."

The former baker, who now works as a mortgage broker, says she often sees young people struggling with "a whole lot of debt".

Nicholson's first community market attracted 30 stalls with kids selling products such as soaps, hair scrunchies, cupcakes, cards, macramé, tie dye T-shirts, dreamcatchers, potted succulents, toasted sandwiches, dukka, pedicures, waffles, honey crackles, using honey from the family's bee hives, and much more. Nicholson spread the word about the market to a wide area and it attracted 800 visitors – not bad for a town of 4000. The local post office donated $200 and there were prizes. Nicholson has held three kids markets so far and is gearing up for more this year.

Motivation for starting a business varies from child for child. For Aiden Rayner, who runs an egg and chicken business, it was buying a barn to house more animals on his family farm. For Lilly Wenham, who sews scrunchies, it was to buy tickets for a Katy Perry concert. Paris Ramsay, who sells ethically sourced jewellery from Thailand, wanted to pay for a school trip to Cambodia to help in a small village by teaching English and building tables. For Kate Barry, also a maker a scrunchies, it was to buy tickets to the stage version of *Harry Potter and the Cursed Child*. Riley Armstrong, who sells customised necklaces, wanted a PlayStation, and now he has set his sights on a virtual reality headset. Rio and Bon Withyman want to spend the earnings from their egg business on experiences rather than things. They have been to the Coolum Aqua Park and the movies and are saving up for a GoPro camera to put on their boards to record their surfing adventures.

Parents play a big role in their kids' entrepreneurial endeavours. There is a fine line between supporting them and taking over. While it is tempting to step in, you don't want to stymie their enthusiasm. Give them the freedom to develop their idea but talk to them about it along the way.

Rather than handing over the money when they need to set up their business, it is best to draw up a loan on a spreadsheet setting out income, costs and expected profits. Help them draw up a budget that will stand them in good stead for the future.

RIO AND BON WITHYMAN

Birds in the hand

When the price of a 20kg bag of chicken feed went up, brothers Rio, 12, and Bon, 9, decided that the price of their eggs needed to rise too, from $5 to $6 a dozen.

The boys keep a ledger (inset) setting out the costs and earnings from their nine laying hens. They collect between five and seven eggs a day and sell around three dozen every week to regular customers and their mother's work colleagues, who love farm fresh eggs. Their business teaches them the importance of caring for the birds on their nine-hectare farm. They built the henhouse with their dad Rod. Rio changes their water while Bon feeds them. One important responsibility is to shut them away each night so that the prowling diamond pythons don't get them.

The boys keep their earnings in a jar and their mother Cathie is about to introduce a three-jar system. She says it comes in handy when she runs out of cash and needs some in a hurry.

The one condition is that they don't buy toys with their earnings and instead spend it on experiences such as movies and aqua parks, and they're considering a GoPro camera for around $300, to attach to their surfboards. Next year they plan to spend some of their money on a trip to Fiji, where they once lived.

Market is sewn up

Kate Barry wasn't the only 11-year-old running a small business in her Year 5 class last year. One friend sold "slime" and another cupcakes. Her grandmother, a dressmaker, taught Kate to sew and so she launched Scrunchie Munchies.

"Back in my mum's day, scrunchies in your hair were all the rage," she says. "I saw the cost of the hair scrunchies in the stores and at the school uniform store and was astounded by the prices. Most were over $10 and were mass-produced offshore."

Kate originally had a short-term goal of buying tickets to the Harry Potter musical in Melbourne but realised there is a genuine demand from local girls and some long-haired boys who wear scrunchies to school.

KATE BARRY

"I've also launched a specific range that I sell on a weekend at Little Athletics, with club colours. It's led to lots of enquiries about custom ranges for schools and other sporting events."

Kate makes the scrunchies after school and on the weekend. "It takes a while to make the tubes and then stuff them with elastic and I spend a long time looking for the latest fabrics," she says.

The profit margin is good at 30%-50%.

She says it hasn't always been easy. "I made the website myself on Wix in the last school holidays and it took ages for me to get an ABN and tax file number before I was able to launch it."

Setting up the website and taking the right photos was fiddly: she had to reshoot pictures and get the design right. She learnt that it's OK if things don't go to plan.

Kate has dropped off flyers in letterboxes to promote her three ranges, which are popular with different groups.

AIDEN RAYNER

Off to an early start

Aiden's Eggs, a farm fresh business, was set up by Aiden when he was five. He wanted to buy a barn to house his family's animals and needed around $400. His grandfather, a farmer at Mudgee with whom he spends school holidays, loves his flock of 200 chickens. When the drought hit his grandfather's property, he survived financially by selling eggs. Aiden thought up the idea of keeping chooks and selling eggs too.

Aiden's family bought half a dozen gold and blue laced red Wyandotte hens. Aiden feeds them by laying pellets and vegetable scraps and collects the eggs after school – sometimes six to eight, although in winter there are fewer as it's too cold. His mother Sarah, a nurse, posts an "Eggs for sale" message on her Facebook page and at $4 a dozen, based on what caged eggs sell for, she says they are easy to sell at her work or at Aiden's school.

Aiden says he has saved every cent that he raised from selling eggs. He bought the barn that houses bulls, calves and horses. Now he wants to buy a henhouse to protect his much loved chickens from the foxes.

To ramp up his savings he is incubating his eggs and has hatched around 50 blue laced chickens, which are in demand. "The blue lace chooks and roosters are easy to sell when you put them up on chook websites."

Aiden admires the different personalities of his chooks and says they are clever birds.

PARIS RAMSAY

Dressed for success

There are courses to help kids run a business. For example, at 14, Paris Ramsay had a choice of looking for a part-time job or starting her own business. The daughter of entrepreneurial parents, she got into a weekend course at Bruce Campbell Business School for Kids. It sparked her imagination and motivated her to come up with a product with a story that people can connect with.

Part of Bruce Campbell's course involves meeting up after six months to check in. "Each time you come back you are meant to have a set goal and report what you have achieved," says Paris.

She set up a dog walking business and worked on her school's farm but it wasn't until a trip to Thailand's Chiang Mai that she came across a local woman selling ethical beaded bracelets and other jewellery. She bought 47 pieces, set up Coco Lou (named after her sister) and sells them at market stalls and business events as well as through Facebook under cocolou.life.

"I wanted to find something I liked doing that could also make me money," says Paris, who continues to receive stock from the her source in Chiang Mai. "I'm always on the lookout for special products."

She uses the Square Point of Sale system for cashless sales and Google Sheets for accounts and stock. She has set up overseas banking. Last year Paris won an award for Young Entrepreneur of the Year at the business school.

Paris made the $3000 she needed to pay for a service trip to Cambodia with her Montessori school to work in a school there. She found the trip so rewarding that she has her sights set on a trip to Uganda to work in a rehabilitation centre for children, particularly girls who have been mutilated. It could cost around $20,000 for her and her mother so that is a lot of jewellery to sell.

Paris's top tips

1. Treat your business like a job and set aside time to work on all aspects such as the accounts.
2. Don't get stuck on the "drama hook" of running your business.
3. Word of mouth is key to a successful business.
4. If you have a supplier, keep communication going and create a friendship.

Just the ticket

Having a dedicated kids market has been inspirational for 11-year-old Lilly. She started off making cupcakes but switched to sewing hair scrunchies after receiving a sewing machine for her birthday. Motivated to earn enough money to buy a ticket to see Katy Perry in concert, Lilly learnt how to sew with the help of her godmother's mother. She gave Lilly materials, threads, scissors and a stitch remover to get her started.

Lilly attended the business workshops for the market and now works out her costs, sales and profits. She loads up the money on her Spriggy debit card

Themed fabric or school materials are popular with Lilly's clients. For the Christmas kids market, Lilly made Christmas scrunchies that boosted her sales to 67 items. At around $3 profit per scrunchie, she made $200.

Lilly won the kids market's overall encouragement award last year.

Lilly is expanding her client base and has asked nearby shops to let her display her scrunchies and is starting to produce headbands to see how they will sell. She is saving to pay for a trip to Queensland and a Nintendo Switch.

But it is not only about the money. One of the benefits of sewing scrunchies is spending time with her mum Katie when they sit down to cut out the materials and set up the sewing machine.

That's no problem

When 11-year-old Riley came up with his business idea of making customised necklaces to sell at the Kids Community Market he worked out he wanted to earn $8 an hour to make his enterprise worthwhile.

Riley's parents, who run an earth-moving business, regularly discuss their business and the subject of overheads at the dinner table. So it was natural for Riley to work out his own finances by setting out a fairly detailed list of his expenses: beads, cords and clasps. Then he set his prices. He didn't know how many necklaces he would sell but the first market was a success and he made a $124 profit. After three markets he estimates his profit margin is a healthy 30%.

How did he come up with idea of a customised necklace? His mother Tia likes to make, rather than buy, presents and uses Australian-made silicon beads that are safe for children as they are BPA free.

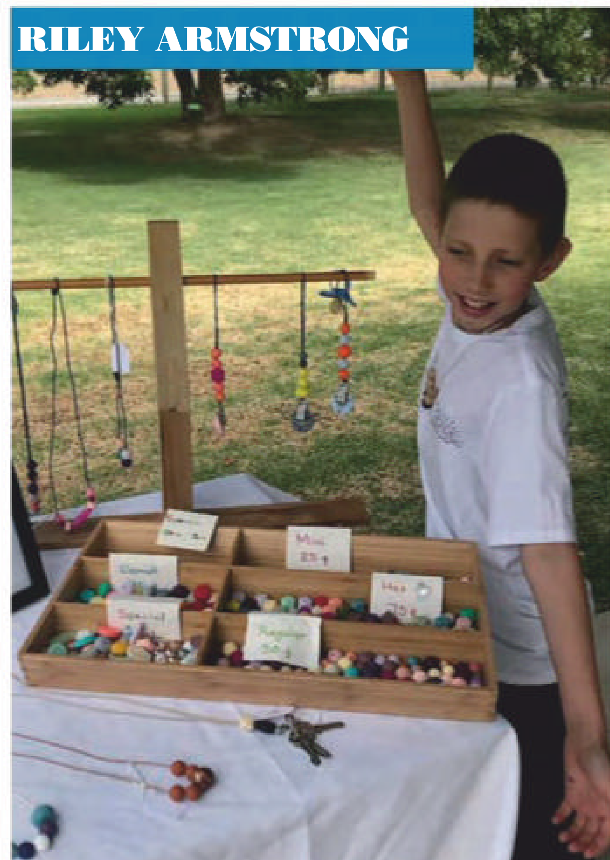
Riley likes people to choose their own beads and he threads them up, knowing he is offering a unique product.

After the third market, Riley decided to plough his profits back into the business and took advantage of cheaper prices for bigger quantities of beads. Realising that he needs to expand his range he now makes dummy chains, tassels, keychains and lanyards as well as necklaces.

Helped by the business workshops run by the market, he is relishing the problem solving that comes with running a small business.

Riley's top tips

1. Pick something you enjoy and you can do rather than what you think people will like.
2. Research your pricing.
3. Understand customer service and talk to your customers even if you are shy.
4. Don't sell hot food on a boiling summer's day; think about selling snow cones instead. *M*



Start-ups play the tech card

Neo-banks are taking on the big players but they have a long way to go

Imagine being able to apply for a home loan, and get it approved, in under 14 minutes. Or have an app that prompts you to look at everyday behaviours that may be costing you money; or receive a smiley emoji when you reach your saving goals; or get a reminder to review your car insurance; or be alerted to a better energy deal because your bank reckons you're paying too much.

If that all sounds exciting, then you'll be sold on what non-banks are selling – super-slick technology. As Eric Wilson, CEO and founder of neo-bank Xinja, says, "think Netflix or Airbnb for banking".

Despite the lack of products from some of these new-breed fintechs, the hype around what they will offer and their cutting-edge technology is gaining serious traction.

The big question, though, is can they match the big banks on price and, if so, will their offers be sustainable?

While they're driving innovation, comparison site RateCity says it will be hard for them to undercut some of the current players. "Australians are notoriously cautious about who they bank with," says RateCity's Sally Tindall. "Around 75% of homeowners have their loan with one of the big four banks and almost 80% of our savings are with the big four and their subsidiaries. That's a big mountain to climb."

So what exactly is a neo-bank and how different is it from a digital bank?

Wilson says it's important not to get the two confused. "A true neo-bank has no old-style banking technology, no legacy banking systems and no bricks-and-mortar branches. It's not a digital front, refreshed and stuck on front of an old-style established bank," he says.

So far more than 25,000 people have signed with Xinja, which isn't too bad considering it has only two products still in the beta (development) stage: a prepaid card that doubles as a fee-free travel card and a home loan that was tested at 3.4%.

On the back of the new licence framework introduced in May 2018, Xinja has received what Wilson describes as L-plates in banking. "You can call yourself a bank as soon as you have a restricted banking licence and you require a lower level of capital to get a restricted licence."

Under the changes, eligible entities can seek a restricted licence (a RADI), which allows them to conduct a limited range of activities for two years while they build their capabilities and resources.

The RADI means that the combined value of deposits held by the bank from all account holders cannot exceed $2 million.

Volt Bank was the first start-up to receive a RADI as part of a government plan to boost competition. It has since been granted its full licence. Unlike Xinja, it didn't launch any products until it received the full licence. But now you can expect it to launch prepaid cards and debit cards while lending on its own balance sheet.

Xinja expects its full licence in the middle of the year.

While it may seem scary to put your money in a start-up, it's reassuring that neo-banks go through the same regulatory processes as traditional banks. The government's $250,000 deposit guarantee also applies.

Despite the firepower of the big banks when it comes to price, the good news for non-banks is that they could be beneficiaries of the Hayne royal commission. As Josh Sale, a senior analyst at Canstar, points out: "Commissioner Kenneth Hayne has lifted the lid on some of the less scrupulous practices of traditional Australian deposit-taking institutions, leaving consumer sentiment with the traditional banks at an all-time low. Neo-banks are well placed to position themselves as an attractive alternative to consumers."

The key to success for neo-banks is not so much competing on price (we already have fee-free accounts and cheap home loans) but innovation. Even though they have the heads up on innovation, it won't be an easy road, according to Tindall.

"They are likely to catch the attention of younger generations who are fixated on doing everything with their phone but these Australians are unlikely to be making any big banking transactions anytime soon. Neo-banks will have to play the long game if they want to succeed."

Finance expert and author of A Real Girl's Guide to Money: From Converse to Louboutins *and* The Great $20 Adventure, Money*'s editor Effie Zahos, appears regularly on TV and radio. She started her career in banking.*

New kids on the block

LENDER	CURRENT PRODUCTS	FUTURE PRODUCTS
Xinja	Home loans (beta), prepaid cards (beta)	Home loans, transaction accounts, savings accounts, prepaid cards
Volt		Home loans, transaction accounts, savings accounts, term deposits, personal loans, small business banking
86 400	Transaction accounts (beta)	Home loans, transaction accounts, savings accounts, credit cards
Up	Transaction accounts, savings accounts	
Judo Capital	Home loans (for SME owners only), business loans, lines of credit, equipment loans, finance leases	

Source: RateCity

Tutors put to the test

Parents fork out big money for coaching but they need to make sure they get decent value

Tutoring was once for kids who struggled to keep up with the class but it is so much more now. Parents who can afford tutoring – and believe it will give their kids an edge – are signing them up for a whole raft of reasons. They do it to help them through difficult courses but also to shine in tests such as NAPLAN and keep their marks equal to or better than their peers' results.

Instead of just going to tutors in the last years of high school, kids are often have private tuition while in primary school. There is a huge industry in tutoring to help students win spots at prestigious selective schools or scholarships to exclusive private schools. Tutors can assist with high school applications and preparation for interviews.

Parents are paying more for tutoring than they ever have – often thousands of dollars a year. Some are driven by a fear that their kids will be left behind because so many others are being tutored. Parents have high expectations for their children and expect success from tutoring.

Parents born overseas are particular fans of tutoring. I knew a family with three children (all at private schools) who had a series of tutors come to their home during the week and on the weekends to tutor in nearly every subject from primary school through high school so that they were top performers. It cost them thousands of dollars per child every term.

There are plenty of decisions to make about tutoring. When should it start? You need to weigh up where to send them and what sort of coaching? Then there is the question of how much will be needed.

But the core issue is what parents should expect from their investment in tutoring. Are they getting value for money?

Clearly you should see marks getting better. If you have a child who is struggling with a heavy dose of tutoring you probably need to evaluate your strategy. Parents need to monitor the tutoring and assess if it is benefiting their child.

If your kid is bright, it is worth asking yourself whether tutoring is really helping, particularly if it starts at a young age. Could it be sending them the wrong message: that they always need help to do their school work and they can't manage on their own? Instead of working it out for themselves, they rely on someone doing it for them. A lot of schools argue that bright kids don't need to be hot-housed, that it stresses them out and gives them little downtime. But parents tend to ignore this advice so there is a whole industry that has sprung up to get students into selective high schools. Parents load up their expectations but they need to be very careful about doing this. I'll never forget the 11-year-old girl in one of my daughter's classes who had to be talked out of jumping from the top floor of the building because she hadn't got into her mother's preferred selective school. The primary school headmistress had stern words with her parents.

Then once kids are in a selective high school, the tutors argue that they need extra help to stay on top. There are reports that around 80% of students at selective high schools are tutored.

Certainly there is a move by schools – particularly highly sought after selective schools – to introduce entry exams that are coach proof. From 2020, NSW will have a new test for the 15,000 students sitting for 4250 places in the state's 48 selective schools. It is likely to use online technology that can adapt questions to a student's ability. It makes the questions less predictable – which is what coaching rests on – and can target abstract reasoning to pick up the truly bright students. This already happens in medical exams to weed out those who don't have what it takes.

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

MAKE THE BEST CHOICE

How do you know if you have a good tutor? There is a wide choice, from one-on-one and small groups to online tutors.

Always check the qualifications of your tutor and remember that the tutoring industry is unregulated. You don't need qualifications or accreditations to run a coaching college or teach at one.

Do you choose a bright university student who performed well in their final school exams or opt for a qualified, experienced teacher?

Generally a top tutor – often an experienced teacher who is the head of a subject – can name their hourly rate. They can also pick their students and will most likely choose the best and brightest.

If you send your child to a small group and pay for a number of sessions you will pay less (around at least 30%-50%) than for a one-on-one tutor.

There are emerging online coaching services that are worth checking out. They eliminate having to drive kids to coaches or having the tutors come to your home.

Exam practice is a good idea so that your child doesn't run out of time during the real thing. You can go to a tutor or you can buy practice or past exams online. Some colleges hold rehearsal exams for big events such as selective school entrance.

Tough love is the cure

Talking about our finances can release the emotional power they hold over us

Money is just a "thing" – a man-made construct created simply to help us trade goods and services and help describe the value of other "things". But it's not really just a thing, is it? It's so much more. As we grow up, our family's financial status gets linked to our identity and is used as a way for us to create ingroups (people like "us") and outgroups (people not like "us"). Financial status is a way we subconsciously judge intelligence, trustworthiness, beauty, success and meaningfulness. Money is not only used to judge the value of things; we also use it to judge the value of people and ourselves.

This value judgement creates all sorts of social and psychological curiosities. The closer someone is to our financial status, the more we like them, the more we trust them, the more they understand us. If we want to be liked and respected by someone else, we learn to project the same affluence and financial status as the person we are trying to associate with. However, losing money can mean losing status, friends, respect, our place in society and even our identity. Our brains are hardwired to avoid the pain of loss, so often we create a version of ourselves that matches our desired financial status, rather than our actual financial situation.

We buy cars we cannot afford, eat and stay in overpriced establishments, purchase clothes and jewellery that often put us into debt. Above all, we never, ever talk about our actual finances with anyone. Even our tax accountants get a curated version of the truth.

We think if people knew the truth, we may lose things that are vital to our identity. The more we are attached to our identity, the more we have to lose. This is, in the very literal sense of the word, insane. Our very own financial psychosis that has become a social epidemic. We are scared to talk about our finances with people we care about but this is exactly what we should be doing. All the time. This is tough love.

So how do we cure ourselves of our own financial psychosis? We need to talk about it. Not about our presentational financial selves but about our real financial selves.

Talking about our finances openly and honestly releases the power these finances have over you. It puts you back in control. You're not losing status, you're gaining control. Finances are deeply personal but sharing this with the people you love creates stronger connections, not ostracism. Keeping it to yourself leads to all sorts of poor financial decision making.

This is all well and good if you understand the benefits of talking about money but what if someone you love is making poor financial decisions? How do you talk to them about money without triggering their fears, offending them or hurting your relationship?

Fortunately, it seems that our brain has a pathway of processing information that allows us to talk about emotionally complex issues. It's like we have psychological gatekeepers that need to be satisfied in order to progress to the next phase. Follow this path methodically. Remember, you don't open the door – the gatekeeper needs to let you in.

1 Start with "why". Establish the reason you should have the conversation. Why is it important to talk about it? Why is it relevant to each of you? How is it relevant to your relationship? This helps qualify you to have the conversation, and builds courage and confidence that the ensuing conversation is important.

2 Make implicit feelings explicit. Be vulnerable. "Talking about money scares me because --- "; "I often feel --- when I talk about finances"; "The thing that really upsets me about money is --- ". Articulating how you feel about money helps strip away its emotional power. Try to talk through these emotions in a "matter of fact" or even humorous kind of way. Recognise emotions, call them out, then move on.

3 Focus on winning. Identify what "winning" at life looks like, and how poor financial choices are stopping us achieving those things. This shifts the conversation from internal reflections to external aspirations. Talk about money as the enabler to win, not the goal itself.

4 Make it real. This is when you can finally talk about actions. What are the small things you can do right now to make things better? Focus on one or two easily achievable changes. Small wins eventually turn into big wins.

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

Set the wheels to work

You don't need your own car and you can earn as much or as little as you want

On a sweltering day in February, there was not a snowflake's chance in hell I was trudging the 10-minutes from Sydney's Town Hall to Barangaroo to arrive drenched in perspiration for a prospect meeting.

Hmm, what was a less clammy solution to my new business prospecting predicament?

What is Uber?

As most people would know, Uber is a rideshare service that has disrupted the taxi industry. The US-based company has created a free mobile app that allows customers to request a car trip and pay a fixed fare online.

Uber operates in 79 countries and it is becoming an increasingly popular way to travel from A to B for more Australians. One Melburnian took 1219 trips with Uber in 2018, averaging more than three rides a day.

Prices and costs

Returning to my February meeting in Sydney, the trouble was the handiest Uber driver was across the other side of the city. Once he accepted my fare, it took him 10 minutes to zig-zag through the streets to collect me for the five-minute business commute.

I chose the low-cost ride pooling service uberPOOL but I was his only passenger and the fare ended up being a princely $5.89. I was happy with this result but the driver must pay a 27% clip to Uber, according to the next driver I spoke to for *Money*. A spokesperson from Uber failed to confirm this fee, simply saying: "Uber charges partners a service fee on all fares, which covers the cost of the use of Uber's technology, the collection and transfer of fares, credit card commission and the distribution of invoices to riders."

Rather than owning his own car, the next Uber driver I travelled with rents one for $270 a week. Uber-ready vehicles range from $159 to $300 a week for a plan offering unlimited kilometres, while the rideshare service's rental partners include Europcar, Splend, Keyz, Hertz and Thrifty.

On the insurance front, Uber provides some cover that works in tandem with a driver's personal insurance such as compulsory third party (CTP) injury policy. Uber insists this ensures every trip is covered and other road users are protected in the event of an accident.

Tax deductions

Simone Gielis, general manager of Etax.com.au, an online tax agent, says Uber drivers can claim their insurance costs as tax deductions, along with other work-related expenses such as registration, repairs, tyres, vehicle maintenance and cleaning costs. As well, Gielis says they can claim additional expenses that are directly related to becoming, and operating as, an Uber driver, such as registering as a driver, which carries an application fee and medical and police checks.

To claim any work-related deductions, Uber drivers must be vigilant, says Gielis. "When it comes to claiming costs directly related to your vehicle, you'll need to keep a record just like you would for any other job.

"And with all the kilometres you'll be driving, you should keep a logbook. This lets you calculate the work-related portion of your car use, in a way that the ATO respects. Then you can properly claim a wide range of vehicle-related expenses."

She warns that "if you start to drive for Uber without some good tax planning, you could soon have an ATO tax debt in the thousands in the first year – even tens of thousands of dollars."

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

AT A GLANCE

- To be eligible to be an Uber driver you must be over the age of 21 and have held a licence for at least 12 months – P-platers should not apply.
- Your car must be less than 10 years old and pass the regular vehicle inspections.
- If you don't own a car or your vehicle doesn't meet the criteria, you can rent an Uber-ready vehicle, although this service is limited to select cities.
- To rent an Uber-ready vehicle, expect to pay from $159 a week. As part of your research, check for kilometre caps, additional kilometre charges and membership fees.
- If you're prepared to share a car with others and do some walking, the ride pooling service uberPOOL costs up to 50% less than uberX, which is typically Uber's next cheapest service.
- Ola Cabs is a recent market entrant and is attracting attention with very competitive fares.

WHAT IF? Annette Sampson

Small business tax concessions became an election issue

Tax cuts are already in the bag, no matter which party wins, but they're trying to outdo each other with asset write-offs and other concessions

THE GOOD NEWS

Small business owners have already scored in what is expected to be hard-fought campaign. After the usual argy-bargy, both major parties committed to accelerating small business tax cuts in October. This means both have now committed to reducing the company tax rate for businesses with a turnover of up to $50 million to 25% from July 2021.

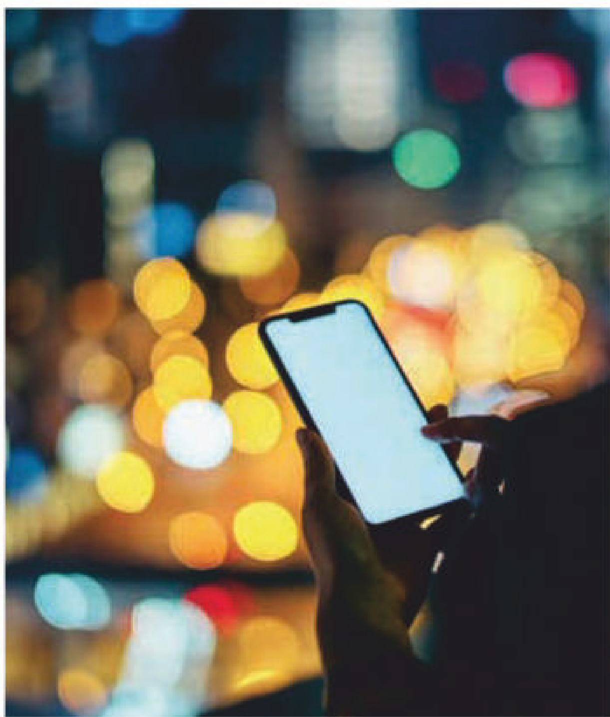
The coalition had previously legislated a drop from 30% to 27.5% this year, followed by a cut to 26% in 2025 and 25% in 2026. The 26% rate will now come in from July 2020.

Labor had planned to keep the rate at 27.5% but announced in October it would support the plan to ensure businesses got the same tax cuts regardless of who won.

Non-incorporated businesses such as sole traders and partnerships will also benefit from an increase in the tax discount they receive (known as the small business income tax offset), which is set to rise from the current level of 8% to 13% in 2020-21 and 16% in 2021-22. It was previously scheduled to rise more slowly, with the full 16% discount not coming in until 2026. This discount applies to individuals with income from an unincorporated business with a total turnover of less than $5 million and is capped at $1000 a year per individual.

ASSET WRITE-OFFS

In January, prime minister Scott Morrison announced that the current $20,000 instant asset write-off for small businesses with a turnover of less than $10 million would be increased from $20,000 to $25,000 until June 30, 2020. This allows eligible businesses to claim the cost of business assets such as vehicles and equipment in the year they are purchased rather than being depreciated over the life of the asset. It was scheduled to drop back to its original level of $1000 from July 1 this year.



THE CHALLENGE Maria Bekiaris

Get a chargeback

Act as soon as possible to improve your chances

One of the perks of paying with a credit card or debit card is that if a problem arises you may be able to request a "chargeback". This essentially means that your financial institution will refund the money into your account.

Your first port of call should always be the merchant or service provider to see if it can remedy the situation, but if you have no luck there then requesting a chargeback from your financial institution might be an option.

Some of the main reasons you may be able to request a chargeback include if the goods or services weren't delivered in the agreed time, they were "not as described" or you were charged twice. You may also be able to request a chargeback for unauthorised transactions or if charges are made on your card without permission.

Labor has announced its own asset write-off pitch, promising to introduce an Australian investment guarantee, allowing all businesses to immediately deduct 20% of any new eligible asset costing more than $20,000. This is planned to be a permanent deduction, although its introduction has been delayed a year to 2021-22 to fund the accelerated small business tax cuts.

OTHER MEASURES

The coalition's pre-election rhetoric also contrasts its own successes so far (such as reducing compliance costs through things such as simplified business activity statements and paying 97% of its own bills within 30 days), with claims of "anti-business" Labor policies such as reversing the abolition of Sunday penalty rates and its links with the unions. The coalition has also announced a securitisation fund to lower the costs of borrowing for small businesses.

For its part, Labor is offering a mix of small business measures including requiring government purchasers to support local businesses, keeping a small business minister in cabinet and establishing a second commissioner within the tax office to handle small business disputes.

However, it is already attracting criticism for its plan to introduce a minimum 30% tax rate on distributions from discretionary trusts. While this measure is intended to crack down on tax minimisation measures such as income splitting (where income is diverted to lower-taxed family members), many small businesses are held through such structures. Treasurer Josh Frydenberg recently claimed this could affect around 300,000 small businesses with turnover of up to $10 million.

As the election campaign heats up, small business policy will be a key area of debate and further differences are likely to emerge.

DID YOU KNOW?

Small business is a moveable term within government. The Australian Bureau of Statistics defines small businesses as employing fewer than 20 people. The Australian Securities and Investments Commission says you have to meet two of three criteria, including fewer than 50 employees, an annual turnover of less than $25 million and consolidated gross assets of less than $12.5 million while the tax office defines small businesses as companies with a turnover of up to $10 million.

BEST-CASE SCENARIO

It is hard to see small businesses being worse off after the election, though some that use family trust structures may be adversely affected.

WORST-CASE SCENARIO

The real concern for small business is that the economy is heading for a slowdown.

THE WILD CARD

Hey, this is politics. Need we say more?

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

It's worth noting that the chargeback process is separate from other dispute-resolution services like those available through eBay or PayPal, says the NSW Office of Fair Trading, but it adds that "you may have a right to a chargeback for PayPal purchases if your credit card is linked to your PayPal account and PayPal's dispute-resolution process was unsuccessful".

The NSW Office of Fair Trading also explains that chargeback won't be available if you selected "cheque" or "savings" as the account type on a debit or EFTPOS card (as opposed to selecting credit), you are eligible to lodge an insurance claim or you have already been compensated.

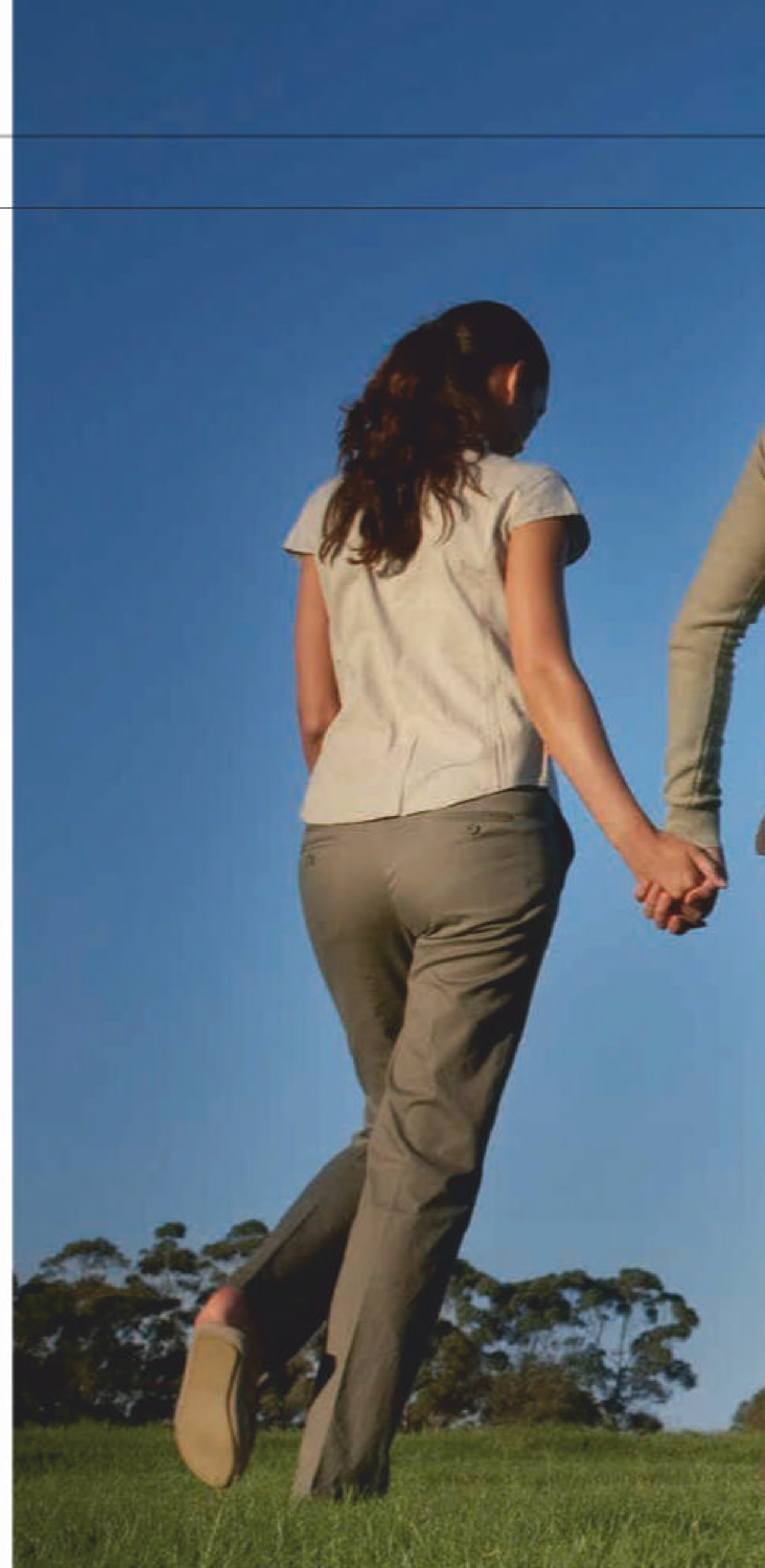
Time limits for claiming a chargeback generally apply and they will vary depending on the card provider. It might be as long as 90 days but it's best to act sooner rather than later to improve your chances of having your request for a chargeback approved.

Each institution will have a different process so your first step should be to contact it to explain the situation and ask what you need to do.

Some credit card providers may ask you to fill in a specific form while others may get you to send in a letter containing details of the transaction (including the amount and date), the reason you're requesting a chargeback and any supporting documentation.

It can be a lengthy process. ANZ, for example, says the "duration of the chargeback process may take up to six months from the date of the transaction but in some instances it can take as long as 12 months to finalise".

If the financial institution refuses to chargeback the transaction and you feel you still have a case, then you can make a complaint to an external dispute-resolution scheme. In most cases this will be the Australian Financial Complaints Authority. Visit afca.org.au or phone 1800 931 678 for more details.



When LMI pays off

STORY CHRIS GRAY

If you wait for all the boxes to be ticked, house prices can rise at a faster rate than you can save

Most first home buyers and those new to investing wait for the perfect storm before buying property. They want:

1. High capital growth;
2. High rental yields;
3. Low interest rates;
4. Easy-to-borrow money; and
5. Easy-to-find property.

In my 25 years of investing I don't think I've ever found the above scenario and so you could be waiting a long time.

Over the past few years we've had high capital growth and low interest rates, which has been great. Many people haven't bought, though, because the rental yields have dropped (in percentage terms due to the high growth), it's been very hard to find good property in decent locations (due to the increased demand) and it's been increasingly hard to borrow money (due to APRA and the banking royal commission).

We've now got low interest rates and much easier-to-buy property but many people aren't buying because either they can't borrow money or, if they can, they don't want to buy because they think the market will drop further.

These are all reasonable reasons for not entering the market but the danger is that if the conditions are never going to be perfect, you'll never enter the market and before you know it prices will have doubled again.

Sure, you could keep saving a deposit and maybe the market will continue to drop or be flat for the next 12 to 24 months but will you have a job then, will the lending criteria change in that time, will we have higher interest rates, will something else change in your life so that you don't have the ability to buy whenever you think the time is right? Chances are if it wasn't right before and it's not right now, it will never be right.

I've interviewed many property experts and economists over the years and not one of them believes they can pick the exact highs and lows of the market with pinpoint accuracy. All of them needed to change their 2018 predictions after the effect of APRA and the royal commission on bank lending. Many went from a healthy growth prediction to that of a loss.

My golden rule when buying a home or investment is to buy when:

1. You have the funds for a deposit;

2. You can get a mortgage;
3. You have enough cash buffer or excess wages to get you through the next few years.

For some that could mean taking advantage of lenders mortgage insurance (LMI). To some (typically old-school parents who look after the pennies hoping that they'll get rich on the pounds) it's an unnecessary cost. To the more educated or open minded it can help you get into the market sooner, could give you a cash buffer where you wouldn't ordinarily have one or could allow you to afford a much better property in a much better location.

Half of my current $15 million-plus property portfolio was bought in the GFC when everyone around me was telling me not to buy. Why buy now when the market is continuing to fall, they would say, and why make the extra repayments if you can buy back in a few years?

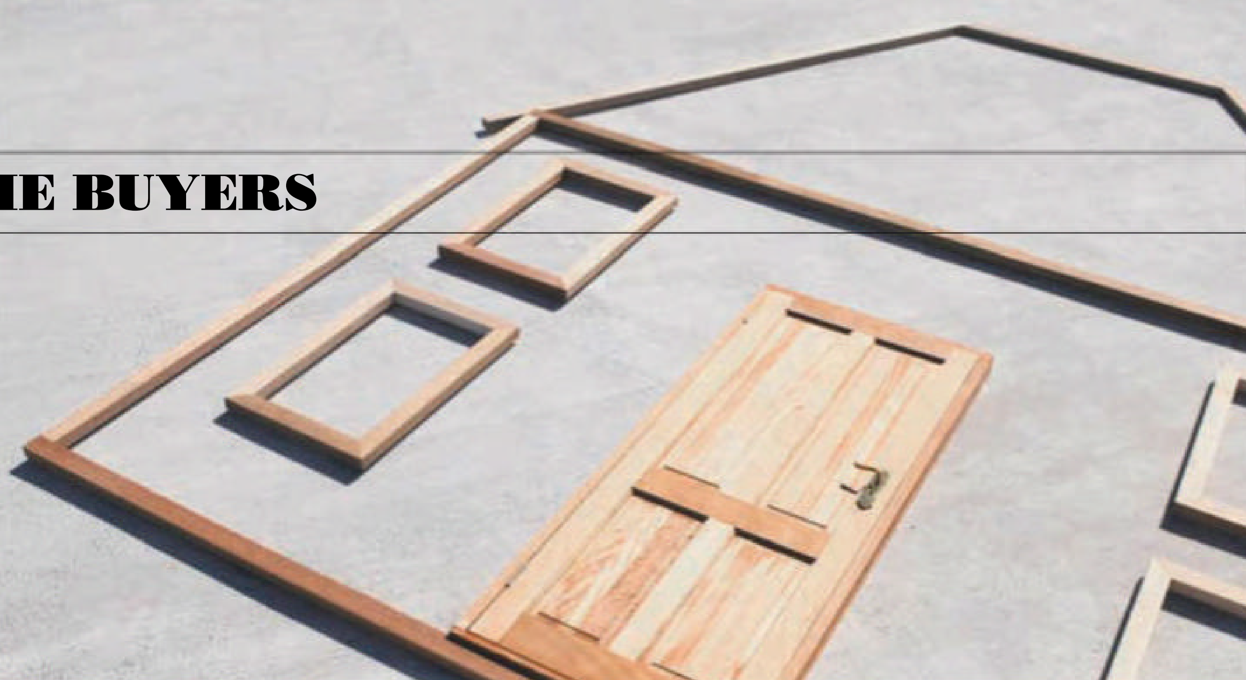
Not only did I have no competition and could then pick up properties that ticked 10 out of my 10 boxes but the market in the good areas was still ticking along in the tough times and when it did make a serious upswing I got every single day of that rise. Properties I bought in 2009 for $620,000 were bank-valued two years later in 2011 for $800,000 with no renovations or improvements.

It's all about time in the market rather than trying to time the market

All the naysayers stayed out of the market and didn't buy. They couldn't recognise it when it did turn and so they were already six to 12 months up the curve before they even had a chance to react, and by then prices were a lot higher than they potentially would have fallen anyway. On top of that, with the increased competition they would then have bought a property that only ticked seven or eight out of 10 boxes and paid a premium for the pleasure.

I believe that median-priced, secondhand properties in the blue-chip inner areas, three to 15 kilometres out of our main capital cities, that are short of supply due to height restrictions are still in demand and will hold firm. Sure, if you're forced to sell or refinance at the wrong point in time you might see a 5%-10% drop from the peak but I think it will be an unrecognisable blip in an upward curve when you look at it in a few years. If you're looking to get into that market, then I would buy as soon as you can if you find the right property and can hold on.

Units in high-rise towers have been a worry for many real estate professionals over the past few years and there's good reason for that. In many areas there are



literally thousands of apartments for sale or due for completion and not much demand for them. Many were bought by foreigners (who have to buy brand new) and speculators who wanted to play the off-the-plan timing game. Those buyers are struggling to borrow and so there's lots of supply and low demand. I think this market will come off further so if that's the market you wanted to buy in, then you may well find deals with 20%-30% off the previous asking price. That can be great if you've got a cast iron stomach and some excess funds to play with. However, be very cautious as you're getting into a market that is highly volatile and could drop further so it's not the ideal territory for a first home buyer or novice investor.

Property performance in regional areas will be very much dependent on that area and the local demand and supply. Some areas might be going through the roof and others dropping by half. The word of caution here is to avoid one-industry towns unless you really know them inside out and are happy to take a punt. The more industries that support a local area the better because if one or two fail it is less likely to affect everyone there. Time it right and you could do well but that can be hard even for the more experienced buyer. Mining towns are the obvious example. As a first home buyer, it's important to make your move into property a successful one and there can be pressure from friends and family to make you want to make it perfect. The more you try to make it perfect and the more profit you try to make, the more risk there generally is and the higher the chance of it all going wrong. There's nothing wrong with buying an ugly duckling in a flat or falling market despite what those around you may be saying. When you look back in five or 10 years and the property market has headed through another cycle, you'll remember the saying that's it's all about time in the market rather than trying to time the market. **M**

> **There's nothing wrong with buying an ugly duckling**

Chris Gray is CEO of Your Empire buyer's agents (yourempire.com.au). Chris has spent over 10 years as the host of Your Property on Sky News Business channel and is a qualified accountant, buyers agent and mortgage broker.

Can you save your way to wealth?

When it comes to the property market, the biggest cost could be that of delaying your decision. If the market is growing at around 7%pa and you are saving $2000 a month from your wages, then as you save $24,000 in a year that $500,000 property has grown by $35,000 – so it's gone up by more than you will have saved.

With a 20% deposit plus costs ($240,000), to buy that same property it would take 10 years, by which time it would have increased in value by $484,000 to $984,000.

The sooner you can get into the market, the better. (See table "Sooner rather than later".)

So the question is should you pay mortgage insurance? LMI is an insurance policy paid to lenders to give them security, because often you're borrowing more than 80% of the property value and considered a higher-risk mortgagee. The higher percentage you borrow and the more money you borrow the more it costs. As LMI doesn't give you any cover, most people tend to avoid it. However, it can be of amazing benefit. Even if LMI costs you $10,000-$20,000, you can often add this to the mortgage and, as a result, you're only paying interest on that cost in the short term. If your property doubles from $500,000 to $1 million it doesn't make a lot of difference whether you owe $500,000 or $520,000 in 10 years.

Similarly, if you had to save only a 5% deposit and 5% of costs, it would allow you to buy at a price of $613,000 in three years instead of 10. By year 10 you might have made $371,000. In effect, you're paying $10,000-$20,000 to get into the market many years earlier. (See "LMI: a modest price to pay".)

LMI: A MODEST PRICE TO PAY

YEAR		0	1	2	3	4	5	6	7	8	9	10
PROPERTY VALUE	7%pa	$500K	$535K	$572K	$613K	$655K	$701K	$750K	$803K	$859K	$919K	$984K
5% DEPOSIT + 5% COSTS	10%	$50K	$54K	$57K	$61K	$66K	$70K	$75K	$80K	$86K	$92K	$98K
SAVINGS - $2K/MTH	$2K	–	$24K	$48K	$72K	$96K	$120K	$144K	$168K	$192K	$216K	$240K
PROPERTY INCREASE		–	$35K	$72K	$113K	$155K	$201K	$250K	$303K	$359K	$419K	$484K

These are the rough costs for a big-picture example only and do not take into account some other variables such as compound interest on savings and extra interest costs on LMI premium.

SOONER RATHER THAN LATER

YEAR		0	1	2	3	4	5	6	7	8	9	10
PROPERTY VALUE	7%	$500K	$535K	$572K	$613K	$655K	$701K	$750K	$803K	$859K	$919K	$984K
20% DEPOSIT+ 5% COSTS	25%	$125K	$134K	$143K	$153K	$164K	$175K	$188K	$201K	$215K	$230K	$246K
SAVINGS - $2K/MTH	$2K	–	$24K	$48K	$72K	$96K	$120K	$144K	$168K	$192K	$216K	$240K
PROPERTY INCREASE		–	$35K	$72K	$113K	$155K	$201K	$250K	$303K	$359K	$419K	$484K

These are rough costs for a big-picture example only and do not take into account some other variables such as compound interest on savings.

Sadly, there's no quick fix

Apartment owners can face a hefty bill when high-rise buildings reveal their defects

Chances are if you bought a high-rise apartment in recent years you've bought a property with defects. Some would be much more significant than others: think the recent Opal Tower cracking fiasco in Sydney and the Lacrosse apartment building in Melbourne, which experienced a cladding fire in 2014.

Research conducted by the UNSW City Futures Research Centre in 2012 found that 72% of apartment blocks in NSW had defects, as reported by owners. For newer units it's even worse, with 85% of apartments built since 2000 having defects.

As Australia's apartment construction boom raged – in Sydney, for example, there's been a fourfold increase in high-rise apartments in the past 10 years – standards have been compromised in favour of keeping construction costs low, delivering developers bigger profits.

So what rights do you have if you've bought an apartment that turns out to be a lemon? Not a lot is the short answer.

In NSW, consumer protections were watered down in 2012, when the warranty period for major defects was reduced from seven to six years. It's just two years for other defects.

And the Home Building Compensation scheme doesn't cover buildings over three storeys. In 2018, a strata building bond of 2% was introduced to cover high-rises. But some experts dispute whether this would be enough to cover Opal Tower's rectification costs; others question whether the defects will be classified as major.

Different warranty rules apply in other states. For example, in Victoria you can take legal action against a builder for buildings up to 10 years old. But, as in NSW, domestic warranty insurance doesn't cover buildings over three storeys high.

One problem for apartment buyers is that many defects can be difficult, and sometimes impossible, to detect and the consequences of a defect can often take years to become apparent.

Reputational damage can be a headache for owners and investors

Another problem is that it's relatively common for builders to use a single project company to manage a development and wind it up on completion to avoid footing the bill for fixing up any mistakes.

The upshot of all this is that in many instances the apartment owner ends up being responsible for fixing and paying for almost all faults.

Reputational damage can also be a headache for both owner-occupiers and investors holding properties in a building such as Opal Tower, with real estate commentators saying these apartments are now likely worth between 16% and 50% less than their original price. For example, in the Lacrosse building there has been an average loss on resale of 16% from the original price since the November 2014 fire. This is based on 51 sales, says the valuation firm Preston Rowe Paterson.

And on top of that, buildings with a bad name are likely to experience a drop in rent, increase in insurance payments and reluctance by some lenders to provide mortgages for resales.

In the wake of the Opal case, there is a push to establish a statutory duty of care for owners, creating a liability for the actions of developers and builders.

"It's time for governments to adopt a policy ensuring that people who buy off the plan have better consumer protection than they have when they buy a fridge. That's not what's happening now," Stephen Goddard, a solicitor and chairman of the lobby group Owners Corporation Network of Australia, told *The Australian Financial Review.*

In the meantime, if you have bought a high-rise apartment with defects, explore what you can do to have it rectified under your state's warranty rules. If you get no joy from your builder, enlist the help of your state consumer body, such as Fair Trading in NSW. If you decide to take legal action, be aware this can be costly. A class action is also a possibility in extreme circumstances and there are suggestions that some Opal Tower owners are considering this course.

Buildings with reputational damage can be a real turn-off for tenants. One solution for investors is to use the property for short-term rentals – if this is allowed under the strata rules – as a building's reputation is much less of a problem for casual tenants.

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.*

Cash in on the future

Robotics and cybersecurity are just two of the themes that could reward farsighted investors

STORY PAM WALKLEY

Thematic investing – where you identify long-term trends that you think will shape the future and invest in them – is taking off, as evidenced by a record number of thematic exchange traded funds (ETFs) launched in 2018.

These new funds have experienced strong take-up to date, says ETF provider BetaShares, which predicts the trend will continue this year, echoing rapid growth in both the US and Europe.

"The idea is to invest where the world is going tomorrow, and not where it is today," says Dev Sinha, co-founder and co-CEO of Macrovue, an online broker aiming to simplify international investing for Australian retail investors and enable them to invest in thematic portfolios.

Thematic investing can pay off for those who back the trends that do soar but can backfire for those who invest in passing fads. Thematic funds have had to fend off accusations of being "gimmicky," says a November 2018 research paper from Morningstar UK analyst Kenneth Lamont.

"While surveying the ever-expanding menu of increasingly exotic themes, an investor might well ask: 'Will the thematic ETF I buy today still exist in 10 years?' " says Lamont, who looked at fund mortality rates to address this question. He found 35% of all thematic ETFs launched in Europe have already closed and this rises to 80% for all launched before 2012. For context, less than half of all equity ETFs have closed over the same period.

To profit from thematic investing you need to identify long-term structural trends and invest in companies best poised to benefit, says Macrovue's Sinha. But these are not necessarily the largest and most dominant companies of today, which attract the investment of most index-driven funds and ETFs, he says.

"By investing thematically you're taking a long-term, patient approach, meaning you're more likely to realise the value of your investment in the company as opposed to getting caught up in trying to trade around short-term earnings outlooks," says Sinha.

And because most themes are not restricted by geography or industry, it gives you an intuitive way to easily diversify your portfolio across company size, industry and geography. It also facilitates investors' engagement with their investments "because they're around themes like electric vehicles, artificial intelligence, water scarcity and clean technologies, which

are tangible and can resonate with people's beliefs and ideas," says Sinha.

Variety of risks

Because thematic investments ultimately translate to shares, they're subject to normal equity market risks and volatility. If international shares are included, there's also currency risk. There's the possibility that a theme doesn't materialise to the extent predicted. And because of its long-term nature, thematic investing doesn't suit those with a short-term view, says Sinha.

"These products are quite tricky to evaluate," says Morningstar's Lamont. They often have little or no performance history, and the theme is yet to play out. "History suggests that even if we select a winning theme, we will be lucky if our chosen ETF survives long enough to profit."

How to access them

Investors prepared to embrace offshore investing have many more choices in pursuing themed investments. In Australia, themed ETFs are increasing but there are few truly thematic managed funds. There are some individual stocks.

In a unique offering, Macrovue has built 22 "Vues" around themes that reflect long-term structural trends, issues or investment styles such as artificial intelligence, clean technology and the aging population. Unlike most ETFs, Vues are concentrated share portfolios of 10 international stocks aiming to outperform industry benchmarks and indexes. Individual investors are the beneficial owners of the shares in their chosen Vue and they can trade the stocks individually. Trades are $15 for up to $12,500 or 0.12% if above. For Vues there is a research cost of 0.80% a year across all portfolios, including international stocks, and a 0.50% forex spread. You can also build your own themed Vue, as Macrovue offers access to over 20,000 shares and ETFs across 23 global exchanges.

Top themes

BetaShares has nominated three themes it thinks will grow in popularity and for which it provides ETFs available on the ASX.

1 Global robotics and artificial intelligence

Artificial intelligence is the development of computer systems able to perform tasks normally requiring human intelligence, such as visual perception, speech recognition, decision making and language translation.

"Artificial intelligence is a complete game changer. It's very deep reaching and I think is even more significant than the mobile phone network," says Platinum Asset Management co-founder Kerr Neilson in a recent article in Morningstar's *Your Money Weekly* newsletter.

Recent performance of ETFs in this space has been far from spectacular but some individual stocks have soared. Appen (ASX: APX), which provides language technology data and services in more than 150 languages and dialects to technology companies and government agencies globally, is one of the hottest stocks on the ASX. Its share price has jumped from an issue price of 50 cents in January 2015 to around $16.28 at the time of writing. Appen's share price gained 53% in 2018, landing it sixth for performance among the top 200 companies.

WiseTech Global (WTC), a provider of software solutions to the logistics industry globally, has seen its share price rise from $3.35 at listing in April 2016 to $20.67 at the time of writing.

BetaShares Global Robotics and Artificial Intelligence ETF (RBTZ), launched in September last year, has produced a negative 21.15% return since inception. The index it tracks, Indxx Global Robotics & Artificial Intelligence Thematic, returned a negative 21.32% in the same period.

The Robo Global and Automation ETF (ROBO) gives investors access to the high growth and rapidly evolving megatrend of robotics and artificial intelligence (RAAI) technologies.

Established in September 2017, the ETF returned a negative 12.45% in the year to September 2018. The index it tracks, ROBO Global Robotics and Automation, returned a negative 11.42% over the same period but over the three years to December 2018 it returned 12.53%pa.

Macrovue provides two Vues in the space: Disruptive Technologies, which returned 35.8% in the year to February 4, 2019 and requires a minimum investment of $11,291; and Artificial Intelligence, which has returned 4.8% since inception in April 2018. The minimum investment is $11,187.

2 Global healthcare

There are ETFs, managed funds and individual shares in this space. The iShares Global Healthcare ETF (IXJ) tracks the S&P Global 1200 Healthcare Sector Index, which can include large, mid or small cap biotechnology, healthcare, medical equipment and pharmaceuticals companies. The fund returned 14% in the year to December 2018 (benchmark 14.43%) and 12.92% over five years (13.07%). Investors pay a management fee of 0.47%.

The BetaShares Global Healthcare ETF (DRUG) is currency hedged and tracks the Nasdaq Global ex-Australia Healthcare Hedged AUD Index. It returned 3.95% in the year to December 2018 (benchmark 4.32%) and 5.79pa since inception in August 2016 (6.23%). The management fee is 0.57%.

For those investors who prefer to put their money in managed funds, the Platinum International Health Care Fund, which seeks to take advantage of the changes and developments in healthcare and medicine, is open while the CFS Global Health and Biotech Fund is closed. The Platinum fund returned 8.84% in the year to December 2018 and 11.93%pa over five years. The minimum investment is $10,000 and the management fee is 1.35%.

There are also some stocks listed on the ASX linked to global healthcare. CSL, a global biotech giant, has been a standout, delivering average earnings growth of 13.3% a year and an average total shareholder return of 20.1% a year over the past decade.

3 Global cybersecurity

This is a fledgling theme among Australian investments, and investors wanting wide exposure will need to look offshore.

For those who prefer ETFs, the locally listed BetaShares Global Cybersecurity (HACK) tracks the performance of the Nasdaq Consumer Technology Association (CTA) Cybersecurity Index. It has returned 12.87% over the year to December 2018 (benchmark 13.67%) and 12.58% a year since inception in August 2016 (benchmark 13.41%). It holds US companies such as Symantec, CheckPoint and Cisco and the management cost is 0.67%pa.

There is a range of very small businesses involved in different areas of cybersecurity listed on the ASX, such as Senetas, Prophecy International, Covata, Tesserent, Dropsuite and Zyber, says a June 2018 report from BT. "But some of these are not profitable and still in start-up phase, making it difficult to assess their investment potential," says the report. ***M***

10 MOST-ASKED QUESTIONS

Positive thinking

As well as making money, ethical investors hope to make the world a better place

THE EXPERTS

Josh Callaghan, general manager of wealth, Canstar

Emily Hollingum, CEO, Balance Impact

Chris Lang, senior adviser, Tas Ethical

Simon O'Connor, CEO, Responsible Investment Association Australasia

Many studies have found that companies with strong social responsibility policies and practices make good investments

Q What is ethical investing?

All businesses, and therefore all investments, have an impact on people and the planet, both positive and negative.

Ethical investing, also known as responsible or sustainable investing, seeks to minimise the negative effects generated by business and promote positive impacts. It is a holistic approach to investing, where social, environmental, corporate governance and ethical issues are considered alongside financial performance.

From individuals choosing where to put their savings to a superannuation fund investing money on behalf of its members, investors engage in ethical investing for a range of reasons. These include: to align investments with their own or their clients' personal values and ethics; to reduce risk; to achieve strong financial returns; and to contribute towards delivering a healthier society, environment and economy for current and future generations.

There are many different approaches to ethical investing including negative and positive screening, impact investing and environmental, social and governance (ESG) integration.

SIMON O'CONNOR

Q What are the different types of ethical investments?

There is a wide range of ethical investment options available to suit your values, including:

- Negative screening. Applying a negative screen to your investment allows you to exclude certain industries. The most common exclusions are tobacco, alcohol, gambling, pornography and weapons.
- Environmental, social and governance. ESG is a fairly broad concept, how it is applied and exactly which criteria are considered will depend on the fund manager. Factors considered may include the company's impact on the environment, their treatment of staff and local communities, and composition of the board.
- Thematic investing. Instead of focusing on exclusions only, or the broad concept of ESG, thematic investments have a clearly defined goal. For example, there's gender lens investing, whose goal is to make investments that support women, or an environmental portfolio that invests solely in renewable energy.
- Impact investing. This style involves making investments that have both a positive impact on society and generate a financial return. For example, investing in companies that are achieving the UN Sustainable Development Goals.

EMILY HOLLINGUM

Q What investment options are available?

To ethically align your investments you should consider:

- Ethical superannuation fund. Many funds have an ethical investment option available, so check with your current super provider. One of the longest running ethical super funds is Australian Ethical. Today Vision Super offers a low-cost ethical option that is worth considering.
- Exchange traded funds. Investing via ETFs can be a great way to create a well-diversified portfolio with low fees. If you're interested in investing via ETFs, Balance Impact provides a searchable list of global ethical ETFs.
- Actively managed funds. There are a number of actively managed funds available that have responsible investment screens. The Responsible Investment Association of Australasia (RIAA) has a tool that allows you to search for funds that match your goals.
- High-impact, unlisted investments. Impact Investing Hub contains a list of current impact investing funds and direct investments available in Australia. Most of these are low-liquidity, long-term investments. We recommend investing only a small portion of your portfolio (5%-10%) in these.
- Direct investment. You could always do the research yourself and buy shares directly in a company that meets your goals. Yahoo Finance now provides an ESG rating for many Australian companies.

EMILY HOLLINGUM

Q What should I consider when comparing ethical investment options?

These days consumers are able to use screening to build their own ethical portfolios, or they can buy ethical ETFs or managed funds. When buying an ethical fund, the same rules apply. Investors need to ensure they're not paying too much, the past performance matches expectations and the fund is of a reasonable size. Outside of that, it's then about ensuring the screens being used align with the investor's values and the way in which they want their money invested. Investors should be prepared that there may not be a fund that completely aligns with all of their preferences, so some trade-offs may need to be made. Many funds can make discretionary calls on the companies they invest in, even if it doesn't fit the screen rules, so it's worth keeping an eye on where your money is invested.

JOSH CALLAGHAN

Q How have ethical funds performed compared with traditional funds?

In addition to rising consumer demand, the reason that much of the finance sector is now considering a responsible and ethical investment approach is quite simply that it makes good investment sense.

In Australia, responsible investment funds are outperforming their average mainstream counterparts year on year, as the market for responsible investment continues to grow.

The Responsible Investment Association Australasia's 2018 Benchmark Report shows "core" (ie, screened and sustainability themed) responsible investment share funds and balanced multi-sector funds both outperformed their equivalent mainstream funds over three-, five- and 10-year horizons.

From Harvard Business School to Bank of America Merrill Lynch, numerous other studies have found that companies with strong corporate social responsibility policies and practices make sound investments. In 2015, Deutsche Asset & Wealth Management and Hamburg University conducted a meta-analysis of over 2000 empirical studies, finding an overwhelmingly positive correlation between environmental, social and governance standards and corporate financial performance.

SIMON O'CONNOR

Q How do the fees compare with those of traditional funds?

There is a wide range of ways to invest ethically: passive, active, direct shares, separately managed accounts, index funds, listed investment companies, exchange traded funds, super funds and managed funds. And costs can be just as varied. The great news is that you can access truly ethical investments that actively seek positive investments and you will often pay the same, or only a little more than for traditional funds. The Ethical Advisers' Co-op has built investments that cost as little as 0.33%pa, which is less than the fee for most standard index funds.

But dollar cost shouldn't always be your main consideration. What good is a 0.1%pa fee saving when poor air quality regularly makes you sick? When your family can't drink or swim in local water because of pollution? When your children can't find suitable work because employers don't hire diverse workforces? When your clothes are made with slave labour in developing countries? Costs can be much higher than the numbers provided on a statement.

CHRIS LANG

Q How do I know if a fund is actually ethical?

In the ethical investing world there are no standardised definitions. Even if a fund excludes an industry from its portfolio, this does not mean that the exposure within your portfolio will be zero. Most funds will use a revenue threshold: for example, a company is excluded if it generates more than 5% revenue from a particular industry. For this reason it is best to read the offer documentation (the product disclosure statement) to see exactly which investments are excluded.

If wading through the small print of offer documents is not your thing, the quickest way to check if a fund is true to label is to download a list of current holdings. If you're trying to exclude fossil fuels but the fund contains Woodside, Caltex and Santos, then no need to read the small print – you can move on to the next fund.

EMILY HOLLINGUM

Q Where can I go for more help to choose or research options?

Our research shows that four in five Australians would consider moving their superannuation or other investments to another provider if their fund engaged in activities inconsistent with their values. However, people often find that there's not enough independent information available regarding switching to a responsible or ethical investment provider.

If you have a financial adviser, find out where your money is currently invested, tell them the issues you care about and ask for recommendations of ethical and responsible investment products.

RIAA created Responsible Returns (responsiblereturns.com.au) to help Australian consumers find, compare and choose responsible and ethical superannuation, banking and investment products that match their interests.

From investing in healthcare and education to avoiding investing in animal testing and fossil fuels, the site allows users to filter products based on their areas of interest.

Over 150 products are listed and each has been certified in accordance with RIAA's responsible investment certification program indicating the product is independently verified as true to label.

SIMON O'CONNOR

Q How can I build a diversified ethical investment portfolio?

You could consider a pre-mixed ethical option, such as Hesta's Eco Pool. However, pre-mixed options may not suit your personal ethical values, have enough asset diversification or fit your appetite for risk. Also, greenwashing in pre-mixed super funds is very common; they often fail to match expectations of an ethical investment.

A better solution is to talk to a financial adviser who specialises in ethical investments. A knowledgeable adviser will build a portfolio to match your values and financial objectives. Concerns you have for the environment, community and society, and how a company treats its workforce can all be reflected using diverse investments and companies. Ethical investing is a complicated and ever-expanding area, and to navigate it well this should be the core business of your adviser. The best place to begin seeking competent specialists is to search for advisers who are members of the Ethical Advisers' Co-operative.

CHRIS LANG

Q What difference does investing in ethical funds/companies make to the world?

Economics is a powerful driver for change in the world. We see this happening in the energy sector – it now costs less to build new solar and wind plants then to continue operating existing coal power plants. This means we are unlikely to see new coal power plants built in Australia again. This is the power of economics. Solar and wind have reached this point because concerned, conscientious investors chose to provide the renewables sector with the funds it needed to research, develop and build these new power sources. Smart investors realise that investing ethically is an easy thing to do, and it is making a huge difference for current and future generations.

CHRIS LANG

For more details on the difference between ethical investing and impact investing, what positive and negative screening mean and tips on choosing an ethical investment visit moneymag.com.au/ethicalinvesting. **M**

Money

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Storm clouds are gathering

High government, corporate and personal debt means this is a time to be cautious

Just a little unsolicited, and plainly obvious, advice. Be a little careful. If you want a higher authority, and you should, note the recent comment of Christine Lagarde, managing director of the International Monetary Fund: "When there are too many clouds, it takes one lightning to start the storm."

And right now Lagarde cites four major storm clouds: Brexit; the China-US trade war; tight liquidity; and a sharper than expected slowdown in China's economy.

Lagarde is not short of a colourful phrase to sum up the world economy. In the brilliant documentary *Inside Job*, which forensically unpicked the 2008 financial crisis, she said to the then US Treasury Secretary Hank Paulson: "We are watching this tsunami coming. And you are just proposing that we ask which swimming costume we are going to put on."

So her warning now about economic conditions (over which you, our banks and even, to a certain extent, our government and Reserve Bank have little or no control) should be a sobering reminder to not view falls in sharemarkets and property markets as immediate signals to go bargain hunting.

Part of the problem with the confluence of factors slowing down world economic growth (and with it, inevitably, Australia's economy, as witnessed by the Reserve Bank diluting its growth forecasts this year and next) is that those with the most debt are in the worst positions to deal with the consequences.

As Lagarde herself says: "Cost for enterprises is higher and that happens at a time when there is a heavy debt on sovereign, on corporate and on households." In other words, borrowing costs are rising because of the increased economic risks, which has an impact on those with most debt.

Now consider this statement from UBS early last year: Australian households' extremely elevated debt level of nearly 200% compared with their income is "one of the highest in the world". Which is why banks right now are especially cautious about lending money to all but the very best credit risks and why those who seek to refinance loans are bedevilled with a mountain of paperwork and questionnaires.

The most obvious thing to remind you is that while asset values can rise or fall, debt levels do not change unless you pay down the debt. It's a reason why an increasing number of people who bought housing with small deposits (especially in Melbourne, Sydney, Perth and Darwin) in the past two years might now be regretting that decision. If they are forced to sell, mainly because they have lost a job, they could discover the rude shock of negative equity.

Investors, including self-managed superannuation funds, who bought apartments will understand the importance of retaining tenants to keep the cash coming through the door to stop their own savings or salary being depleted by the interest on the investment loan.

Banks, to date, have not been impacted by bad or doubtful debts. Indeed, in the Commonwealth Bank's recent first-half results, the loan impairments were close to their lowest level in six years, at around 0.15% of gross loans (compared with 0.85% in the first half of 2009).

The bank noted: "Home loan arrears decreased slightly on the prior half due to seasonality, partly offset by some households continuing to experience difficulties with rising essential costs and limited income growth. Both personal loans and credit card arrears showed evidence of more muted seasonal benefits due to continued pockets of stress." Again, to translate, most people are going OK but there are signs of households being affected by rising bills (electricity, health insurance, etc) compared with their relatively flat income growth.

Your problem, for the next few months, is the many people, including politicians and banks, who have a vested interest to talk things up. Their popularity and profit comes from buoyant conditions and confidence. Rarely will they straight-talk with you like Christine Lagarde.

So, in my opinion ... what's the strategy for 2019? Stay low; stay defensive ... there will be opportunities to buy shares and property but, for most, it's not just yet. The potential risks have increased and the possible rewards are still not there.

Oh, and keep listening to Christine Lagarde.

Ross Greenwood is Channel 9's finance editor and Radio 2GB's Money News *host.*

Mix and match

Play an active role in how you're invested

Over your working life it's likely your financial circumstances will change. You might build a share portfolio outside super, acquire an investment property, inherit money, suffer the misfortune of a financially damaging divorce or become risk adverse as retirement looms.

Super funds take these life changes into account and offer members a wide choice of investment options. While you may have started off in a default fund, there may be other investment options and strategies that are better suited to your individual profile.

"Super funds offer lots of investment options that are usually set up around each major asset class or type of investment strategy," says Alex Dunnin, executive director of research and compliance at Rainmaker Group. "These asset classes and investment strategies come with pre-set expectations about their investment risks and investment returns."

Products range from pre-mixed options such as growth, balanced, conservative and cash to single-asset options such as Australian equities, property or fixed interest. More recently direct investments like shares, exchange traded funds and term deposits have been added.

Before you make any changes you need to work out your investment strategy and goals. This will include working out how much risk you are comfortable with, the returns you hope to achieve and how long you will be investing for.

"If you're seeking higher investment returns and you are comfortable with the higher levels of risk that entails, you should consider options specialising in equities or high-growth strategies. If, on the other hand, you are a bit more cautious, you might want to invest in a more conservative, lower-growth strategy, or even one focused only on bonds," he says.

Members can get the lowdown on the different products on their fund's website, including the type of risks they carry and expected returns. If you want more information you can phone their call centres and ask them to walk you through the pros and cons of the different options.

Dunnin says you can make switches at any time and you can mix and match the different options. "You don't have to put all your money in one investment choice, you can have half your money in one option, and split the other half across another two or three options."

But you need to be clear about why you're doing it. "If you're going to start moving money around you've got to think things through. You've got to play the devil's advocate against yourself.

"If you want all your money in equities, you've got to realise returns might bump around, you might have a great year, you might have a terrible year. Or you might say I'm worried about this sort of stuff, I want to be in a conservative fund," he says.

Generally, if time is on your side you can take on higher-risk options and ride the ups and downs of the market. A high-growth option will achieve higher returns over the long term. But if you are close to retirement you may want to take on a more defensive approach.

Finally, Dunnin says once you've made the switch, keep an eye on performance. "The simplest way to check if your fund and its investment option is underperforming is to compare it with other similar options. Check the performance league tables and see where your fund ranks. Is it about average or better over three or five years?

"Think of your super fund's performance like your child's school report. You should have a good look at it at least once a year. Waiting until you retire before checking your super is like not reading your child's school report until the end of year 12. By then all the damage is done and it's too late to fix any problems," he says.

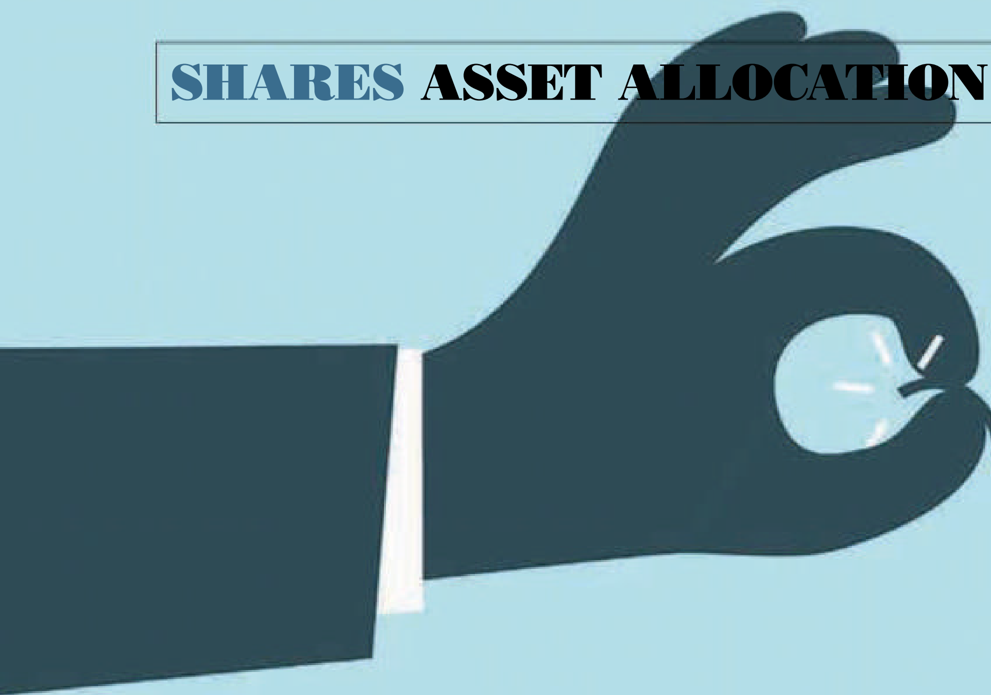
Vita Palestrant was editor of the Money section of The Sydney Morning Herald *and* The Age. *She has worked on major newspapers overseas.*

SWITCHING OPTIONS COULDN'T BE EASIER

You can go to your superannuation fund's website, log into your member account and switch your asset allocation online. Your fund will confirm your switch by email. Members are generally allowed three free switches a year.

"Very rarely now do you have to fill in a paper form. Again, some people may prefer to do that, but you don't have to." says Rainmaker's Alex Dunnin. The switch should take two to three days.

Dunnin says you can nominate how much of your balance you wish to switch. "Do you want to move all of the money or part of it, or maybe just future contributions? There are lots of ways you can mix and match and switch your money around."



Value investors should be quick to take advantage of the opportunities provided by volatile markets

STORY MARK STORY

Keep your powder dry

If you want to know the difference a year makes when investing, just look at the gulf in the average super fund balance, which dived from around 10% in 2017 to between -1% and -2% a year later. By all accounts, 2019 appears to be threatening even greater trepidation than last year, when the S&P/ASX 200 fell 6.9% (excluding dividends), which marked the biggest loss for the local sharemarket since 2011.

However, despite smouldering big-ticket macro issues – including the late-cycle stock sell-off, trade wars, falling GDP growth in China and, closer to home, tightening credit conditions, along with declining house prices – investors shouldn't take overly pessimistic market commentary too seriously. That's the view of Paul Moore, chief investment officer of PM Capital, who reminds investors how irrelevant these events can be – and with Australian shares up over 4% in January alone he's got a point.

Moore says there's never been a more urgent need for investors to understand that future returns will come from avoiding the continuum of negative news and focusing on how their capital is deployed over a long-term horizon. "In reality, one only needs a few good investments in their lifetime to produce attractive returns, and they tend to come around every 10 or so years."

New way of thinking

What's needed now, says Moore, is a fresh approach to looking at where future returns are more likely to come from. In 2019, he urges investors to recognise a tectonic-like shift playing out in the structural drivers of markets. It's because of this structural shift that he expects the next 10 years to be more determined by the "serious investor" and less by the momentum and hype that have dominated the market and accentuated volatility over the past decade.

With stocks having been driven by anomalies (such as monetary stimulus) for the past 10 years, he says it's understandable that investors have been trapped into an old way of thinking about markets. "But instead of being process-driven, what we're seeing now is a return to fundamentals, and the types of investments you want to be involved with will have this wind at their back."

With "real-world" issues re-emerging – such as fundamentals and the underlying economy, rather than momentum and quant strategies that distort market movements – Moore advises investors to seriously reconsider what assets they want to be invested in. Given that it invariably behaves like the Texas Two-Step – one jive forward and two backwards – he says we're now entering an environment where investors really don't want to be too diversified.

In Moore's view, there's currently no place for property or defensive stocks. The only

two places to be are in cash and owning businesses offering satisfactory rates of return. By all means have some money in cash but Moore says the notion that 2019 is first and foremost about capital preservation is dangerous, and having too much in cash only consigns investors to locking in losses.

Tighter focus

Rather than hoarding cash, Moore recommends holding it as sufficient "dry powder" to capitalise on value opportunities that sharemarkets regularly throw up. In simple terms, a value approach is all about buying a share, for argument's sake, at 70 cents when it might be worth $1. He favours these value stocks over growth stocks that have become increasingly more expensive. "There's got to be a much tighter focus on valuation relative to growth, and within this environment good, solid companies, fundamentally mispriced and selling on low price to earnings ratios, will again receive the coverage they deserve." Admittedly, most investors don't have the skill to recognise genuine buying opportunities when they arise. That's why Moore recommends seeking the expertise of fund managers with high degrees of conviction and a greater contrarian approach to market opportunities.

He urges investors to work with their advisers to find value fund managers who remain true to label and have done well over a longer period of time and in different market environments. "Remember, the more you diversify, the lower the outcome becomes, and the harder it is to identify where the upside came from, so don't just diversify for the sake of it."

He also reminds investors that the best results come when they're highly focused, with opportunities becoming greater in magnitude the longer they're invested. While wanting to preserve capital is a given, the longer you plan to invest the more willing you should be to endure short-term volatility.

Ripe pickings for contrarians

While volatile markets like these are stressful, Shane Oliver, head of investment strategy and chief economist at AMP Capital, reminds investors that despite a fragile outlook for global growth, and with long-term return trends likely to be lower, they still remain considerably higher than more stable assets. For example, while Australian shares could fall further in the short term, following the 8% rally since Christmas, a grossed-up dividend yield of around 6%, still makes them infinitely more attractive than deposit rates at around 2%, and possibly falling.

If investors want to bring a fresh look at markets in 2019, Oliver also suggests taking a more contrarian approach to buying stocks direct. For example, at times like these, when shares often bottom at the point of maximum bearishness, when everyone is negative and cautious, he says it's often time to buy. "Remember, shares may have fallen in value but the dividends from the market haven't, and the income flow you are receiving from a diversified portfolio of shares remains attractive."

Despite myriad uncertainties that could unhinge markets over the near term, including Brexit, trade wars, another possible US government shutdown and the Australian election, Oliver's outlook for shares over 2019 remains upbeat, due somewhat to signs of more supportive policy shifts globally. "Volatility is likely to remain high in 2019 but, ultimately, reasonable global growth and still easy global monetary policy should drive better overall returns than in 2018 as investors realise that recession is not imminent."

Oliver expects Australian shares to deliver constrained returns of around 8%, with moderate earnings growth. While low yields are also likely to see low returns from bonds, he says they continue to provide an excellent portfolio diversifier.

Narrowing gulf

Based on a similarly positive medium-term outlook for the Australian economy, Stephen Bruce, director of portfolio management at Perennial Value, also sees a greater role for value this year, with Woodside Petroleum (ASX: WPL), Tabcorp (TAH), Amcor (AMC), Ausdrill (ASL), Nufarm (NUF), Aristocrat Leisure (ALL), Graincorp (GNC), Downer EDI (DOW), Macquarie Group (MQG) and Suncorp (SUN) currently on attractive multiples and enticing yields.

In an environment where market conditions are finally becoming more normalised (based more on fundamentals such as capacity, reinvestment and more normal interest rates), Bruce expects the gulf between value and growth to continue narrowing. For example, the 13 times forecast earnings per share (EPS) for growth stocks is only marginally higher than the 12 times EPS growth forecast for value stocks.

Having had a fabulous time with growth and momentum, Bruce suggests investors consider some profit taking. "The gap between value and growth can close fast, so now's the time to be rotating into these sorts of (value) opportunities," he says. "Within a more normalised underlying environment, growth will be available within a broader part of the market, and another sector to benefit will be resources due to supply/demand dynamics and reinvestment now at a tipping point." *M*

IDENTIFY THE VALUE PLAYS

When *Money* magazine used the following criteria, we came up with three stocks – two large-cap airlines and a small-cap supplier of health/beauty products (see table below) – that, everything being equal, display characteristics of value plays:

- Funding surplus
- Forecast increase in value >10%
- Forecast PE < ASX average (14)
- Forecast return on equity >10%
- Trading at discount to its intrinsic value (IV) >5%
- Price-earnings < 15 times
- Net debt/equity <75%
- Forecast dividend yield >3%

How the numbers stack up

STOCK	FORECAST INCREASE IN VALUE	FORECAST PE	FORECAST ROE	DISCOUNT TO IV	PE	NET DEBT/ EQUITY	ROE	FORECAST DIV YIELD
Mcphersons Ltd (MCP)	18.85%	10.15	14.60%	6.29%	13.75	9.20%	14.6%	5.28%
Air NZ (AIZ)	26.25%	11.02	15.10%	29.95%	9.37	55%	18.4%	8.14%
Qantas (QAN)	10.49%	9.71	22.30%	23.71%	9.63	65.20%	29.6%	2.76%

Source: shareanalysis.com 22-Jan-19.

California

STORY GREG HOFFMAN

If all goes well, this could be the best investment you make in 2019

'I'm going to ask my mom if I can have this," the tween-age girl standing beside me said to her friend. Something on the rack of lurid unicorn-themed accessories had evidently caught her eye. How did it come to this? A 40-something man standing in a kids' accessories store in a shopping mall in Silicon Valley?

It started with trying to figure out whether there might be money to be made in the shares of Aussie fashion jewellery retail phenomenon Lovisa (ASX: LOV).

Lovisa was founded in 2010 by Shane Fallscheer, backed by his billionaire former boss Brett Blundy (founder of retail chains including Sanity Music and Bras N Things). The company opened almost one store per week in its first year and crossed the Tasman to open its first New Zealand store.

In 2011, Lovisa launched in South Africa and in 2012 it headed to Asia. By the time it floated on the ASX in late 2014, it had 220 stores. At June 30, 2018 there were 326 stores and more than 360 are expected by June 30 this year. The table shows how the store network developed between the float and the end of the 2018 financial year.

Rolling out successful stores internationally is a feat few Aussie retailers have managed. That's why, for the most part, Australian investors are sceptical of home-grown retailers trying to export their concepts to the world. Their biases were recently reconfirmed by Wesfarmers' loss of more than $1 billion in trying to crack the UK market with Bunnings.

As an investor, it's important to understand the risks. And I've been buying Lovisa shares between $5.70 and $7.20 apiece, which is roughly half of their $12.53 record hit in June last year. So what's caused the fall?

Mostly it's the fear that the company's Australian operations may see lower profits in 2019 than they did in 2018. And that didn't go down well with investors who had previously priced Lovisa more like a hot technology stock than a retailer.

Christmas trading for Australian retailers was, reportedly, mixed. By the time you read this, you'll have a clearer picture because several retailers (including Lovisa) will have delivered their half-year reports. But as I write (in early February), I'm still working off the numbers released at Lovisa's annual meeting in October.

Lovisa's sales for the first four months of the financial year were 0.9% below the previous year's. But that modest fall was likely made up of a worse number in Australia offset by stronger growth from international stores. And the challenges don't end there.

The company sources much of its product from China. And because the Chinese currency is closely linked to the US dollar, the lower Australian dollar (against the US dollar) this financial year will mean Lovisa's inventory costs will rise and profit margins likely fall. A lower top line and lower margins could result in a meaningful fall in profit for the mature Australian part of the business.

In the UK, where Lovisa has been expanding quickly, retailers reported weak Christmas trading overall and confusion continues to reign over the implications of "Brexit".

No rabbits in the hat

It's undoubtedly a difficult time for this Aussie upstart. And I'm not counting on Lovisa to have pulled a rabbit out of the hat in the six months to December (though you will know by now whether it has managed to do so). In fact, I would view a result that disappointed investors as a potential buying opportunity. Here's why.

While roughly half of Lovisa's current stores are located in Australia, the company's future is abroad. The Lovisa concept has shown an impressive ability to travel.

Run your eye down the table again. The potential is clear. And while Brexit may pose a few challenges, nothing will stop the Brits from shopping in the long term (I should know, I'm married to one). And a UK downturn may allow Lovisa to secure prime store locations at attractive rents over the next year or two. So it's possible that good management will turn that challenge into an opportunity.

There are also opportunities elsewhere in Europe but the real prize lies across the Atlantic in the good ol' US of A. Which brings us back to those girls in California and why I was standing among the sparkly tiaras and cat-ear headbands of a Claire's Accessories store.

I was on a study tour, spending the better part of six days in American shopping malls educating myself about the nature of the competition that Lovisa is facing in the world's largest retail market. What I found was encouraging.

Obvious competitor Claire's is aimed at a younger audience (say, eight- to 17-year-olds). These customers often need parental permission (and funding) before purchases. And while Claire's had tried a slightly more mature brand called Icing, it didn't seem to have the formula right.

Meanwhile, Lovisa's more stylish format and branding (which appeals to 15- to 50-year-olds), appears to be hitting the same sweet spot in California that it has in Australia, New Zealand, Asia, South Africa, the Middle East and the UK.

By and large, the eight Lovisa stores I visited were doing well and had enjoyed a busy Christmas. I was encouraged enough to put the chance of success in California at more than 65%. I estimate the potential for at least 150 Lovisa stores in California over the next six or seven years (the state's economy is more than twice the size of Australia's). And there's every chance that these stores are even more profitable than Lovisa's Australian network because wages and shopping centre rents tend to be lower in America.

And if we dare to dream that the Lovisa concept might work in several other large American markets, then it's quite possible that in five years Lovisa might have more than

dreamin'

Lovisa store numbers

	2014 (float)	June 2018
Australia	157	151
New Zealand	14	20
Malaysia	14	21
Singapore	13	22
South Africa	12	56
Middle East	10	18
UK	0	24
Vietnam	0	6
Spain	0	5
France	0	2
US	0	1
Total	**220**	**326**

doubled its total store numbers and perhaps almost tripled its profit.

In financial terms, that could mean earnings per share approaching 90 cents in 2023. And given the stores' fabulous profitability, most of that would come to shareholders as dividends.

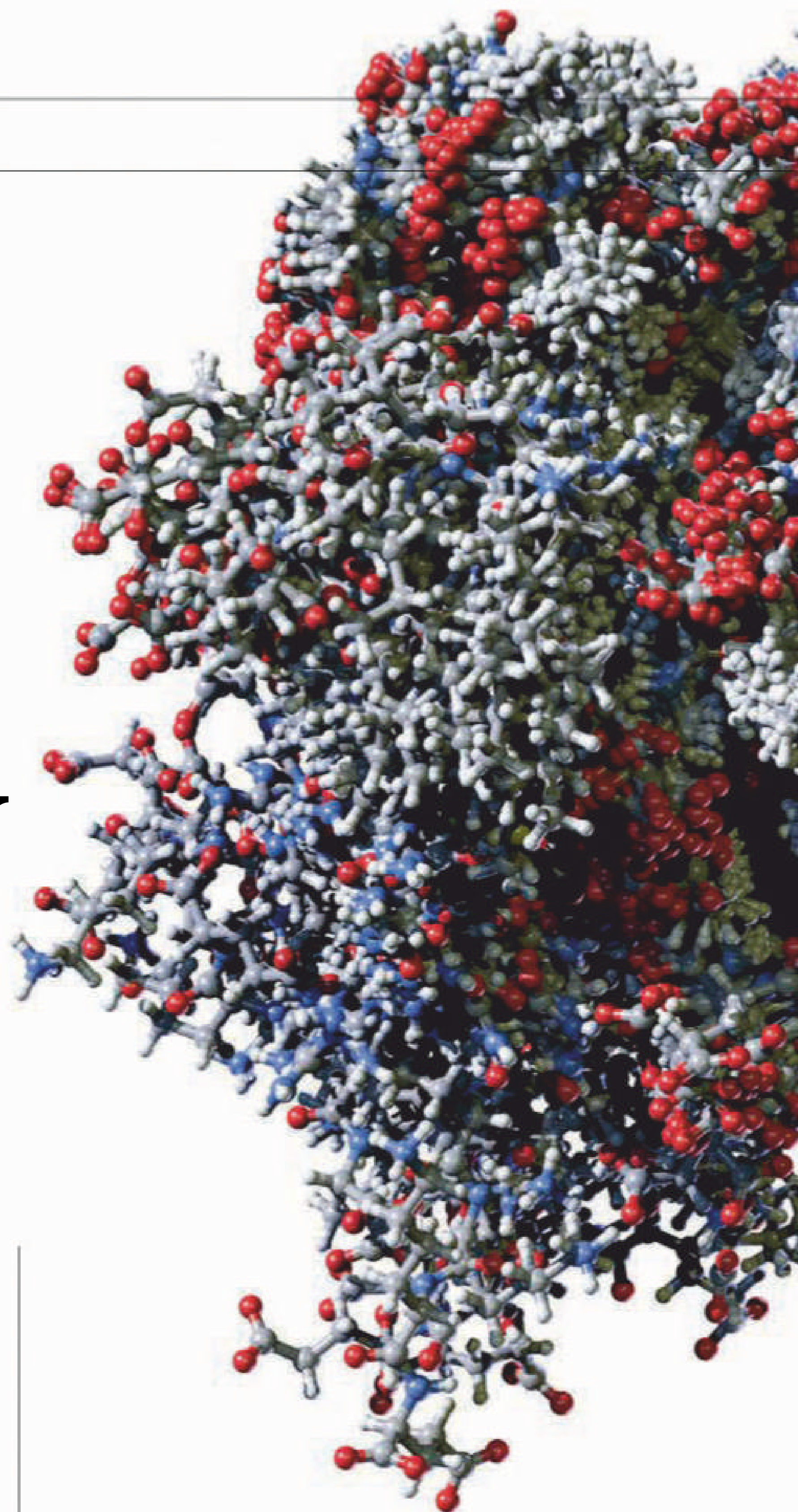
If anything like those numbers were achieved, the stock could be trading above $20. That would provide a handsome annual return of around 30%, including dividends, for those who accepted the risks of a tough short-term outlook today.

Yet if the naysayers are proven right and Lovisa is just a fad, or competitors manage to drain away its profits, then look out below. The company has few assets to speak of, so there's no protection in a disaster scenario.

This is not a stock to bet the farm on but a small investment in this Aussie success story taking on the world might just prove the best purchase you make in 2019. ***M***

Disclosure: Greg Hoffman and private portfolios managed by him own Lovisa shares.

Greg Hoffman is an independent financial educator, commentator and investor. He is also non-executive chairman of Forager Funds Management (not involved in Forager's investment process).



STORY GRAHAM WITCOMB

Healthy contest

When two of Australia's best companies come up against each other, who wins?

Good businesses tend to have a few things in common: pricing power, high returns on capital, low debt and strong growth prospects. CSL and Ramsay Health Care both ranked in our list of Australia's 10 best businesses. Both possess these characteristics in spades, despite having little overlap in their business models and industry. But which is the superior investment?

"The single most important decision in evaluating a business is pricing power," Warren Buffett has said. "If you've got the power to raise prices without losing business to a competitor, you've got a very good business. And if you have to have a prayer session before raising the price by 10%, then you've got a terrible business." CSL has incredible pricing power in some areas of its business and practically none in others.

Most of CSL's antibody products treat rare disorders of the immune system and its specialty products division mainly works on therapies that have "orphan drug status". In many cases, these drugs have no viable substitutes. That, sadly, is the ultimate pricing power – a disease that means life or death for the affected person yet has only one option for treatment. CSL charges thousands of dollars per dose for these medicines.

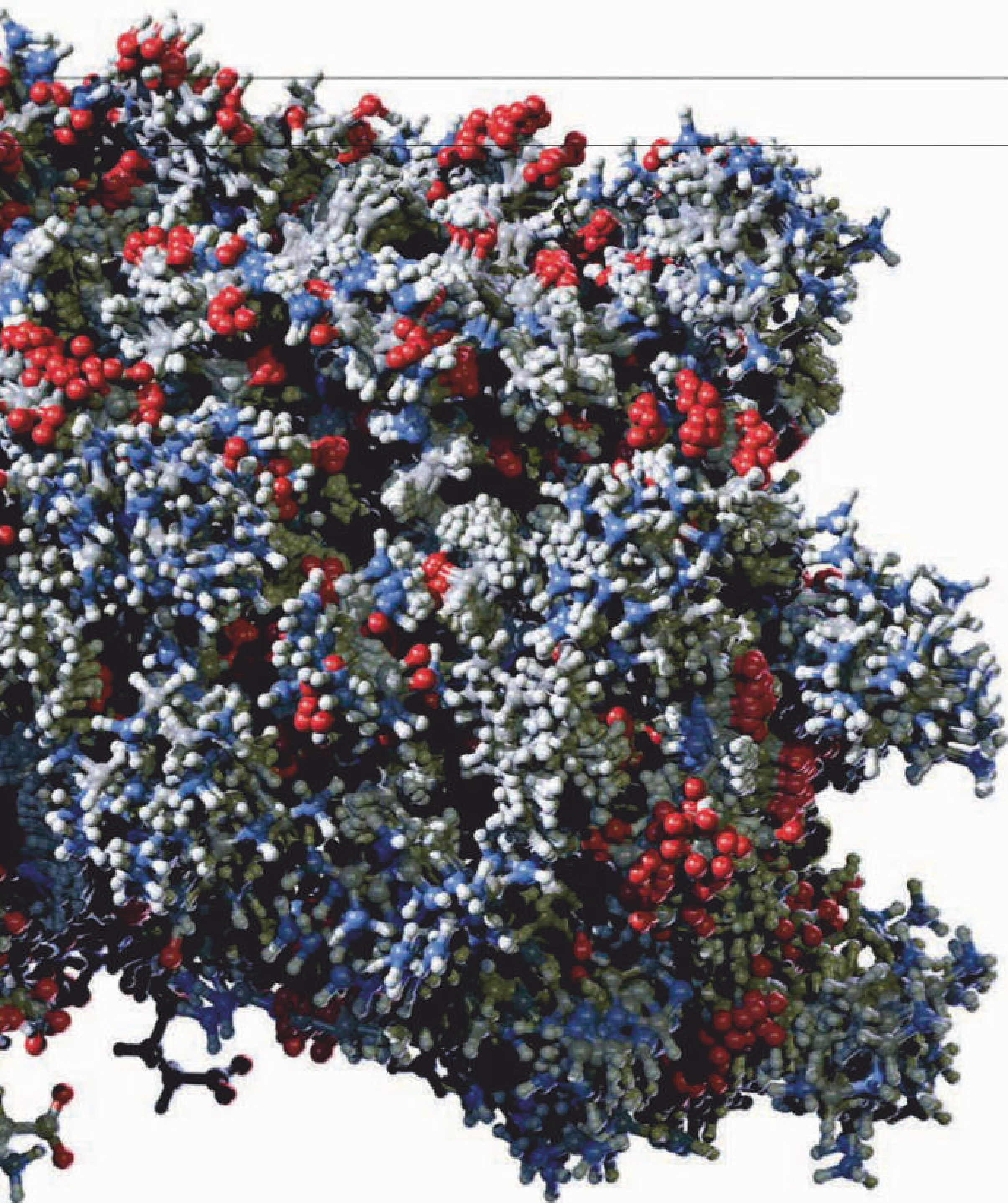
On the other hand, the company's albumin and vaccine products have little pricing power. These are known as "commodity products" because there's nothing to distinguish the output of one manufacturer from another. Hospitals shop for the lowest price and, as such, CSL earns thin margins at these divisions. Thankfully, albumin and vaccine sales only make up a quarter of CSL's revenue, so the company has high pricing power overall and an excellent profit margin of 22%.

TWO OLIGOPOLIES

Despite Ramsay's other attributes, which we'll get to shortly, the company has only moderate pricing power and earns a profit margin of just 4%.

Although many of Ramsay's hospitals are regional monopolies, there are two things working against it. First, most of its revenue comes from a few big private health insurers. They can't walk away from negotiations and leave policyholders without a hospital option – Ramsay owns one in four private beds, after all – but nor can Ramsay. It's one oligopoly versus another and neither side has a stronger arm.

Second, Ramsay competes against the public health system. Many patients value a nicer room or choice of doctor but there is only so much Ramsay can charge before they choose the free option. Things are even worse for Ramsay's French



operations – a third of total revenue – where a large slice of the private market is run by charities. Raising prices is tougher when your competitors aren't trying to turn a profit.

RETURN ON CAPITAL

In his 1992 letter to shareholders, Buffett wrote that "leaving the question of price aside, the best business to own is one that over an extended period can employ large amounts of incremental capital at very high rates of return".

Both Ramsay and CSL earn excellent returns on invested capital (ROIC) of 15% and 31% respectively. Although CSL earns a higher return, it also has more volatile earnings. Hospitals have stable, predictable revenue, so when building a new hospital and putting that capital to work, management has a better idea of what it's getting into.

CSL, while still stable relative to most businesses, takes on extra risk when deciding whether to expand a manufacturing hub because forecasting demand is harder. To some extent, its higher returns on capital compensate for the added risks when putting that capital to work.

Earning high returns on capital is one thing but many businesses in decline can still pull off that feat – newspapers, for example. The best businesses can reinvest at high rates of return as they grow.

> Raising prices is tough when your competitors aren't trying to turn a profit

GROWTH AND DEBT

Earnings per share growth is what matters most to shareholders and both CSL and Ramsay are evenly matched, with a growth rate over the past five years of 9% and 8% respectively.

As for which company has superior prospects, it's hard to make a case that one is better positioned than the other. Ramsay has decent growth opportunities due to the ageing population and its expansion in Europe. CSL has a few blockbuster drugs in clinical trials which, if successful, could add billions in revenue. We'd say Ramsay has more certain growth prospects, while CSL has greater upside but also a higher probability of flatlining.

Finally, the four-letter word that can destroy even the best of businesses: debt. Ramsay has a more leveraged balance sheet than CSL, both in terms of debt to equity and the ratio of operating profits to interest expense. We aren't concerned by either balance sheet – Ramsay, after all, is the more stable business so can afford to take on a little more debt – but we prefer CSL's conservative management.

So where does that leave us? Both Ramsay and CSL score highly in terms of business quality. While Ramsay has stable revenues and predictable growth, CSL offers more pricing power, a cleaner balance sheet and superior returns on capital.

But there's one thing we left out. What distinguishes great businesses from great investments is how much you pay. Although CSL is a slightly better business, Ramsay is trading at a larger discount to its intrinsic value, with an underlying price earnings ratio of 20 and a free cash flow yield of 4.7%. For this reason, we're keeping CSL a "hold" while Ramsay remains a "buy". ***M***

Disclosure: The author owns shares in Ramsay Health Care.

Graham Witcomb is senior analyst at Intelligent Investor, part of the InvestSMART Group. To unlock more stock research and buy recommendations, register for a free trial at investsmart.com.au/money. This article contains general investment advice only under AFSL 226435.

HOW THEY SHAPE UP

Key data	CSL	Ramsay
EBITDA margin	33.3%	13.2%
Profit margin	21.6%	4.2%
ROIC	31.0%	14.7%
Debt/equity ratio	1.07	1.62
EBIT/interest exp. ratio	22.0	7.1
EPS growth (5 years)	9.5%	8.4%
PE ratio	33	20
Free cash flow yield	1.4%	4.7%
Dividend yield	1.3%	2.5%

Year to June 30, 2018

Better days for shares

House price falls are a drag but other parts of the economy will power on

Trees don't grow to the sky endlessly and house prices don't go up forever but some people seemed to think they would. And now that it's clear they won't, the fallout will drag on the economy.

Ever since the mining investment boom ended, an upswing in the housing cycle has helped keep the Australian economy moving forward. The housing cycle has now turned down though, as record supply hits the market, lending conditions have tightened, foreign demand has retreated and there is uncertainty about negative gearing and capital gains taxes.

This is naturally causing angst about the outlook for the Australian economy and sharemarket, particularly against the backdrop of various global threats. And after 2018's dismal sharemarket performances, it's natural that investors feel a bit wary.

First the bad news. The housing downturn will be a big drag on the economy via slowing construction and the negative wealth effects on consumer spending, and if rising mortgage defaults drive a further slowing in bank lending. The first two will detract 1% to 1.5% from economic growth. At the same time, global growth has been slowing and this risks weaker growth and prices for our exports.

But it's not all doom and gloom for several reasons:

- The huge growth drag on the Australian economy from falling mining investment has faded.
- Non-mining investment and infrastructure spending are rising.
- Increased tax cuts are likely from July for low to middle income earners regardless of who wins the likely May election.
- Interest rates can still fall further, and the Reserve Bank is expected to cut the cash rate to 1% this year.
- The $A will likely fall further as the RBA cuts, providing a support to growth.
- And policymakers globally have moved to support growth, with policy easing in China, the Fed pausing in the US and the European Central Bank likely to announce more stimulus.

Against this background, the Australian economy is likely to avoid a slide into a severe slowdown or recession. That said, growth will likely be constrained to around 2.5%. Which in turn will mean that inflation and wages growth will remain low. Which is why we see the RBA cutting rates again.

The main risks to watch out for are: whether the US and China resolve their trade dispute, which we expect, as neither wants to see a further slowing in their economies; whether the US is able to avoid another political battle over raising its debt ceiling this year; whether policy stimulus measures in China and elsewhere are able to get the upper hand, causing growth and profits to improve; what the Mueller inquiry into President Trump's campaign finds; how far Sydney and Melbourne property prices fall; and the Australian election.

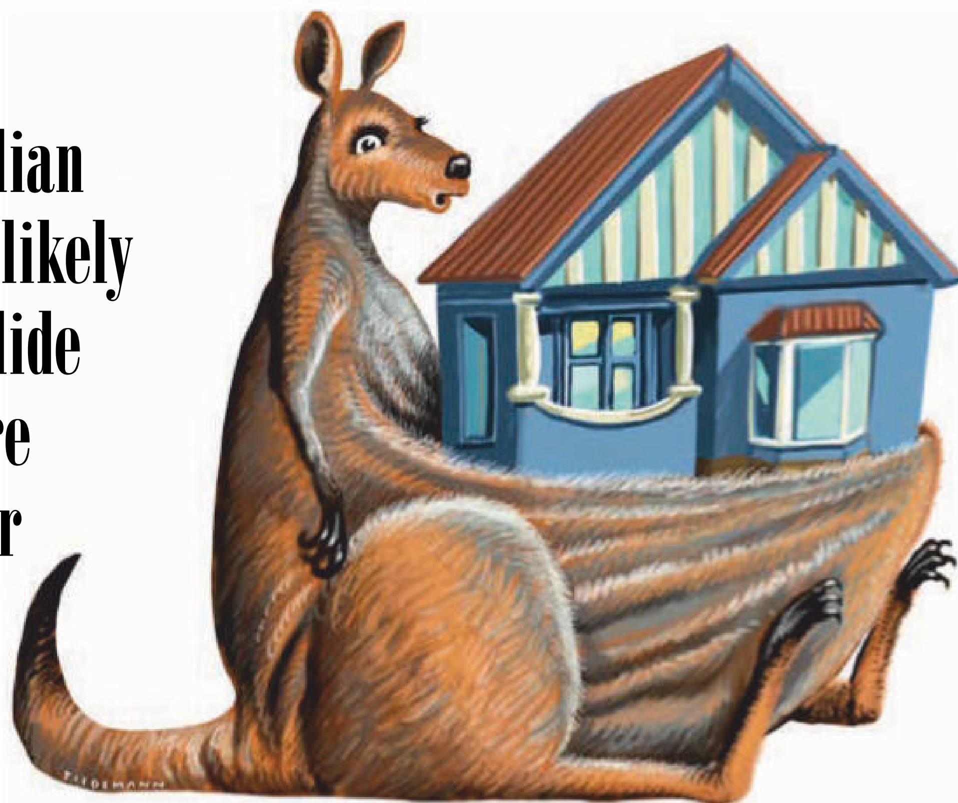
Globally, we think things will turn out OK – much as occurred in 2016 when shares bottomed after sharp falls only to head higher again. In terms of Australian house prices, we see around 15% more downside in Sydney and Melbourne but in the absence of much higher interest rates or unemployment, both of which are unlikely, we don't see a crash in property prices.

For the month ahead the key to watch globally will be progress in resolving the US-China trade dispute. Locally, expect March quarter GDP growth to show subdued growth, house price data is likely to remain weak and retail sales growth is likely to be subdued as falls in house prices impact consumer spending.

Overall, 2019 is likely to remain volatile as we are later in the global economic cycle. But it should be a better year for the sharemarket. While growth will be constrained by the housing downturn, other parts of the economy should keep growth going, which will help earnings, and monetary policy is still easy.

Shane Oliver is head of investment strategy and chief economist at AMP Capital.

> The Australian economy is likely to avoid a slide into a severe slowdown or recession



SECTOR CAR SALES

Buckle up for a bumpy ride

The credit squeeze and poor wage growth have caught up with showrooms

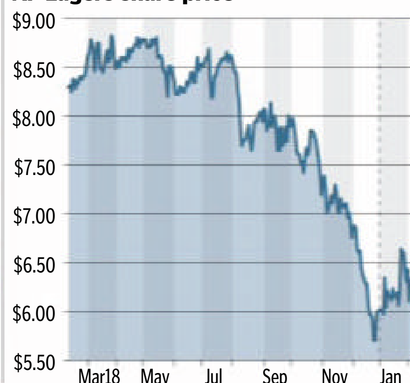
Around the world, car sales are declining. From the US to China, car lots are suffering from increasing unsold inventory. In China, for example, automobile sales fell 13.9% in November from a year earlier, the steepest such drop in more than six years and, for 2018, car sales recorded their first annual fall in two decades, declining 6%.

But it is in Australia that declines have been the steepest. Sales in 2018 fell 3%, masking an acceleration towards the end of the year when December sales were down 15% compared with December 2017. Some individual brands suffered enormously with Holden sales in 2018 down 32.7%, Ford down 11.6% and Mercedes down 13%. And the weakness has continued in 2019, with national sales down 7.4% in January.

A bank credit squeeze, the drought, business anxiety surrounding the forthcoming federal election and a lack of wage growth all impacted sales.

But dealers don't only make money from sales and servicing of vehicles. Car financing and insurance play an important role in profitability and the Hayne royal commission's recommendation to abolish car retailers' exemption from the operation of the *National Consumer Credit Protection Act* may prove helpful from a market share perspective for the larger and more reputable networks.

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



❶ Automotive Holdings Group

ASX code AHG
Price $1.69
52wk ▲ $3.87
52wk ▼ $1.39
Mkt cap $577m
Dividend 16.3¢
Dividend yield 9.37%
PE ratio 17.8

HOLD

Weakening new car sales trends appear entrenched and the Sydney hailstorms and quarantine fumigation of imported vehicles for stink bugs has delayed delivery of tens of thousands of vehicles nationwide. The company remains significantly exposed to deteriorating retail, consumer and housing trends and last year its AGM trading update was weaker than expected, with 2018-19 guidance missing already reduced consensus expectations. The bleakness, however, is well known and therefore probably factored into the share price.

❷ AP Eagers

ASX code APE
Price $6.43
52wk ▲ $8.99
52wk ▼ $5.66
Mkt cap $1.2bn
Dividend 36.5¢
Dividend yield 5.78%
PE ratio 12

HOLD

AP Eagers is bucking the industry trend, increasing its profit guidance before tax in January by 4.5% to $133.7 million from $126 million-$130 million following a record December. Adjusting to regulatory changes and continued consumer weakness remain a concern but the company is perhaps best positioned to take advantage of any rout in the sector through consolidation.

❸ Autosports Group

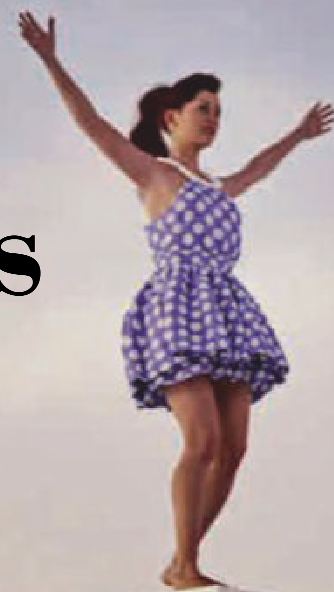
ASX code ASG
Price 94.5¢
52wk ▲ $2.15
52wk ▼ 94¢
Mkt cap $191m
Dividend 9¢
Dividend yield 9.5%
PE ratio 7.3

HOLD

According to FactSet, 2019 forecast consensus earnings per share of 13 cents is 19% weaker than 2018. But with the share price having fallen 60% from $2.41 to 95 cents, a PE ratio of just 7.3 times suggests value is emerging, provided Australia avoids materially slower economic growth. The company's clean balance sheet should also position it well to consolidate the industry and grow by acquisition. However, there appears to be no sign of an end to the deteriorating macroeconomic conditions and there are few positive catalysts in the near term.

Prices and charts as at close of business, 8-Feb-19.

Many happy returns for a birthday and first investment



A teenager's initial foray into the sharemarket can be fun as well as rewarding

My daughter was 18 on February 1. We pride ourselves on our birthday cards in the Padley family – we like to pass on deep messages of truth and love. And so it was that her birthday card from her dad went something along these lines.

"At last. At last I can start charging you rent and asking you to contribute to the utility bills and the shopping. At last you are responsible for feeding yourself. At last you can pay your mobile phone bill, parking tickets, petrol, car insurance, car service and excess when you have a crash. At last I can trust you, not to just put your dishes in the dishwasher, but to clean the kitchen to an adult standard. But, dear Jemima, let's not misunderstand each other. We don't ever want you to feel pressured to leave home; on the contrary, we want you to stay, in fact we need you to stay. Who else is going to cook, clean, do the laundry, drive us around, puree our meals, walk us and clean our pants as we get older. It's going to be great. We have so longed for someone to look after us rather than to be looked after by us. Welcome to adulthood, you're going to love it."

I had to work on her birthday and so it was, with her birthday as the backdrop, that a particular email, from a Marcus Today member, struck a chord. It went like this:

"Dear Marcus, I have subscribed to your newsletter for some time now and use it most days. I find it very helpful. I wanted to seek your advice regarding my two daughters, who are 18 and 15. Both have a small amount to invest, $9000 and $5000 respectively. We have had a chat and we thought that, at their age, they would like to invest this in shares. Given their age, the pitiful interest they currently earn in the bank, and a risk conversation I have had with them, what would you recommend to be a good couple of shares or group of shares for them to start investing in, not actively trade. They probably would only top up, say, half yearly after they have enough to make any new transaction worth the investment, and they would probably take a reinvestment option should this be available. Thank you in anticipation. Dad."

I get regular emails, mostly from grandparents asking what they should buy their newborn grandchildren as an introduction to the stockmarket, this falls into the same category, and here is my answer:

Dear Dad, general advice only because I do not know your particular financial circumstances.

Assuming your daughters don't want to be risking their precious early dollars on one particular stock, not take too much risk and get an introduction to the investment world, then a less volatile fund like a stock-picking Australian equity-focused listed investment company is the way to go. Listed investment companies, managed funds and exchange traded funds are generally a lot less volatile than one stock, representing as they do many stocks. They will have a smoother ride.

Why an LIC and not a managed fund or an ETF? An LIC is listed on the ASX, so you can easily buy and sell it at a click of a button, and as you'll see below you want your daughters to have the power to make decisions about whether to buy and sell – it's all part of the learning curve. Just "giving" them an investment doesn't engage them or educate them.

Through LICs you can also access some interesting fund managers. Most funds, the big super funds, the big ETFs and the big LICs like AFIC and Argo, are largely index replicants that are now two a penny. If you want a boring bet on the market, fine, but this is an opportunity for them to do something more interesting and engage with some of the market's most active characters, whose wisdom and performance will teach your daughters about the potential and perils of the stockmarket.

Which LIC? You could go big and boring – AFIC, for instance, is the most common gift for a newborn grandchild. But I'd look for an LIC where there is a fund manager whose job, salary and family security relies on performance, and on that front you should start with this list.

Go to the ASX website and click "products", then "ETFs and other ETPs", then look at the quick links menu on the righthand side and click on "ETP product list". This will take you to the "LICs & LITs" tab on that page.

This list has great links to the websites of the LICs where you can check out investment philosophy and performance and see who actually runs it. If the key to equity investment is "management, management, management", then the key to LICs and managed funds, is "management, management, management" as well. Take an interest in the personalities behind the funds. Take an interest in their performance as well.

I could recommend a few of the best LICs but it might be a great process for you to sit down with your daughters, explain LICs to them, discuss the elements of a good fund manager (long-term consistent outperformance, their experience and a solid process) and ask your daughters to pick one each. Try and avoid the allure of the fancy long-short, one-sector, one-international-market, one-theme funds and instead look for plain "Australian equities". These funds are going to be more educational, more personal and more easily understood.

The dollars they are gifted and lose will teach them valuable lessons in return

It would be good if you can get your daughters to choose different funds, then perhaps they will gain more interest through sibling rivalry, by caring about their performance compared to that of their sister. There is nothing quite like a 15-year-old proving she is smarter than her 18-year-old sister. Beware the stockmarket monster you create.

Finally, tell them that they don't have to hold onto their LIC forever. They can sell an LIC with a click (that's the beauty of being listed) and they can buy it back again. Knowing they have a decision they can make gives them responsibility and teaches them about the process and pressures of managing an investment – much more fun than sticking an investment under the mattress and having faith in misguided marketing messages like "set and forget".

When should they buy and sell? Only occasionally. Most of these Australian equity LICs are "market" investments. They are not fast moving and they are not very volatile. But maybe once or twice a year, or once or twice a decade they can save themselves many years of returns by ducking out and ducking in. Knowing when to do that is the Holy Grail and the sooner they start understanding how hard that is the better. They will make their mistakes, and the dollars they are gifted and lose will teach them valuable lessons in return.

I wish you well – you have lucky daughters. Regards Marcus.

Marcus Padley is a stockbroker with MTIS Pty Ltd and the author of the daily sharemarket newsletter Marcus Today. *For a free trial go to marcustoday.com.au.*

CONSUMER STAPLES

Let's drink to their success

Whether it's milk or wine, the future looks promising for trusted Australian products

Consumer staples … it almost evokes images of getting your flour measured out by the scoop at the corner store of old. The idea, of course, is to separate these companies from more optional purchases at the "discretionary retail" companies that we covered last month. Which it does. Sort of.

Within the official classification of consumer staples, we find the companies you'd expect: Woolworths (ASX: WOW), the newly relisted Coles (COL) and the grocery and liquor wholesaler Metcash (MTS), which you'd know more for its IGA franchise and its Cellarbrations, Duncan's and Thirsty Camel brands (among others).

The ASX also counts winemaker and marketer Treasury Wine Estates (TWE) among this group, seemingly considering good Australian wine more of a staple need than a discretionary purchase. No comment. Ditto Blackmores (BKL) and Coca-Cola Amatil (CCL).

The description of consumer staples is probably best recast as "weekly shopping", including, as it does, the above plus infant formula makers, grain producers and even a salmon farmer.

Which makes for an interesting decision set. After all, it's hard to compare a mature, dominant Australian grocer and a high-priced, international-growth-focused, single-protein-based milk company. There are very few investors who would look at their portfolio and weigh up those two options as direct alternatives. Either you want slow growth with a focus on income, or you're happy to pay up for a ride that, while likely to be volatile, hopefully has a happy ending with multiples of your starting capital – even if there's a real chance of serious loss.

Foolish takeaway

Remember, you don't have to take the Noah's Ark approach of "two of everything" to be a successful investor. And we're using a long-term (five-plus years) time horizon. With those caveats, Treasury joins Premier Investments in our Best in Breed hall of fame.

For our purposes, then, we're going to set as our goal long-term total return, including capital gains and dividends but be agnostic as to which delivers the bulk of our profit. In one fell swoop that rules out the grocers: Metcash because I think it's structurally challenged and overpriced, and Woolies and Coles because they're likely reasonably priced but unlikely to be market beaters from here, save in a big downturn, when they might fall less than the overall market because of perceived "safety".

Bega is interesting, with its strategy of reshaping itself as a modern food conglomerate. Tassal is trying to harness salmon farming and rising incomes, while Elders and GrainCorp each hope that a continuing rural renaissance and international demand for our products will drive sales.

It's to that trend – the growing international demand for "brand Australia" – that I think the biggest opportunities will accrue for ASX-listed consumer staples businesses. Asia in general, and China in particular, are likely to drive growing consumption of known and trusted Australian products, something that I expect to be a multi-decade tailwind. I don't tend to be a top-down investor, preferring to start by looking for great companies rather than trends that may or may not play out. But in this case I think we can arrive at the same place, starting from each end, resulting in promising opportunities in this category.

The finalists, then, are Treasury Wine Estates, Blackmores, Bellamy's and A2 Milk. The latter two probably have the most raw upside. But they are "narrow" businesses relying on a single category and protein, respectively, making them higher risk. Of the former two, the broad diversification, reach and execution of Treasury means it wins by a nose.

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).*

YOUR GUIDE TO SUPER DATA

The data in these tables compares some of the most popular super funds. They are a mix of industry funds, master trusts and government funds. Industry funds are set up by employer associations and unions; many are offered publicly, some have restricted membership (NP). Master trusts (corporate and personal) are set up by banking, insurance or financial planning groups. All performance figures are after all fees, charges and tax applied to the fund have been deducted. The table here shows performance of funds' balanced options. But most super funds offer many other choices of investment mix.

The data is provided by SuperRatings, a totally independent Australian superannuation research company. It is the leading source of superannuation information to the Australian media and is renowned for its timely commentary and opinions on the various superannuation funds available. SuperRatings assesses over 250 superannuation funds and products. SuperRatings takes into account risk-adjusted investment performance, fees, insurance, service delivery, education, financial planning facilities, employer support, fund governance and flexibility of the options. The judging is mainly quantitative but does include qualitative assessment.

Calculators, fund comparisons, fund ratings, news and expert opinion can be found at superratings.com.au.

Best super funds: balanced options

RANKED BY 5-YEAR RETURN

FUND	TYPE	2019 RATING	1-YEAR RETURN	RANK[1]	3-YEAR RTN (%PA)	RANK[1]	5-YEAR RTN (%PA)	RANK[1]	7-YEAR RTN (%PA)	RANK[1]
Hostplus Balanced	Industry	Platinum	2.2%	7	8.4%	1	8.3%	1	10.1%	1
QSuper QSuper Balanced	Government	Platinum	2.6%	1	6.9%	14	8.0%	2	9.1%	16
Cbus Growth (Cbus MySuper)	Industry	Platinum	1.8%	11	7.8%	3	7.9%	3	10.0%	2
AustralianSuper Balanced	Industry	Platinum	1.2%	16	7.6%	5	7.8%	4	9.9%	3
MTAA Super My AutoSuper	Industry	Gold	1.0%	19	6.4%	22	7.6%	5	8.4%	31
Sunsuper for Life Balanced	Industry	Platinum	1.9%	9	7.5%	6	7.5%	6	9.6%	6
Mercy Super MySuper Balanced	Corporate	Gold	2.2%	6	7.9%	2	7.5%	7	9.4%	9
UniSuper Accum (1) Balanced	Industry	Platinum	0.9%	21	6.6%	19	7.5%	8	9.9%	4
CareSuper Balanced	Industry	Platinum	1.4%	14	7.3%	9	7.4%	9	9.6%	5
Intrust Core Super MySuper	Industry	Platinum	0.9%	20	6.7%	17	7.4%	10	9.4%	10
Catholic Super Balanced (MySuper)	Industry	Platinum	0.0%	33	7.1%	11	7.3%	11	9.1%	18
BUSSQ PC Balanced Growth	Industry Personal	Platinum	1.7%	12	6.5%	21	7.2%	12	9.1%	15
Equip MyFuture Balanced Growth	Industry	Platinum	1.9%	10	7.3%	8	7.2%	13	9.5%	7
HESTA Core Pool	Industry	Platinum	2.5%	3	7.2%	10	7.2%	14	9.2%	11
Media Super Balanced	Industry	Gold	2.6%	2	7.5%	7	7.2%	15	9.0%	19
Club Plus Super MySuper	Industry	Platinum	2.2%	5	7.6%	4	7.1%	16	8.7%	21
VicSuper FS Growth (MySuper)	Industry	Platinum	1.0%	18	6.8%	16	7.0%	17	9.5%	8
Vision SS Balanced Growth	Industry	Platinum	1.3%	15	6.9%	15	6.9%	18	8.7%	22
Energy Super Balanced	Industry	Platinum	0.2%	32	6.6%	18	6.9%	19	9.1%	17
First State Super Growth	Industry	Platinum	1.1%	17	7.0%	13	6.7%	20	9.2%	13
SR50 Balanced (60%-76%) Index			0.6%		6.2%		6.4%		8.6%	

[1] Rankings are made on returns to multiple decimal points.

SuperRatings indices: median returns

	1 YEAR	3 YEARS	5 YEARS	7 YEARS
SR25 High Growth (91%-100%) Index	-1.7%	6.8%	6.7%	10.3%
SR50 Growth (77%-90%) Index	-0.3%	6.2%	6.8%	9.5%
SR50 Capital Stable (20%-40%) Index	1.6%	4.0%	4.3%	5.2%
SR50 Australian Shares Index	-3.4%	6.3%	5.7%	9.3%
SR50 International Shares Index	-1.7%	7.0%	8.1%	12.7%
SR25 Property Index	5.6%	7.7%	9.6%	9.9%

Percentages in brackets indicate proportion of growth assets.

DATABANK

WHAT THEY MEAN

Rank Super funds have been ranked by five-year returns. Returns are net of maximum fees. High balances may qualify for lower fees and thus better returns. Rankings for one-, three-, and seven-year returns show the performance of the particular fund compared with peers.

NP means membership of the fund is restricted.

Pr means performance results are preliminary.

Returns are as at December 31, 2018.

SuperRatings rating

Platinum are best value for money funds; **Gold** are good value for money; **Silver,** reasonable value; **Bronze** are below average in performance and features; and **Blue** are bottom of the ladder.

DATABANK

The data in these tables provides information on several asset classes – Australian equities, international equities and multisector funds (sometimes called balanced funds).

Funds have been ranked by size or performance as listed on the top of each table.

The returns published are net (after) the annual management fee but do not take into account any transaction (entry/exit) fees an investor may have to pay. The returns are before tax.

Morningstar, a leading global provider of investment research, supplies our managed funds data.

Funds smaller than $10 million and with a minimum investment of more than $25,000 have been filtered out. Morningstar relies on the fund managers to supply data monthly; if updates have not been provided, a fund may be omitted.

Morningstar has developed a star rating system to help investors identify quality funds. Morningstar calculates and publishes star ratings for more than 7000 funds monthly using the latest fund performance data.

Funds less than three years old are not rated. The ratings are not for predicting future performance. Take a look at "What they mean" for an explanation of the star ratings.

For more news, research and video content on investing, as well as screening and portfolio management tools on managed funds, ETFs, stocks and credit securities visit morningstar.com.au.

Top 5 retail multisector funds by size

Name	APIR Code	ICR %pa	Start Date	Minimum Investment	Size	1-year return	5-year return (%pa)	Star Rating
Advance Balanced Multi-Blend W	ADV0050AU	0.90%	23-Mar-98	$5000	$2245m	1.21%	6.15%	★★★
Summit Select Income Generator	IPA0074AU	0.80%	10-May-10	$1000	$1697m	0.85%	5.29%	★★★
IOOF MultiMix Balanced Growth Trust	IOF0093AU	1.12%	29-Apr-08	$25,000	$1697m	2.71%	7.67%	★★★★
Advance Growth Multi-Blend W	ADV0085AU	1.05%	18-May-04	$5,000	$1686m	0.65%	6.66%	★★★
North Select Income Generator	IPA0075AU	0.80%	10-May-10	$1000	$1683m	0.85%	5.29%	★★★

Top 5 retail Australian share funds by size

Name	APIR Code	ICR %pa	Start Date	Minimum Investment	Size	1-year return	5-year return (%pa)	Star Rating
Fidelity Australian Equities	FID0008AU	0.85%	30-Jun-03	$25,000	$5466m	0.35%	7.48%	★★★★
Schroder WS Australian Equity	SCH0101AU	0.92%	1-Jul-02	$20,000	$1751m	-0.04%	5.39%	★★★★
Perpetual Wholesale Industrial	PER0046AU	1.00%	24-Dec-96	$25,000	$1722m	-5.87%	5.26%	★★★
Ausbil Australian Active Equity	AAP0103AU	0.90%	31-Jul-97	$20,000	$1488m	-2.09%	6.70%	★★★
Pengana Australian Equities Class A	PCL0005AU	1.88%	18-Jun-08	$20,000	$1179m	-7.68%	5.91%	★★★★

Top 5 retail international share funds by size

Name	APIR Code	ICR %pa	Start Date	Minimum Investment	Size	1-year return	5-year return (%pa)	Star Rating
Platinum International Fund	PLA0002AU	1.35%	30-Apr-95	$10,000	$10,161m	-8.14%	8.05%	★★★
Magellan Global	MGE0001AU	1.55%	29-Jun-07	$10,000	$9440m	10.57%	12.45%	★★★★★
Antipodes Global Fund - Class P	IOF0045AU	1.20%	26-Jul-94	$25,000	$3615m	1.54%	13.28%	★★★★
Walter Scott Global Equity	MAQ0410AU	NAv	18-Mar-05	$20,000	$2468m	9.97%	12.28%	★★★★
State Street International Eqs Idx Tr	SST0013AU	0.18%	1-Jul-97	$25,000	$1737m	3.95%	11.09%	★★★

Top 5 retail multisector funds by 5-year performance

Name	APIR Code	ICR %pa	Start Date	Size	1-year return	5-year return (%pa)	Star Rating
Fiducian Ultra Growth	FPS0014AU	NAv	1-Dec-08	$167m	-2.62%	9.79%	★★★★★
Australian Ethical Divers Shrs Whols	AUG0019AU	0.95%	23-Jan-12	$147m	2.18%	9.67%	★★★★
UCA Growth Portfolio	UGL0002AU	NAv	1-Jul-85	$358m	3.61%	8.67%	★★★★
Fiducian Growth Fund	FPS0004AU	NAv	1-Feb-97	$115m	0.23%	8.59%	★★★★★
IOOF MultiMix Growth Trust	IOF0097AU	1.16%	29-Apr-08	$590m	1.45%	8.52%	★★★★

Top 5 retail Australian share funds by 5-year performance

Name	APIR Code	ICR %pa	Start Date	Size	1-year return	5-year return (%pa)	Star Rating
Macquarie Australian Shares	MAQ0443AU	NAv	29-Nov-05	$83m	0.81%	13.68%	★★★★★
Bennelong Concentrated Australian Eq	BFL0002AU	3.92%	30-Jan-09	$742m	-4.78%	13.26%	★★★★★
Tribeca Alpha Plus Class A	ETL0069AU	NAv	18-Sep-06	$144m	-5.16%	10.16%	★★★★
Platypus Australian Equities - Wholesale	AUS0030AU	2.55%	28-Apr-06	$96m	3.89%	9.93%	★★★★
Spheria Opportunities	WHT0025AU	0.99%	22-Jun-10	$18m	-3.12%	9.53%	★★★★

Top 5 retail international share funds by 5-year performance

Name	APIR Code	ICR %pa	Start Date	Size	1-year return	5-year return (%pa)	Star Rating
Lazard Global Equity Franchise	LAZ0025AU	1.25%	1-Oct-13	$92m	6.76%	14.94%	★★★★★
Acadian Wholesale Global Eqty Long Short	FSF0788AU	1.27%	20-Jan-06	$34m	3.32%	14.32%	★★★★★
Magellan High Conviction	MGE0005AU	NAv	1-Jul-13	$492m	5.48%	13.79%	★★★★★
Antipodes Global Fund - Class P	IOF0045AU	1.20%	26-Jul-94	$3615m	1.54%	13.28%	★★★★
Fidelity Global Demographics	FID0023AU	1.15%	30-Nov-12	$54m	4.42%	13.10%	★★★★

Top 5 funds by 1-year performance

Name	APIR Code	ICR %pa	Start Date	Size	1-year return	5-year return (%pa)	Star Rating
Lincoln Retail Australian Growth	ETL0089AU	1.75%	1-Jun-07	$15m	10.68%	10.14%	★★
Fidelity Future Leaders	FID0026AU	1.20%	22-Jul-13	$198m	4.19%	13.91%	★★★★★
CFS Wholesale Aus Small Companies	CMI0111AU	1.11%	31-Dec-93	$337m	3.44%	11.96%	★★★★
Ausbil MicroCap	AAP0007AU	1.20%	1-Feb-10	$177m	3.35%	16.83%	★★★★
Macquarie Master Small Companies	MAQ0085AU	NAv	4-Jun-98	$19m	2.20%	17.72%	★★★★★

Bottom 5 funds by 1-year performance

Name	APIR Code	ICR %pa	Start Date	Size	1-year return	5-year return (%pa)	Star Rating
UBS Australian Small Companies SIV Fund	UBS0063AU	0.85%	28-Aug-15	$73m	-19.83%	NAv	★
SGH Emerging Companies	ETL0118AU	1.01%	9-Oct-01	$63m	-15.40%	16.35%	★★★★
Perpetual Pure Microcap Fund	PER0704AU	1.45%	2-Sep-13	$140m	-13.85%	16.82%	★★★★★
Spheria Australian Microcap	WHT0066AU	2.37%	16-May-16	$86m	-13.72%	NAv	NAv
CFS FC W Inv-Celeste W Aus Small Co	FSF0715AU	1.01%	16-May-05	$25m	-12.97%	3.45%	★★

Value of $10,000 by asset class

Growth of $10,000 January 2014 - January 2019

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WHAT THEY MEAN

APIR is the identification number of the fund.

ICR: Investment cost ratio, which includes the annual management fee paid to the fund manager as well as indirect costs such as the performance fee.

Returns are as at January 31, 2019.

Morningstar Rating

★★★★★ very good performer
★★★★ good performer
★★★ average performer
★★ poor performer
★ very poor performer
NAp Not applicable
NAv Not available

The bar chart shows the five-year growth of $10,000 invested in different asset classes at the end of January 2014 until the end of January 2019.

"If we think it's tough now, imagine how hard it will be for our kids"

Beau Ryan

Beau Ryan is a former professional rugby league footballer who played for the Cronulla-Sutherland Sharks and Wests Tigers. He is a regular on radio and will be a roving reporter on Network 10's new live entertainment show, *Chris & Julia's Sunday Night Takeaway.*

What was your first job?

Working at StarTrack express courier down in Wollongong. Short shorts, socks up and away I went.

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

Buy property, property and more property. It's practical advice that I'm happy I got given.

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

The best investment I made was to retire from rugby league. I had to retire prematurely due to a neck injury. It was an investment in my body and health. It saved me from a potentially disastrous situation and at the end of the day I need to be healthy to earn a living and to look after my family.

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

My worst investment decision was to not invest in the fitness group F45 when it was a start-up. I had an opportunity but didn't take it. I don't think about it much … not at all (I'm being sarcastic, of course.)

What is your favourite thing to splurge on?

My kids. The look on their faces is priceless. When they are happy, we're all happy.

If you had $10,000 where would you invest it?

Probably on something at my house. Something to make it more enjoyable for the kids to be at home. Like a big slide into the swimming pool. That would be good and I know they'd love it. (Even though I probably should buy shares or something.)

What would you do if you had only $50 left in your bank account?

For my last $50 I'd go and get prawns and eat them with my wife at the beach. With any leftover money, I would buy as many coffees as I could. Like four double shots. I really like coffee, as you can tell.

Do you intend to leave an inheritance?

One hundred per cent. Money or property. If we think it's tough now, imagine how hard it will be for our kids to get into the housing market. Scary. It's important to me that I leave them something that can help them in the long run.

What is the biggest money problem sports stars face?

Tax. It doesn't go away. Ever.

Finish this sentence: money makes …

… the taxman come knockin'.

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