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TRAPS TO AVOID WHEN BUYING A BRAND NEW HOME
P56

PAY OFF YOUR MORTGAGE OR INVEST?

OUR EXPERTS CRUNCH THE NUMBERS

PLUS
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STUDENT SUPER: HOW EARLY BIRDS CAN BOOST THEIR NEST EGG
HIT A HOME RUN: GET YOUR MORTGAGE APPROVED WITHOUT A REGULAR INCOME

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Our mission remains the same

It's a humbling moment for me to write this note, my first as the new editor-in-chief of this publication. The *Money* team, superbly led by Pam Walkley as editor, Effie Zahos as her deputy and the iconic Paul Clitheroe as chief commentator, did something extraordinary when they started in 1999. They delivered the first practical and easy-to-understand magazine about money to everyday households.

Money, in its 20th year, is moving to its new home with the Rainmaker Group, a financial services information company. While Rainmaker is little known outside the financial services industry, it has covered money-related issues for more than 28 years. It publishes *Financial Standard*, an industry newspaper where I cut my teeth as a finance journalist, covering superannuation, financial advice and wealth management.

While *Money* is changing address, it is not changing its mission. It will stay close to its roots and strive to continue doing what it does best. Rainmaker has been a regular contributor to, and supporter of, *Money* over the years.

Paul believes that consumer advocacy is first and foremost to *Money*'s mission, and we agree. He isn't going anywhere; his columns and Q&A series will continue.

In the great symmetry of life, I celebrate my 20 years in finance media this year. As I reflect on this, I look back to my first job at the national business magazine *BRW*. At the time, as lead researcher on the Rich 200 issue, the magazine's list of the 200 wealthiest individuals and

Contact us

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For all inquiries and letters, please include name, address and phone details. Letters may be edited for clarity or space. Because of the high number of letters received, no personal replies are possible.

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Feedback

Letter of the month

Outsourcing household jobs is the way to go

Thank you for producing such a high-quality magazine on the important issue of money. I only wish I had been introduced to it when I was 18. I'm sure I would be much wealthier now if I had the benefit of the articles and advice that *Money* provides each month.

I would like to comment on the article "Give chores the finger" (March 2019). As someone who is self-employed, I benefit by outsourcing the mowing of my lawn. Over the years my wife and I have paid for the cleaning of our house and for ironing from time to time.

If you are a professional you can gain a financial benefit by putting that time into your business and paying someone to keep the household running smoothly.

I am concerned, though, about the advice that "paying in cash can sometimes lower the costs too". In my practice I much prefer to be paid electronically. It saves me the time of going to the bank to deposit the funds and, secondly, the payment shows up in my bank statement with the name of the client who paid, making my tax reconciliation much easier.

Peter

Funds are balanced in name only

Thank you so much for the excellent and timely article about super funds, "Read the label first" (April 2019).

Indeed, the various forms of the "balanced" option across the industry can often skew the results in your very own Best of the Best edition, with last year's winner's impressive one-year return heavily exposed to Australian and international shares, and notionally "balanced" in name only.

The issue is never more acute, though, than when evaluating ethical investment options. Almost all Australian super funds branded as ethical, or those funds that offer a sustainable or ethical option within their fund, invest in the big four banks.

It describes a sector of the finance industry that is hopelessly naive in its understanding of the concept of environmental, social and governance investing, to say the least.

Patrick

Good advice for a stress-free retirement

A money-making tip: pay your health insurance premium annually and in advance. There are funds that will give you a discount of up to 4% for paying annually.

PS: In the March edition of *Money* magafamilies in Australia, little did I know that I was building the foundations for my present role. I hope to pass on the knowledge I've accumulated over the years, drawn from working alongside and interviewing many of the country's leading businesses, investors and wealth creators.

The future of *Money* is you. The *Money* team – with new managing editor Darren Snyder – will keep a keen eye on your feedback, letters and requests. The pages of this magazine will remain as committed as ever to all things related to your financial wellbeing and success.

Michelle Baltazar,
Editor in Chief,
Money magazine

Michelle

> ***Rich people stay rich by living like they're broke. Broke people stay broke by living like they're rich.***
>
> **ANON**

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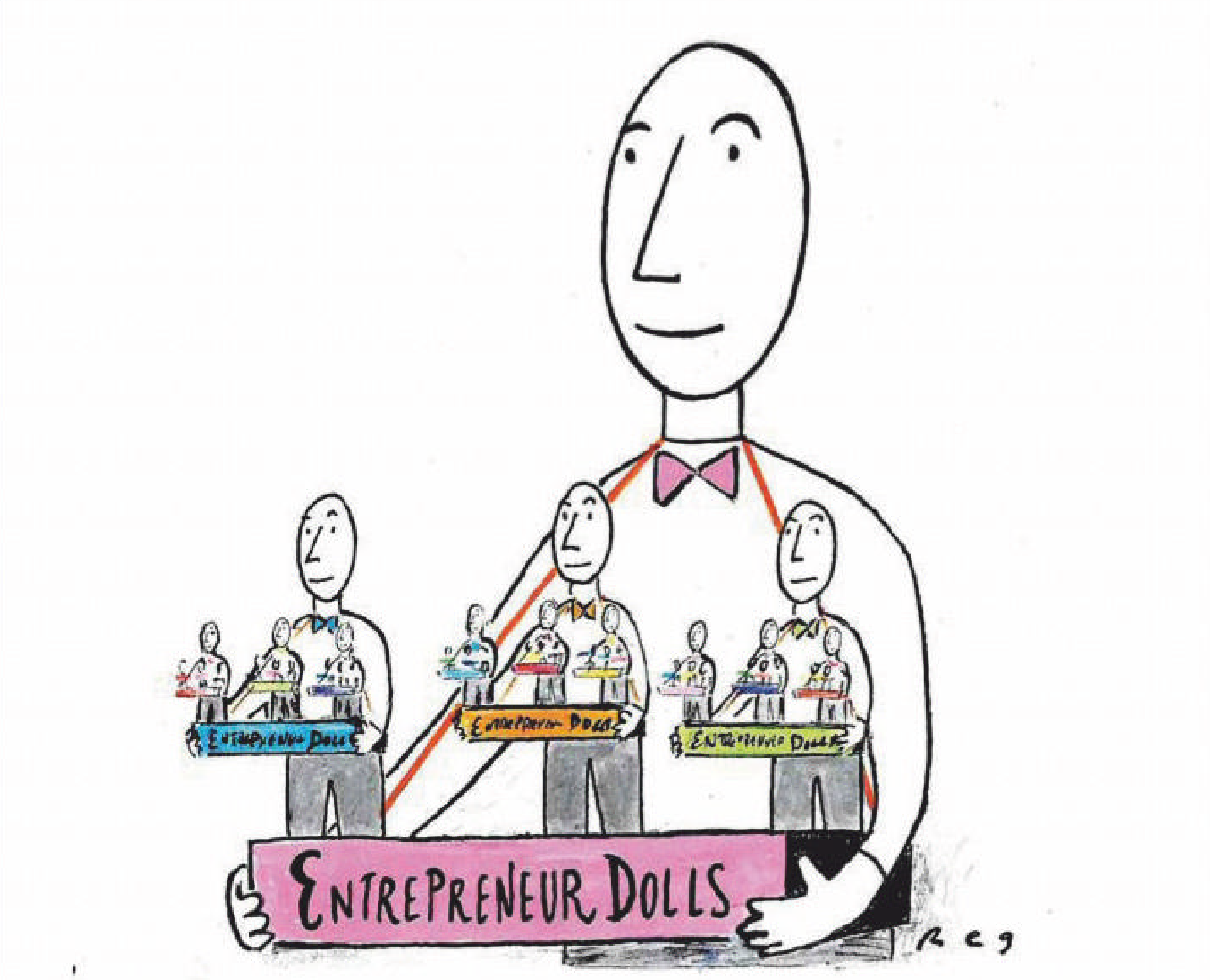
zine I read with interest the case study "All the right moves" in Ask the Experts, regarding checking that your super fund still meets your needs.

I thought the response by Steve Greatrex was great, to the point, intelligent and good advice. He showed just what a good adviser he must be. On the other hand, I found that Kirby Rappell's advice was not as helpful.
Bob

Ed's note: Bob's original letter encouraged readers to pay their annual health insurance premium before March 31, 2019. This would have locked in 2018 prices and delayed any premium increase for 12 months.



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What would be your one money 'do over'?

DARREN SNYDER
Darren is managing editor of *Money* magazine. Darren says: "Saving during university. I started to save with a part-time job at uni but didn't maintain my discipline. Ultimately, it was the difference in buying a home much earlier."

BEN KINGSLEY
Ben is managing director of Empower Wealth. Ben says: "Way back when, I bought a property that was always destined to be an investment property. No one told me about the benefit of using an offset mortgage account instead of paying it down. Won't make that mistake again."

JOANNA McCREERY
Joanna is a director of Majella Wealth Advisers. Joanna says: "With the benefit of hindsight, I'd have been less conservative with my finances in the early 2000s. I should have kept and rented out our Rozelle (Sydney) terrace instead of selling it to upgrade the family home. It went on to double in price."

STEVE GREATREX
Steve is founder of financial planning firm Wealth on Track. Steve says: "I will never forget how clever I felt when I locked in our home loan interest rate for five years. Nor how silly I felt when Big Bank took a penalty of $25k from us when we needed to move and pay out the loan after three years. Always be careful with fixed-rate loans."

NICOLA MORAS
Nicola is a social media specialist. Nicola says: "When I started making serious money each month, I was the opposite of vigilant with putting money aside for tax. I wish I did then what I do now – put a percentage of it aside with every sale."

VITA PALESTRANT
Vita was editor of the Money section of *The Sydney Morning Herald* and *The Age*. Vita says: "Complain! Collectively we've let financial institutions off the hook for rip-offs and appalling service. Why should it take a royal commission and a productivity commission report to stop the pilfering of billions of dollars? Help them to lift their game. See afca.org.au."

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IN YOUR INTEREST Paul Clitheroe

When it comes to money, an absolute necessity is a really good "crap meter" because, by goodness, there is so much absolute nonsense said and written about money and investment. The good news for me is that this provides an endless source of issues to write about, but the bad news is that many people seem to have some of the great money myths ingrained in their DNA.

One of my favourites is the oft-quoted "good property doubles in value every seven years". This seems to be in the real estate agent's training manual. But it has also penetrated the minds of many investors. As with any good myth, there is always partial truth. Here the part truth is that at times property does double in seven years, but when it does, watch out, as we must be nearing the end of a boom. In our big east coast cities in particular, there is clear evidence that in some areas prices did indeed double from 2011 to 2017.

There's so much nonsense around that we all need a good crap meter

Here a well-developed crap meter is very handy. Let's think about this idea that property doubles every seven years. To do this, property would need to grow at a bit over 10% a year. A useful tool for all of us is "The Rule of 72". If some maniac tells you that an investment will double in value in a set number of years, just divide it into 72. So if property will double in value in seven years, divide 72 by seven and you get around 10%. Sure, it's actually 10.285%, but 10% will do us just fine.

Now 10% may seem possible. As with any investment, in some years it happens. But our crap meter should be on high alert because common sense shows us the problem. In many cities, $1 million is a common price for a home. Let's apply the "double in seven years" idea. In seven years this house would be worth $2 million. That sounds possible. Seven years later it would be $4 million. That sounds unlikely. But in another seven years it would be $8 million. And to my great amusement, as I love compound interest, if we jump forwards 21 years, our house is worth $64 million. Even better, 21 years later it is worth $512 million. Then you have to wait only seven more years for your house to be worth $1 billion. And all of this happens in our lifetime. Yep, $1 million doubling every seven years, takes 70 years to get there. So we can safely say that anyone offering us 10% a year, going on forever, is either unaware of basic maths, a fool or a crook. Take your pick.

Mind you, for investors and owners a property boom is a very pleasant experience. It also helps the broader economy, as even when people don't sell they feel richer. This increases consumer confidence and flows on to how we spend. The only losers are the first home buyers who saved diligently only to see prices go up more quickly than their savings.

But big jumps like this cannot be sustained. In the past a big jump in prices has been reversed by all sorts of economic events. Usually it has been a decent recession, such as the GFC of 2009. Here, Australians were lucky as Chinese demand for our commodities exploded, saving us from recession. But in many parts of the US property prices fell by over a third. At other times it has been very high interest rates, such as in 2000 when mortgage rates hit 18.75%. This time it is different. Interest rates are low but we have had low wages growth and the banks have turned down the lending tap, making finance harder to get.

Even in a tough property market, the property PR spin keeps on churning. I doubt we'll hear the "double every seven years" line for a while, but I did read with interest a good result from an auction in Leichhardt, Sydney, on March 31. I also like good news, so I was pleased for the vendors of a property that sold for $1,705,000, a healthy $105,000 above the reserve. What interested me more was that they bought it new in June 1991 for $255,000. The excited vendors had sold for over six times what they had paid for it.

Stamp duty aside, renovations and selling costs, and just looking at the purchase and sale prices, how did they do on an annualised rate? Well, despite buying at a very good time in the downturn of 1991 and seemingly getting a good sale price, they were well off 10% a year. That would have given them a sale price of $3.6 million. But they did achieve, before any costs, an excellent return of a bit over 7% a year – this would have been some 4.5% better than inflation.

On a really good investment, history shows us that 3% to 5% above inflation, before tax and costs, is quite possible. That is my long-term target on my money. But if anyone tells you about returns much higher than that, your crap meter should be on high alert.

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.*

NEWS & VIEWS

THE BUZZ

First home scheme gets a makeover

Earlier access to funds boosts opportunities for would-be buyers

Among all the budget and election noise in April, federal parliament passed new laws that aim to improve superannuation member outcomes, including implementation of two recommendations from the banking royal commission. One of the most important was an amendment to the First Home Super Saver Scheme (FHSSS).

The new legislation means individuals can enter a contract to buy or build their first home at an earlier time and still have access to the scheme rather than waiting for funds to be released from their super. They must have applied for and received a FHSSS determination and applied for their super release within 14 days of entering the contract.

What will come as a relief to some first home buyers is that the new law is being retrospectively applied from July 1, 2018. This means "individuals who have a determination, made a valid request for release from the commissioner and enter into a contract to purchase or construct their home on or after July 1, 2018 will satisfy the requirements of the First Home Super Saver Scheme".

Other conditions include: The price for the purchase or construction of the premises is at least equal to the amount requested for release; the individual has occupied the premises, or intends to occupy it as soon as practicable; and the individual intends to occupy the premises for at least six of the first 12 months that it is practicable to occupy the premises.

Aside from the FHSSS, the legislation also implements two recommendations of the banking royal commission. It bans super funds from inducing employers and extends civil penalties to super fund trustees – in addition to civil and criminal penalties for directors – for breach of their best-interests duty.

APRA's regulatory powers have also been given a boost to take preventive or corrective action where a super fund is not acting in the best interests of members. APRA also has more power over the authorisation process for default MySuper products.

Finally, the government is making super funds more accountable for how they spend members' money through new expense reporting methods, annual members' meetings and an improved portfolio disclosure regime.

These are sensible changes and hopefully they restore more trust in banks and super funds and align with parliament's original intentions.

DARREN SNYDER

ON MY MIND

Protection against poverty

Just as medical vaccinations rely on immunity of the herd to protect against diseases, superannuation relies on the participation of the herd to protect us all from poverty in retirement.

Today, one in four people sits outside the super system. That may be because they are working in the gig-economy, are self-employed, are at home caring for children or parents, or other reasons.

The percentage of the population covered by super is in decline and unless we act now to include these outliers many more people face a bleak retirement, living in poverty.

The simple fact is that the more people in the superannuation system, the better off we will all be, for two reasons. First, increasing the level of private savings for more people in retirement means more will be self-funded for longer, thereby reducing pressure on government budgets and enabling a decent age pension for those who need it. Second, the greater the number of people in the super system, the greater the economies of scale, which benefits us all in the form of lower fees, better services and enhanced ability to manage liquidity requirements for the retirement phase.

Martin Fahy, chief executive, Association of Superannuation Funds of Australia (ASFA).

CALENDAR OF EVENTS

Tuesday, May 7
Balance of trade

NAB business confidence

RBA interest rate decision

Thursday, May 16
Westpac consumer confidence

Unemployment rate

Saturday, May 18
Federal election

NEWS BITES

The VanEck Vectors FTSE International Property (Hedged) ETF has listed on the ASX with trading code REIT. VanEck managing director Arian Neiron says the ETF offers a diversified international listed property exposure at a low-cost while protecting against currency volatility. REIT is hedged to Australian dollars so returns from the fund, including income payments, are relatively unaffected by currency fluctuations.

The Vanguard Global Multi-factor Active ETF (Managed Fund) is open for investment, trading with the code VGMF. Vanguard investment product strategy manager Rachel White says globally she has seen good adoption of this strategy, with the blending of factors (value, momentum and quality) helping to smooth returns, reduce downside risk and provide diversification benefits.

Over the next year eInvest will partner with local and global investment managers to deliver ETF solutions to retail investors. Managing director Camilla Love says the expansion will give investors choice, flexibility and transparency of independent professionally managed strategies that would otherwise be available to institutional investors.

Healthcare a safe haven

Given steady demand for healthcare, the sector is more immune to an economic downturn than others. People have no choice but to spend on healthcare products, such as medicines, hearing aids and hospitals, even during an economic downturn. But some companies are safer investments than others, with more established ones generally less risky than small biotechs just establishing operations. Many larger companies boast strong export earnings that will insulate them from a domestic slowdown. Some enjoy lucrative contracts with governments worldwide to supply services or products.

CSL is undoubtedly one of the top picks – over the past 10 years shares have risen an average 22% each year (as at March 28). ResMed is another high-flyer and its shares have increased an average of 20% a year in the past 10 years.

Investors should generally be cautious about earlier-stage biotechs, as they can take years to be make big profits, and many will fail. Any sign that a medicine doesn't work or that a company can't get a patent to protect its drug can cause a sharp drop in its fortunes.

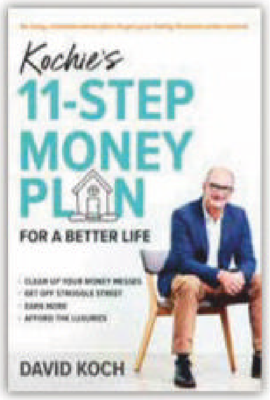
Michael Kodari, chief executive, Kodari Securities

35%

of Australians feel pressured to keep up appearances and maintain a certain lifestyle, according to Mortgage Choice and CoreData's Financial Fitness report. It's a bigger problem for younger people as that number surged to almost 50% among respondents aged 30 years and younger. Only 20% of people aged between 51 and 60 felt the same pressures.

NEWS & VIEWS

BOOK OF THE MONTH



KOCHIE'S 11-STEP MONEY PLAN by David Koch (Macmillan Australia, $29.99)

Co-host of the Seven Network's *Sunrise* program and a respected business and finance commentator, David Koch shares his 11 steps on how to make money work for you.

Whether it is paying less on a mortgage, putting $14,000 extra back into the family budget or getting your finances sorted in 15 minutes a month, Koch is in tune with how Australians think about money.

The book prompts readers to activate their money plans through several information points, fun facts and self-guided calculators. It also draws on Koch's personal experiences as a father of four children.

Ten readers can win a copy.
In 25 words or less, tell us how you will best clean up your money mess. Enter online at moneymag.com.au/win or send entries to Money, Level 7, 55 Clarence Street, Sydney, NSW, 2000. Entries open April 29, 2019 and close June 5, 2019.

DOWNLOAD OF THE MONTH

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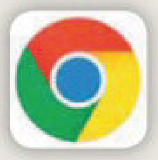


Impulse buying can blow a hole in even the best-planned budget, and online shopping is making it easier than ever to spend on things we don't really need or want.

But there is a way to combat the urge to splurge.

If you use Google Chrome as your web browser, try adding the Icebox extension. It's free from the Chrome web store.

This ingenious app works on 400 popular retail websites including ASOS and eBay. Once installed, it curbs impulse buys by replacing the "buy" button on e-commerce sites with a prompt to "put it on ice".

Even if you click on the button, you'll need to sit out the cooling period you've selected before you can add the item to your shopping cart. It's a simple way to save on impulse buys, yet with the freedom to select sites that you don't want to be blocked. NICOLA FIELD

TAX TIP

Amalgamate 'lost' super accounts

The findings of the recent banking royal commission have highlighted the potential traps that you can fall into when you have multiple superannuation accounts. It's all too common for people changing jobs to automatically fall into the "default" super account offered by their employer, meaning that if you change jobs several times you can end up with multiple accounts.

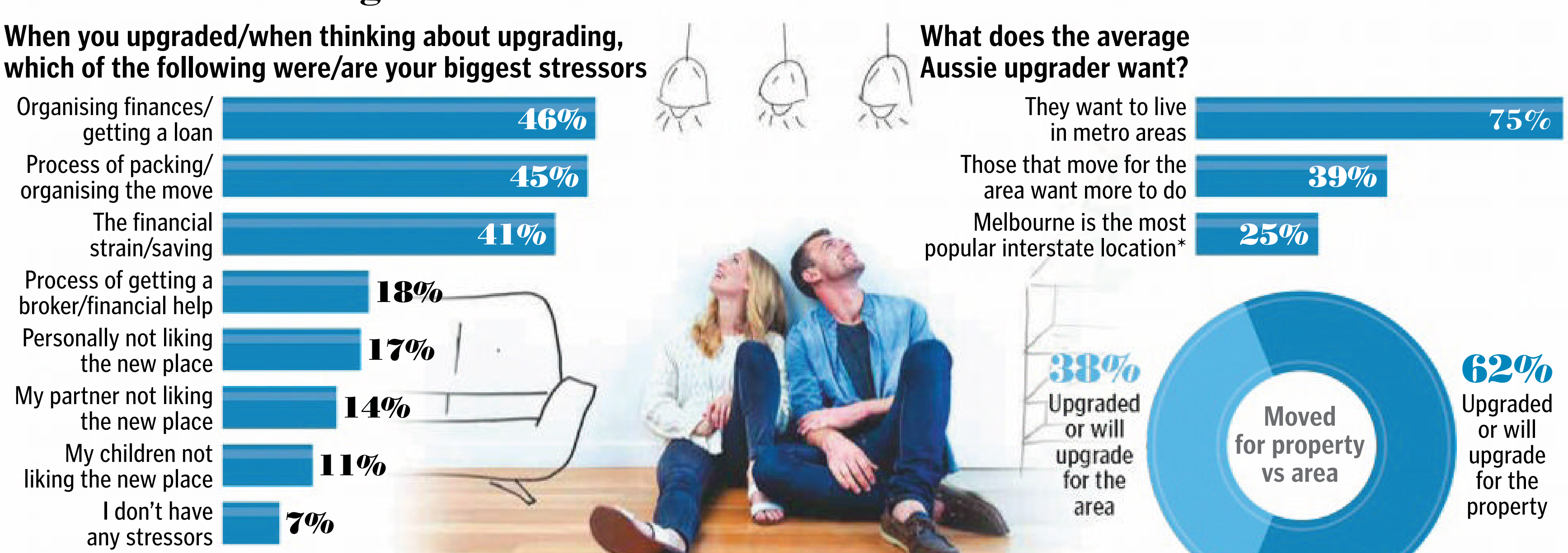
Fund underperformance and excessive charges levied across multiple accounts can rapidly eat into your retirement savings, leaving you thousands of dollars worse off than if you'd invested in one high-performing, low-cost fund. The good news is that you can now manage your super using the ATO's online services through myGov. You can see details of all your accounts, including any you may have forgotten about, and amalgamate them.

While it might seem difficult to "forget" about super, in practice it's very easy to overlook a low-balance account related to a job you did many years ago for a short time. Indeed, the ATO reckons there is over $17 billion in lost and unclaimed super just waiting to be recovered. According to the ATO, more than 66,000 people found and consolidated over 105,000 accounts worth more than $860 million during the three months from October to December 2018.

Before consolidating, check with your fund to see if there are any exit fees or whether you will lose any valuable insurance.

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

SNAPSHOT Moving house



Source: ING * Some future upgraders did consider coastal locations for interstate moves

MY MONEY

▶ MORE MONEY STORIES ON P44-55

HEALTH INSURANCE

It's time to review your cover

Several of Australia's largest health insurers have moved to a tiered cover system, meaning now is a good time to take a closer look at your policy.

From April 1, health insurance is classified into four tiers: gold, silver, bronze and basic. One of the main concerns consumers have about this tiered system is they might pay more for less cover.

For example, pregnancy might have previously been available on a mid-tier policy but will now only be available on gold. Also, health funds will no longer offer rebates on some natural therapies such as naturopathy.

Comparison website Finder recently released its consumer research on the changes. It said 77% of more than 1200 Australians think they'll be worse off with the new tiers.

The research also found baby boomers were the most likely (87%) to think the reforms won't lead to a good deal, while 70% of Gen Y felt the same.

Finder insurance specialist Sophie Walsh says health funds have until April 2020 to move policies across to this new system but some, including Bupa, HCF and NIB, made a move this year.

"Beyond the annual price hike on April 1, Australians need to be aware that what they are covered for might also change this year, based on the new reforms," says Walsh.

"The main concern is that some Aussies might be paying more for less cover under these reforms. If you think your health insurance is no longer providing value for money, now is the time to find a better deal."

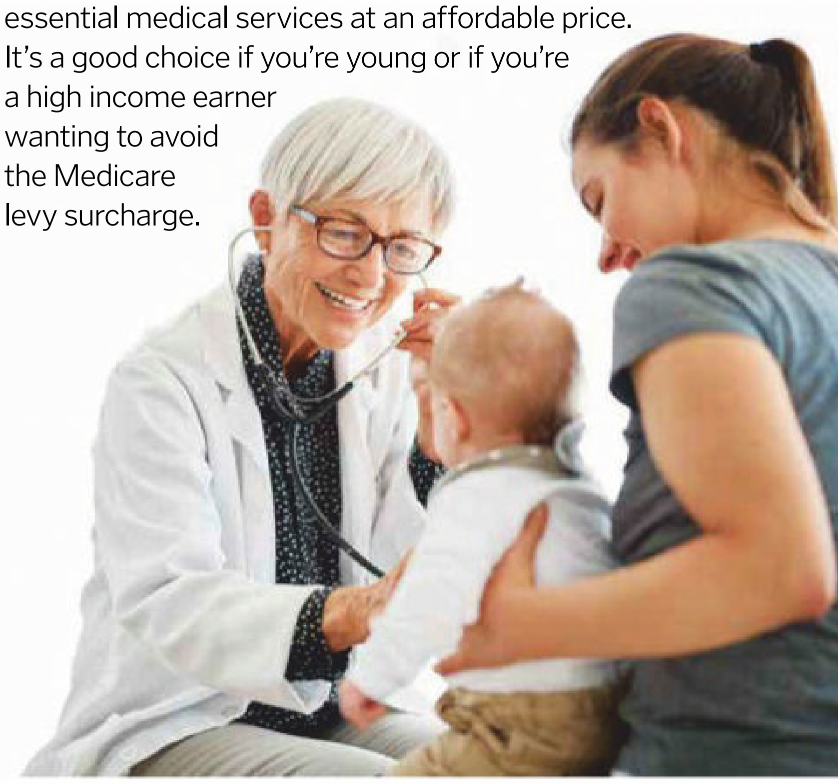
Health cover tiers explained:

Gold: Provides a range of services that aren't covered in other tiers. This is the policy to be on if you're starting a family and you want to have a private room. It's also a good option for seniors, as benefits for cataracts and joint replacements are only available on gold.

Silver: It will cover about 68% of the procedures that are offered by a gold tier hospital policy.

Bronze: If you're not after comprehensive cover but want to cover the basics, bronze will cover about 48% of what's included in a gold policy.

Basic: Provides a limited range of cover for bare essential medical services at an affordable price. It's a good choice if you're young or if you're a high income earner wanting to avoid the Medicare levy surcharge.



More Aussies join the global workforce

The federal government's Smartraveller website says about 1 million Australians are living and working overseas, and the number is growing.

According to the Australian Bureau of Statistics, in the year ending June 30, 2018, 289,000 people left Australia to live overseas. It's an increase of 12,200 on 2017.

And if you're soon to join the global community of working expats, creating a money checklist is a good step to ensure your financial and property affairs are in order.

Alfred Moller, Omniwealth expat lending specialist, says there are many things to consider when planning to move overseas for work, including:

- Find suitable schools for children. Doing some research before moving will minimise hassle and narrow your options on arrival.
- The family home. Consider how it will be managed. Assess the security needs if leaving it vacant; consider renting the property to generate passive income; consider leasing the property using a property manager or short-term rental manager; and consider a family member or friend managing it via an Airbnb account.
- Speak to a mortgage broker and review your interest rates (once overseas it can be difficult to negotiate an Australian home loan).
- Consult a financial planner to revise your expected overseas income, current budget and financial goals as an expat.
- Inform your accountant about working overseas, nature of contract/conditions and expected duration as tax issues may need to be reviewed
- Open an international bank account for transactional and savings capabilities. Financial institutions such as HSBC, Citibank, Deutsche Bank and Bank of America are well suited, depending on the country where you will be living.

COMPILED BY DARREN SNYDER

FIRST TIMERS

Housing affordability picks up

The number of first home buyers in Australia decreased by 5.8% in 2018, yet overall housing affordability picked up slightly, according to an industry report.

The Adelaide Bank/REIA Housing Affordability Report for the 2018 December quarter showed affordability improved by 0.4% over the year. It said Australians' proportion of income required to meet loan repayments was 31.2%, up 0.1% for the quarter, but nonetheless this was an improvement year on year.

Housing affordability declined in all states and territories except Victoria and the Northern Territory, the report also showed.

Darren Kasehagen, head of third-party banking at Adelaide Bank, said a 3.8% increase in the number of first home buyers during the quarter to 29,147 was to be welcomed. "In somewhat of a turnaround, first home buyer activity in Canberra/ACT has notably increased – by a remarkable 34%, which is indicative of a good deal of confidence in the local economy. The largest increase in the total number of loans was also in the ACT, up 24.1%, leaving NSW to record the smallest increase in FHBs at just 2%," he says.

"The report also recorded an increase of 3.3% nationally in the number of loans over the December quarter, but despite this increase we are still looking at a decrease of 9.4% compared with the same quarter last year and we have also seen a decrease in average loan size to first home buyers to $337,500."

First home buyers now make up 18.1% of the owner-occupier market and, if refinancing is excluded, the figure currently sits at 26.8%, according to the report.

In NSW, the number of loans to first home buyers increased by 6.8% over the quarter to 7634, up 1.7% compared with the 2017 December quarter. Victoria continues to have the highest number of first home buyer loans at 8855, an increase of 2.7% over the quarter but a fall of 10.5% compared with the same period in 2017.

The number of loans to first home buyers in Queensland was 5664, a decrease of 5.7% over the quarter and down 14.4% compared with the fourth quarter in 2017. Meanwhile, the number of loans to first home buyers in the ACT increased by 34% over the quarter to 710 but this was 7.3% below the number for the prior corresponding period.

▶ MORE PROPERTY STORIES ON P56-62

Borrowers favour mortgage brokers

Mortgage brokers remain borrowers' preferred channel for securing a mortgage despite royal commission backlash, research by Pepper shows.

Pepper says that while mortgage brokers remain highly sought after, they must closely monitor issues concerning prospective borrowers and develop solutions.

The non-bank lender surveyed 1126 borrowers in January, before the banking royal commission's final report, and found the greatest concern was getting the right home loan for their circumstances.

Two in five consumers (40%) said the property market weighs heavily on their minds, especially receiving a low valuation. Borrowers fretted that prices could prevent them climbing the property ladder. Thirty-seven per cent ranked ability to afford the type of property they want as a pressing concern.

About a third of borrowers were worried about being declined by their bank. "With a volatile property market and pullback from the big banks in certain parts of the lending market, consumers will be looking to trusted experts more than ever to help them determine the best solution for their situation," says Aaron Milburn, director, sales and distribution, at Pepper.

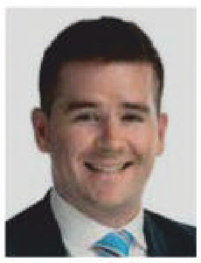
COMPILED BY DARREN SNYDER

INVESTING

▶MORE INVESTING STORIES ON P64-75

INCOME ETFs

Alternative to term deposits



Sam Morris, investment specialist, ActiveX

As recently as 2011 you could collect an annual return of more than 6% on term deposits. Since then there has been consistent decline in rates to just over 2%, where they sit now.

And much of the commentary on interest rates indicates it will be some time yet before term deposit rates shift higher. Investors are often willing to accept this because they feel their money is secure and accessible in a bank. However, there are viable alternatives.

For example, fixed-income exchange traded funds (ETFs) are convenient and easily accessible, offer the ability to buy and sell during the stockmarket's opening hours and can offer a higher rate of return than term deposits.

These ETFs do carry extra risk compared with term deposits, including capital value volatility caused by day-to-day fluctuations in the value of the underlying securities and not having a government guarantee. However, they can carry less risk of permanent capital loss and day-to-day value movement than equities or real property investments held for income.

Lower risk

A bond is a fixed-income instrument that represents a loan made by an investor to a borrower, typically a company or a government. It has an end date, when the principal is due to be paid to the bond owner, and usually includes variable or fixed-interest payments (coupons) that will be made by the borrower.

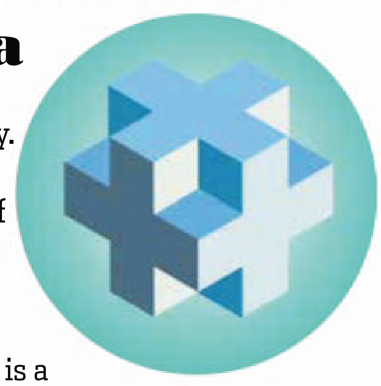
Bonds are easily tradable, but often only in denominations of $500,000 and above. As such, most individual investors access bonds through managed funds and ETFs.

Most importantly, because bond investors legally must be repaid their capital by maturity, fixed income is considered much lower risk than shares or real property.

But not all bond ETFs are equal. An actively managed bond fund can be a sensible option compared with a passive (or benchmark-hugging) one because fixed-income benchmarks are giving investors much lower returns with more risk than they were 10 or even five years ago.

At a time when self-managed super funds have a high concentration of Australian equities and high amounts of cash in term deposits and saving accounts, a fixed-income ETF is one alternative to diversify a portfolio.

Chinese investors back a healthy Australia



The healthcare sector was the major beneficiary of Chinese investment in Australia during 2018, receiving more than $3.4 billion.

It accounted for more than 41% of $8.2 billion invested here by the Chinese last year and signifies a trend away from large strategic investments in resources, energy and infrastructure. However, this total was down 36.3% year on year.

A report by KPMG and the University of Sydney says that after a steady growth trajectory since 2015, healthcare represented 41.7% of total Chinese overseas direct investment (ODI) in 2018. It was followed by commercial real estate (36.7%), energy/gas and oil (8.8%) and mining (5.6%).

Doug Ferguson, the report's co-author and KPMG head of Asia and international markets, says while this annual result brings Chinese ODI in Australia back to the second lowest level since the mining and gas-driven investment peak of 2008, "there is no reason why Australia can't return to higher levels of Chinese capital inflow seen historically. 2018 need not define a trend of lower Chinese investment in Australia into the future but it is a moment to reflect upon.

"Australian companies seeking further investment must continue to explore and present unique opportunities that appeal to the key value drivers of targeted Chinese investors," says Ferguson.

COMPILED BY DARREN SNYDER

SHARES

PROSPECTS

5 upgraded stocks to watch

The equities experts at investment bank JP Morgan have re-rated these five companies and increased their recommendation to overweight:

1. Charter Hall (ASX: CHC)
The property group's potential for increasing economies of scale is relatively strong, says JP Morgan. It also enjoys favourable portfolio composition with office, industrial and long weighted average lease expiry (WALE) assets at 85% of its assets under management.

2. Fortescue Metal Group (FMG)
JP Morgan says it has bitten the bullet on its rating, upgrading the stock following upgrades to its 58% increase in the iron ore price forecast to \$60-\$55 a tonne with higher prices over the medium term. The share price has rallied strongly this year, from just over \$4 in January to around \$8 in early April.

3. Janus Henderson (JHG)
Janus sales have improved on better market conditions and improved performance, which will help earnings growth/valuation. JP Morgan says the dividend yield is high and a balance sheet net cash position provides some downside protection for shares, partially mitigating a greater equity exposure. Even though there are challenges to the asset management sector, it says Janus benefits from bigger-than-peer performance fee revenue. It has a price target of \$29.

4. St Barbara (SBM)
The gold producer has released its findings from the Gwalia mass extraction (GMX) study, a key expansion project at its flagship asset, Gwalia. The study has highlighted that the best option is to continue with trucking operations instead of developing an underground processing facility. This has led to production downgrades for the 2019 and 2020 financial years. After a drop of 29% the share price is 13% below JP Morgan's target and it says the underlying business remains in solid shape.

5. Vicinity Centres (VCX)
A year ago Vicinity canvassed market opinion on the prospects of separating its portfolio tail via an in-specie distribution, which received mixed feedback. JP Morgan says it believes the two potential entities could likely trade stronger than the current 17% discount to net tangible assets. On a stand-alone basis, Vicinity's balance sheet is in good shape, its \$400 million buyback has been reactivated, its operational sales performance is improving and its valuation metrics remain attractive. The price target is \$2.80.

▶MORE SHARES STORIES ON P76-86

BUY Westpac Bank (WBC)

The Intelligent Investor Rakesh Tummala

RECOMMENDATION

BUY	HOLD	SELL
below \$27.00	up to \$40.00	above \$40.00

BUY at \$26.36

Source: Intelligent Investor; price as at 20 Mar-19 close of business

The financial advice industry is going through a painful change. The end of commissions and increased transparency mean that customers are increasingly having to pay upfront and in full for advice – and they're increasingly trying to avoid doing so, by seeking more limited advice, or "robo advice", or just figuring it out for themselves.

It's causing a headache for the owners of large financial planning networks. Their planners have been leaving in droves.

For the major banks, their wealth divisions were always a sideshow to lucrative lending activities, so they're getting out.

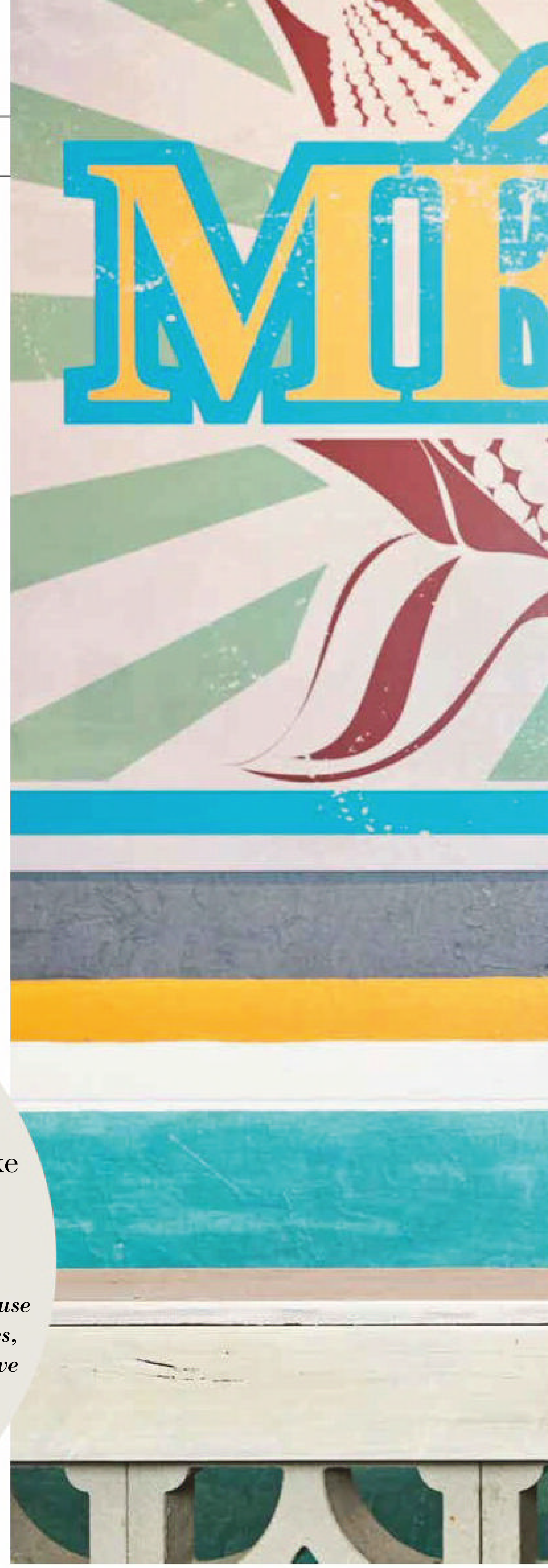
Westpac is staying the course but will stop providing financial advice. Good riddance. It lost \$53 million on financial planning in 2018. The planning business will be sold to Viridian Advisory and the bank's customers will be referred to external financial planners.

More importantly, Westpac will keep its insurance, platform and superannuation businesses. This is where it makes its money from wealth management – around \$790 million in cash earnings for 2018, nearly 10% of Westpac's total – and management thinks it can grow. As expected, removing the unprofitable advice business will lift the bank's earnings. In the end, these changes will have little impact on Westpac's bottom line, but they will remove risk and free up some management time.

We don't expect much growth over the next few years. But it will return at some stage and, with a fully franked dividend yield of around 7.2%, not much growth is factored into the share price. BUY.

Rakesh Tummala is an analyst at InvestSMART. See investsmart.com.au/money.

COMPILED BY SUSAN HELY



STORY ALAN DEANS

Just mad about Mexico

It seems an oxymoron to claim that fast food is good for you. Yet that is the core pitch behind the success of Mexican food chain Mad Mex. It is also behind its current push into Asia, and one of the main attributes that could stand in its favour as a US-owned rival fast food giant, Taco Bell, returns to our shores later this year in a big way. Even though it has always promoted its healthy ingredients, Mad Mex is doubling down on what it views as a major point of difference.

The chain's tag is "Your Body is Your Temple". It claims that its customers should never have to choose between a quick meal and quality, healthy food. Its website features a nutritional calendar so people can check levels of calories, carbs, fats, sugars and more in all of its dishes. It even publishes recipes so they can be cooked at home. Now it also caters for vegans and people with allergies and gluten intolerance, and was the first quick service restaurant to sell RSPCA chicken.

Fact file

Clovis Young

The former Wall Street equities trader migrated to Australia with a yearn to make Mexican food. Age 45; lives in Sydney's Rushcutters Bay.

Favourite pastime is enduro dirt-bike riding because it burns a lot of nervous energy. He invests in shares, describing his philosophy as stockpiling cash to have the firepower for cheap opportunities when they arise, then buying and holding. Applies the same thinking to property, buying his first Sydney apartment last year when prices fell.

Mad Mex founder Clovis Young says he became hooked on Mexican food when growing up in California. Surfing or boogie boarding while holidaying with his grandparents in San Diego would work up quite an appetite. "After four hours in the water, you buy a burrito with rice and beans and guacamole, and the juice drips down your chin. It was the best thing in the whole world. I really fell in love with Mexican food."

But his family moved to Massachusetts, and there was no Mexican food to be found anywhere. For 20 years, the notion of making burritos stayed with him but it didn't materialise until he moved to Australia.

"Here there was a big Mexican eating culture in the '80s, with sit-down restaurants, hen's nights and tequila shots. They were places you would go once a year and have a bender. It was very much Tex-Mex, very unhealthy food. Yet, inherently, Mexican is very simple. It is peasant food. It is rice cooked with vegetables and garlic, and beans, and simple meats with chilli marinades. There is no processing. It's cooked at home. It's that simple. What we put on the table is everything that you can make at home."

Mad Mex has 60 stores in Australia and more than 10 in New Zealand. It owns 20 of the stores locally, the rest being franchised. "When I started the business, we had three restaurants in Sydney. We had great products, but I didn't know the first thing about franchising. I didn't know how to do a lease deal. Phillip Blanco, who had been with

PHILLIP CASTLETON

Gloria Jeans, came and bought 20%," says Young. "He led the development, the leases, the franchising and I focused on what I liked, which was making recipes, operations, culture." Blanco sold out recently, eager to pursue other ventures. Young has since raised capital from a new 50% partner, the Asian fried chicken operator 4Fingers, and is using its experience to expand into Singapore and Malaysia and to gain added economies of scale.

The chain operates mainly in NSW, Victoria and WA, and has a few stores in Queensland. It pulled back from South Australia and the Northern Territory because the transport logistics were too difficult and costly. In part, that problem also comes down to its desire to sell authentic food. "We import four or five containers each year of chipotle chillies and tomatillos from Mexico. There's a whole lot of authenticity that comes with the real product." Its logistics chain at one end reaches into Central and Southern America, and it became more complex as it opened in new cities in Australia.

For Young, it's a long way from being a busboy – a dishwasher and waiter – in high school to starting a restaurant chain. Both his parents were literary. His father, Geoffrey, is a poet who also runs a small-press publishing company and gallery while his mother, Laura, is a novelist and poet. "They taught me that finding something meaningful to do with my life was considerably more fulfilling than finding something that pays well. I am here doing this, not because the money is great, but because it's closer to a calling."

After graduating from high school, Young took a job as an equity trader on Wall Street. "I thought it was fun. It's like

Fresh perspective ... Young says each of his 800 employees is integral to the success of the company.

a video game. There's a scorecard, up down, profit loss. But in terms of meaningful contributions ... after a couple of years it becomes pretty boring. It's stressful, but it's not interesting."

He decided to enrol in business school, at Carnegie Mellon University, one of the best in the US. "I already had all the maths and bookkeeping, and got really into the education. The second year the course work starts, and that's when everyone tries to get a job somewhere. Towards the end of my second year, I realised that I hadn't signed up for any interviews. Why would I spend the time missing all the interesting stuff by trying to get a job somewhere when I didn't know what I wanted to do? I got a lot more out of school than probably most people. I then had to start my own business because I didn't have a job!"

Young credits his grandfather, George, with having a major influence on his life. He was on the board of the Northwestern Mutual Life Insurance Company in Wisconsin, and a senior partner in the largest law firm in the US mid-west. "He always was a rebel rouser, and once put on the board meeting notes that he had a special guest speaker from Peru. He brought along one of his pet llamas to the boardroom. He always had fun. He never felt he was above anyone. And he thought part of life was having a laugh."

Mad Mex employs about 800 people, and in Young's view they are each integral to the company's success. "The biggest thing I have had to learn is how to work with people, and to realise that everyone comes from a different framework. As a hot-headed Wall Street trader, it was the hardest thing to realise that other people were not on the same page. I had to bring them along without destroying the culture. The biggest challenge we had for the first six years was to get the framework on how best to work together. The most success we have had over the past three or four years is to implement a whole new philosophy on people and culture, leadership, coaching and training. It's amazing how much better it is when you get the people piece right."

> "The biggest thing I've had to learn is how to work with people ... everyone comes from a different framework"

He says that the Mad Mex model is to respect its franchisees. While Mad Mex was not mentioned in the recent federal parliamentary inquiry into franchising industry conduct or any of the public controversy beforehand, he wants to apply the latest best practice.

"Franchising had so many bad actors that it deserves every bit of bad publicity it gets. It's not great for selling a franchise at the moment. People are less confident than two years ago. But we take the Mexican idea of family, and say to our people that we are in this together. We are a team. We have had people who have been incredibly successful, and some who have tried hard and done all the right things and it hasn't worked out. But we have never used the horrible behaviours that you see in some franchise groups.

"There are issues we are working on. If we sold our business to somebody who didn't have the scruples or the values that we have, there's very little protection for the existing franchisees. The new people could act simply to make themselves rich. Fundamentally, that is a problem. A good business could be bought, and then who is responsible and what protections are there? I am interested to see how they try to regulate morality. It's a tricky one.

"I am exploring how I can document the principles and values of our business so that, if someone new came in, our values would become institutionalised. There should be a constitution on how to deal with certain things. We have an opportunity to radically change what the franchisee gets to see and understand, and what the franchisor understands, so it is a mutual agreement. That's much better than the current situation, where there are two contracts and no guiding principles about how the business runs."

PHILLIP CASTLETON

RICHARD WHITFIELD

Safe spot for $200k

NAME: Cheryl Lewin
STATUS: A resourceful 67-year-old.
QUESTIONS: What is the best place to safely invest a $200,000 inheritance for 12 months, with the option to re-invest annually? Will the money impact the age pension? Is there a secure account that is higher yielding than the current one?
ANSWERS: Cash and term deposits are your best bet for a risk-free place to park your inheritance for 12 months and longer. At the cash rates of return, you won't lose much of your pension. If you want to micro-manage your savings you could earn 2.9% with a bonus savings account or 3.05% by chasing introductory offers.

When an inheritance from a parent comes along, there are plenty of questions about what to do with it. So it is a perfect time to visit a financial planner – and this is exactly what Cheryl Lewin did. The advice cost her $2500 and the five suggested scenarios included putting her money in Challenger annuities. Cheryl weighed it up but the idea didn't appeal to her and she decided not to go ahead with it.

Cheryl describes herself as financially astute and was well set up, but around 20 years ago, through some bad business decisions, she lost everything. Her marriage ended and she no longer owns a home. She managed an aged care team but has retired and is on an age pension. She says she "sticks to a tight budget" and lives frugally by housesitting for people, working as a marriage celebrant and mature modelling.

When the inheritance came through, Cheryl bought a new car and kept some money aside for "the big trip", which included seeing her friends who live overseas and her daughter and grandchildren in Canada, as well as her son in Perth. She would like to stash the $200,000 somewhere safe for 12 months, with the view to re-investing each year, as she would like to rent again. But what is the best place for her cash?

She has deposited it in a Suncorp 55 Plus account for people aged over 55. It pays an interest rate of 2.4%, or 2.65% for 12 months. Should she leave it with Suncorp, or is there a safe investment that pays more?

Cheryl would like confirmation from the Department of Human Services that her $200,000 will not impact her age pension. Also what would another financial planner recommend?

COMPILED BY SUSAN HELY

Consider cash and term deposits

CHRIS SMITH

Chris is a financial planner and partner of Visis Private Wealth

Cheryl, after notifying the Department of Human Services of the inheritance within 14 days, a reassessment of your assets and income will be made to determine your new age pension entitlement.

It will depend on your assets, including the inheritance, a deemed level of income on financial assets including cash, and any income generated from your work. You would be assessed under both an assets and income test, and whichever one results in the lesser Centrelink benefit would apply.

As a single non-homeowner, if your assessable assets were less than $465,500 and your income less than $172 a fortnight you could anticipate no reduction in your benefits and a maximum age pension entitlement.

Alternatively, if an inheritance sees your assessed assets exceed $774,250 and your income exceed $2024.40 a fortnight, you would no longer be entitled to the age pension. The income test limit may be higher when you are eligible for rent assistance or the work bonus.

While the Department of Human Services deems your cash accounts to earn 1.75% on the first $51,200 and 3.25% on the balance, for the purposes of determining your age pension entitlement this treatment has no bearing on, nor in any way limits, the amount you can seek to earn on your capital. In this regard, maximising your return within the level of risk you are willing to take is beneficial to your financial position.

In relation to increasing the earnings on the $200,000, given you have money set aside for your big trip and as such do not require access to those funds for 12 months but would like to utilise them to supplement your rent on your return, it would seem appropriate to consider cash and term deposits.

Investment in growth assets, including Australian and international shares and property, would seem inappropriate, as the increased potential return would come at significant capital risk over such a short time frame.

The Suncorp 55 Plus account appears competitive at 2.4% for at-call cash accounts at this time. Only accounts with bonus interest terms may offer a higher return. Alternatively, if you were comfortable not accessing capital for the full period of investment, you could consider a 12-month term deposit, for which you may earn perhaps 2.7% to 2.75% through providers such as ING and AMP. Seeking returns greater than this would see you taking on significant capital risk.

On your return from your trip, we would evaluate a more growth-focused asset allocation to assist you to achieve higher returns over the longer term. We would consider a mix of diversified bond, property and equity funds complemented by some direct listed exposure to Australian shares and other listed instruments.

Low risk but low return

STEVE MICKENBECKER

Steve is the group executive, financial services, at research house Canstar

Savings accounts are at the low-risk end of the spectrum. Provided you place your savings with an approved deposit-taking institution and keep your total deposits below $250,000, your funds are guaranteed by the federal government. Unfortunately, this security comes with a low interest rate, reflecting the current low-rate environment.

There are three common savings accounts available, each having its own advantages and disadvantages:

- Online savers allow access to your money at any time but generally have low base rates. The highest base rate on Canstar's website is 2.2%. A better interest rate can be achieved by moving money around every four months or so to keep earning introductory bonuses. This can lift your rate to 3.05%, but it needs active management.
- Bonus savings accounts have an ongoing bonus rate on top of a generally low base rate (from zero). You can access your money any time, but a withdrawal often means losing the month's interest. So compare bonus conditions as well as rates. Currently bonus savings accounts go up to 2.9%.
- Term deposits can be suitable for people who are able to lock money away for a set period. Canstar's maximum 12-month rate is currently 2.85%, and with a $200,000 deposit negotiation might be possible.

To achieve a reasonable interest rate you may have to micro-manage your savings as never before. You also have to choose the right bank and right account, which is where a comparison site such as Canstar can save you "shoe leather".

How the age pension can be impacted

HANK JONGEN

Hank is a general manager at the Department of Human Services

A one-off lump sum payment from an inheritance is exempt from the Centrelink income test, but it's what Cheryl does with the inheritance that may affect her age pension.

If she puts the money into a bank account, we will treat it as a financial asset and deem it to earn income, which will be assessed under the income test.

The first $51,200 of Cheryl's financial assets will be deemed at the rate of 1.75%, and the remaining amount over $51,200 will be deemed to earn 3.25%. These are the rates for a single person.

If her total income exceeds the income test-free area of $172 a fortnight for a single person, her pension may be reduced.

If Cheryl is a single non-homeowner receiving the age pension, she can have up to $465,500 worth of assets before they start to reduce her pension under the assets test. The taper rate will reduce her pension by $3 per fortnight for every $1000 of assets above this limit. Should Cheryl use this money to purchase a home to live in, the value of that home won't be counted as an asset, as the principal home is exempt from the assets test.

It's important that Cheryl tells Centrelink within 14 days of a change in her circumstances, and she can use the payment and service finder tool on our website (humanservices.gov.au) to estimate her age pension payment rate. I also encourage Cheryl to make an appointment with one of our financial information service officers.

Q&A

With $75,000 cash savings to invest, John will find an ...

Offset account is safe but shares should do better

Q I own my Melbourne home, which is valued at $875,000 with a $563,000 debt. I also jointly own an investment property in Melbourne, with my share valued at $540,000 and an interest-only debt of $402,000. I am 37, single and earn $130,000pa with no personal debt. I am paying down my home loan by about $10,000 each year and am saving a net $19,000 each year. My super balance is $157,000 and I have $93,000 in cash. My question is: what would be the best thing to do with the cash savings in my current situation. I am considering spending $18,000 to buy CSL shares but I would like to know what to do with the remaining $75,000?

I have a soft spot for CSL shares. My dad was a doctor and he could see the importance of blood plasma and inoculation, so bought CSL shares at the original float, I think for 20¢. I bought some decades ago, but not at 20¢, sadly! CSL remains a first-class business and I continue to hold shares in the company.

As you own a couple of properties and have super, you could go a few ways with your $75,000. The safest is to pop it into an offset account attached to your mortgage. This is a really safe way to earn, tax free, whatever your mortgage rate is.

Shares have historically performed well above the interest rate on your mortgage, but are riskier, in particular in the short term. Here you could buy, say, three to four shares to add to your CSL. I'd diversify across sectors, possibly a bank such as Macquarie, a food group (Woolies or Coles), a resource company (BHP or Rio) and so on. Equally, you could use an exchange traded fund (ETF) to keep it simple and cost effective. An advantage of an ETF is that you could choose one with global exposure.

NEED PAUL'S HELP?

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

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

For Karen's property transfer ...

SMSF is a minefield

Q My husband and I set up a self-managed super fund about six years ago, for the purpose of investing in residential property. We have five properties in our SMSF. I retired recently and my husband is due to retire in September. We would like to take one of the properties out of our SMSF (once my husband retires), so we can use it for ourselves.

The problem is that the property is in the name of our SMSF and we want to transfer it into our names. Is there a way this can be done without having to pay stamp duty again on a house that we (the two-member SMSF) have already paid when our SMSF bought the property?

I am getting a lot of questions about residential property in super funds, most relating to the falling market, so yours is an interesting one, Karen. There is a lot of complexity in an SMSF and even more with holding property in the fund.

You can sell or transfer a property to any party, including yourselves, that is not "arm's length". As you know, this does not apply when an SMSF buys a property. So you'll need to get it valued, but it is a transfer and I do believe you will pay stamp duty. Your question is, on the face of it, really simple. But the technical nature of an SMSF makes it a real minefield, so it is really important that you go to your SMSF adviser, probably your accountant, and get professional, detailed advice.

To boost Glynis's retirement savings ...

Super is your best friend for growth investments

Q I am a typical 64-year-old female. I spent 10 years out of the workforce as I was raising my children (no childcare in those days). I have only $90,000 in super and am currently contributing an extra $400 per fortnight before tax. I am also minimising tax by salary packaging (I am a nurse working in aged care).

I own my home (valued at about $500,000) and have a small villa (around $180,000) that is negatively geared ($75,000 mortgage). I am thinking of selling my villa in the year after I retire to try to avoid paying too much capital gains tax. As much as I would love to retire at 66, I believe that fiancially it will be more like 69, when I can also pick up long service leave. I love to travel and would like to still have a holiday each year after retirement, if possible.

I have a few shares such as Telstra, Coca-Cola Amatil, Tabcorp and Woolworths, with a total value of around $3000. I have $28,000 in the bank. Could you give me some ideas on growth products that would suit my situation?

I am delighted that you own your own home, Glynis. That provides a terrific base. If, after retirement, you sell the villa, along with your investments and super, you will have investment assets of around $230,000 plus the growth on these and the $400 you are adding to your super each fortnight.

The next most important issue for your lifestyle is your eligibility for a pension. Today, a single home-owning retiree can have up to $250,000 in investments and draw a full pension. If you work to 69, you will have more than this, but that limit should increase with inflation. So it seems to me that you should be getting a full aged pension, or close to it. This pension would be around $20,000 a year and would be the key part of your retirement income.

In terms of growth investments, I think that super is your best friend. I would suggest you look at adding as much as you sensibly can through salary sacrifice contributions. Holding some cash as a safety buffer is always a good idea, so I'd focus on building your savings in super. Make sure you are in a low-fee fund and in the investment option that suits you best.

Q & A

With an inheritance on the way, Pam can use …

$30k to kickstart deposit

Q I am a 32-year-old with a great job and potential for wage growth. I earn $85,000 and own an apartment. I have about $210,000 left on my mortgage and about $30,000 saved in an offset account. I transfer around $1000 every month into my mortgage.

I will be inheriting around $30,000 in the next six months. Should I put the money towards my mortgage or should I look at buying another property? Or should I look at investing in the stockmarket?

I am clueless when it comes to shares and similar investments, so I wouldn't even know where to begin.

Here, Pam, we have the classic risk-and-return dilemma. Paying off your mortgage by adding to your offset account is a really sensible and super-safe option. Gearing up and borrowing money to buy an investment property offers more risk but potentially higher returns.

The best way to minimise risk in property is to borrow less and have a long-term time frame. So with a falling property market in most parts of Australia, it seems to me you could do well to pop the inheritance into your offset account and keep adding the $1000 a month. This will turn into a large deposit, so if you want to buy another property you can do so more safely. You also mentioned your prospects for a higher salary – in time that would allow debt to be paid off more easily.

I chuckled at your honest comment about shares. Do remember, though, that you will hold shares in your super fund. I'd suggest this is a good time to check your super, make sure it is in a low-fee fund, ensure any insurance in the fund is what you need and take a look at the shares the fund owns for you.

Homesick Krystle faces a tough dilemma but …

Happiness should come first

Q My husband and I are in our mid-30s and purchased a townhouse in one of Brisbane's bayside suburbs in 2017, shortly after moving to Queensland. I am incredibly homesick so am looking to move back to NSW (Wollongong) to be closer to family later this year. What should we do with the townhouse? We have been paying off extra amounts every fortnight but still have $362,000 left on the loan and the property is probably worth about $420,000. We have about $30,000 in savings. Our gross annual income as a couple is about $120,000.

Would it be wise to rent out the townhouse to build up more equity, and rent in Wollongong until we can build up another deposit, etc; or bite the bullet and sell the townhouse before relocating and try to buy in the Wollongong market?

This is always a bit of a dilemma, Krystle, but one thing is for sure: your life and happiness come first and money second.

So you have sorted the key issue and are heading home where you want to be.

Holding or selling the townhouse is a mix of emotion and facts. For me, the overriding thing is the prospect of rent and capital growth on it. The rent will be easy – any agent can tell you that. Then the capital growth will depend on the area, its desirability, plus the characteristics of your place. In the perfect world you would weigh up these factors, then do a comparison with Wollongong and buy where the returns look to be higher.

I don't know a lot about Brisbane's bayside suburbs, so I'll have to leave that to you. But a distant rental property is not ideal. Equally, I do know that Wollongong is growing rapidly. So as it sounds to me as if you will be back there permanently, unless you feel the townhouse is really well located, I know what I'd do. Sell and buy where I will be living.

Warwick is looking for the best way to ...

Pay off property debt

Q My wife and I recently renovated our investment property and moved in. There is an interest-only loan of $545,000 in my name on our new residence. The investment property where we used to live is in my wife's name and has an interest-only loan of $245,000 on it. Both loans have offset accounts. We extended the loans to renovate and have a large balance of about $170,000 in my wife's offset.

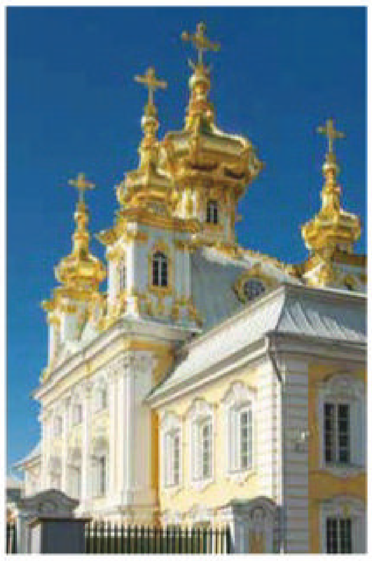
My home loan adviser has suggested we transfer the large balance to my offset to reduce the non-deductible interest payable and pay down the loan faster, and also to change my loan to principal and interest instead of interest only and to keep my wife's loan as interest only to maximise the tax deduction. How much money should I leave in my wife's offset? Is there anything else you would suggest to pay off the loans?

Warwick, that all sounds sensible to me. Keeping the investment property to interest only is technically correct. But it is important to take the savings from the lower interest-only repayments and add them to your non-deductible repayments.

The first rule here is to pay as much as possible into your non-deductible loan and keep the tax-deductible debt at its current level via an interest-only loan. The second rule is also really important: make sure you have a super-competitive interest rate on both loans.

SMART SPENDING

Destination Russia



From Russia with love ... clockwise from above, Church of the Savior on the Spilled Blood in St Petersburg; Matryoshka dolls; Grand Palace of Peterhof; Aphrodite in the Hermitage Museum of St Petersburg.

Six things to do

1. Admire: The Church of the Resurrection (Savior on the Spilled Blood) in St Petersburg. The century-old cathedral is located in one of the oldest areas of St Petersburg, making it a must-visit site for history buffs. The church stands out because of its magnificent architecture, which is relatively ostentatious among the surrounding buildings. Visitors must stay on their guard, though, as pickpockets abound. Many tour guides recommend leaving valuables on the bus, to be guarded by tour staff.

2. Cruise: By hydrofoil to the Palaces and Gardens of Peterhof. Journey along the Baltic shore to a place better known as the Russian Versailles. For more than 200 years, the Grand Palace of Peterhof was the summer residence of Russian tsars. Lines can get long so do your research online for the best time to visit or to find entry tickets when available online.

3. Visit: The Hermitage Museum. A visit to St Petersburg is not complete without a day or two at the Hermitage, the second largest museum in the world. Three million art items are spread across six buildings, five of which are open to the public. Head to the Winter Palace first, if you're pressed for time. Founded in 1764, the Hermitage boasts many of the early works of the world's most celebrated artists, including Matisse and Picasso.

4. Buy: Matryoshka dolls for family and friends back home. St Petersburg is a better place to buy the famous Russian nesting dolls. By the time you get to Moscow, the dolls either double in price or are not of the same quality.

5. Catch: The Sapsan train to Moscow. This high-speed train reaches Moscow from St Petersburg in a few hours. Enjoy views of the countryside from the comfort of this luxurious mode of public transport.

6. Capture: Photos of the Russian capital. Visit Red Square, the famous onion-shaped domes of St Basil's Cathedral, Lenin's Mausoleum and, finally, the Kremlin. After seeing all of that, you'll understand how the song *From Russia With Love* came to be. MICHELLE BALTAZAR

DRIVING PASSION

Newcomers fit the company car space

Is that Toyota Camry or Mercedes-Benz C-Class in your driveway looking a bit tired after three years of slogging to work and back? Do those many scratches on the paintwork and scuffed alloy wheels get you down every time you walk up to your car, compounded by the stained upholstery and outdated entertainment system?

It's probably time to upgrade to a new lease car with everything 2019 has to offer in the worlds of connectivity, autonomy and efficiency. And even better, you'll get a new-car smell to go with your new company car pride and joy!

This year sees plenty of new arrivals that will make perfect sleds for everyone from sales reps to executives, including all-new versions of the Mazda 3, BMW 3 Series, Toyota RAV4 and facelifted Mitsubishi Triton ute.

Or if you want to stand out from the crowd, perhaps consider all-new versions of the Peugeot 508 sedan or wagon, Audi Q3 and Range Rover Evoque SUVs.

WHICHCAR.COM.AU

$45,000-$85,000*

Audi Q3

Due here in November, the all-new compact SUV features bold design cues taken from its bigger sibling, the Q5, to give it a more mature appearance than its predecessor. It should also be more family-friendly and practical than before, and will benefit from a raft of infotainment, connectivity, driver-assist upgrades and a handy 530-litre boot space.

Pros: Bold design, space and practicality.
Cons: We'll have to wait and see.

audi.com.au

*estimated

$40,000*

Peugeot 508

Peugeot has shaken off whatever ailment afflicted its design department and released a stunning mid-size pair in the form of the 2019 Peugeot 508 sedan and wagon. It looks modern and dignified and flaunts a far more premium aura than most would expect of the French brand. Lightweight engineering will help it to drive like a dream when it gets here in the middle of the year.

Pros: Styling, equipment, packaging.
Cons: Pricier than main rivals; odd ergonomics.

peugeot.com.au

*estimated from

$64,000-$105,000*

Range Rover Evoque

The baby of the Range Rover range, the premium compact SUV has grown up and arrives in showrooms in May with myriad improvements over its predecessor, including more advanced technology designed to enhance the user experience and fuel-efficient powertrains. Despite being the same size as the previous model externally, it has more leg and head room and a more practical boot space.

Pros: Roomy for its size; comfortable ride.
Cons: Pricey options list.

landrover.com.au

*estimated

EXTRAVAGANCE

Caffeine hit

'Come in for coffee' just took on a whole new meaning, with the Ikawa Smart Home Coffee Roasting System. It's so tech-savvy, you can operate it via your smartphone.

How much: $2400

Where to buy: talkcoffee.com.au

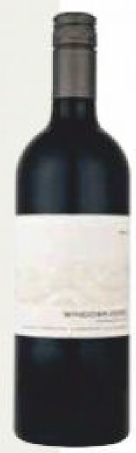
WINE SPOTLIGHT

2018 Skuttlebutt Sauvignon Blanc Semillon $18

The portfolio of southern Margaret River producer Stella Bella is enjoying great success and this budget-priced label is sharing that. The emphasis is cool: it's riotously perfumed, vibrant with green bean and tropical aromatics. Flavours are fresh and expressive – gooseberries, green bean and passionfruit. Crisp and clean to finish. Delicious.

SPLURGE

2016 Windows Estate Cabernet Sauvignon $41

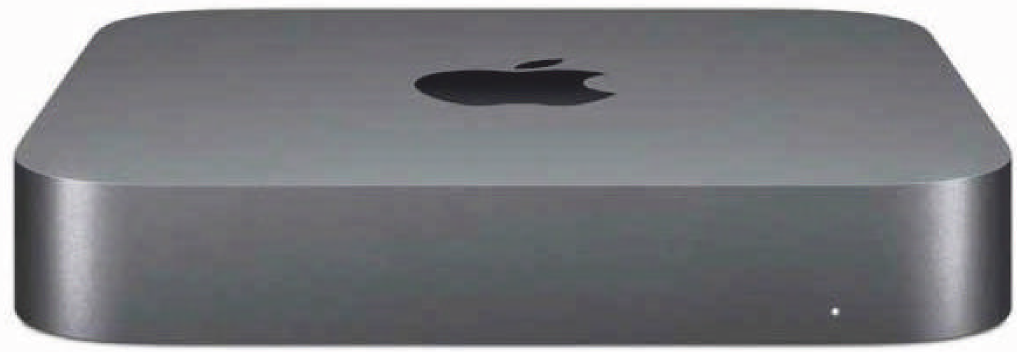


As it's Margaret River, Windows is named after the nearby surf break. At this tiny Davies family winery, Chris does the glory work in the vineyard and winery and Jo slaves to maintain the cellar door's status as one of the region's finest. Delicately yet persistently perfumed with blackcurrant, black olive and bramble characters that flow through to the palate, this is structured yet velvety textured and balanced with fine, supple tannins to finish. Exemplary.

PETER FORRESTAL

SMART SPENDING

SMART TECH



Small gadgets fit smaller spaces

We don't all live in mansions. While some Australians are moving out of the big urban centres, many others continue to flock to our largest cities.

What this means is that for more and more people an apartment or smaller dwelling is home. Inevitably, they may need to make adjustments to ensure their smaller spaces work for them, and tech plays an important role in this regard.

Small tech can occupy a smaller footprint in the place you live in: something that's pretty important if your home is a studio, a one-bedroom apartment or a bedroom in a share house.

But in addition to being mindful of technology's physical volume – for example, purchasing a smaller computer, rather than a larger one – it's also helpful to think about what technology can enable. Take a Kindle: a single e-reader can, in theory, replace an entire shelf of books.

For people who live in small places, the size of your couch and bed might seem like the biggest considerations. But don't forget what small tech can do for you too. PETER DOCKRILL

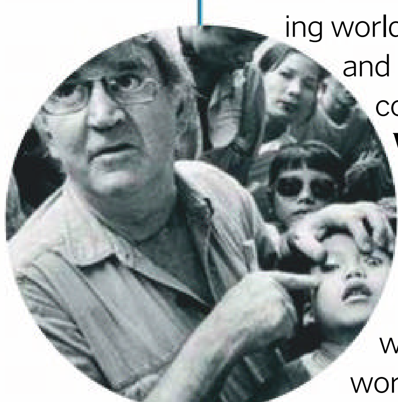
What is it? Google Home Mini
How much? $79
Pros: The biggest innovation in interface design is actually the smallest, taking up almost no physical space. Smart speakers don't really have buttons, levers, screens or knobs; all they need are microphones and a speaker. But they're still incredibly useful, letting you control them by voice. You can ask questions, check the weather, set timers, make shopping lists, play music and more.
Cons: Check deals. The Mini is often on sale, as is Amazon's comparable Echo Dot.
store.google.com/au

What is it? Amazon Kindle
How much? $139
Pros: Few devices speak to the benefits of small tech better than e-readers. Not only are they vanishingly thin but they let you read virtually any book ever written, provided you're happy with e-ink in place of paper. The new budget model includes a front light, meaning you can read in the dark, and features improved visuals.
Cons: E-reader interfaces take some getting used to, but they say not to judge a book by its cover.
amazon.com.au

What is it? Apple Mac Mini
How much? From $1249
Pros: Apple took so long to update its smallest desktop, many feared the Mini's time had come. Luckily the 2018 revamp breathes new life into the tiniest Mac, which now packs 8th-gen Intel Core processors. You'll need to bring your own monitor, keyboard and mouse (or trackpad), but you've got the foundations of a powerful computer here, in the size of something not much bigger than a CD wallet. Remember them?
Cons: Pricier than previous generations.
apple.com/au

GIVE IT UP

The Fred Hollows Foundation



What is it? The charity is helping to end "avoidable blindness" in the developing world and among Aboriginal and Torres Strait Islander communities.

Where your money goes: The foundation continues the work of celebrated ophthalmologist and humanitarian Fred Hollows, who died in 1993. Across the world, 36 million people are blind – and many don't have to be. Conditions such as cataracts, trachoma and diabetic retinopathy can be treated or cured with access to affordable treatment. The foundation works in disadvantaged communities in Australia and globally, training local teams in eye care and helping to restore sight using cost-effective techniques. A donation of $25 can often restore the vision, and the ability to earn a living, of someone in the developing world.

How to donate: Make a tax-deductible donation by contacting 1800 352 352, or visit hollows.org. Or participate in one of the foundation's Wild Women on Top Coastrek events, completing 30 and 60 kilometre walks. Events will be held in Melbourne on May 24 and on the Sunshine Coast on July 26. NICOLA FIELD

WEBFIND

KOALA.ECO

Koala Eco is the brainchild of an Aussie duo based in Bondi. The company makes 100% plant-based household cleaning products using essential oils rather than synthetic fragrances. With scents such as mandarin, lemon myrtle, pink grapefruit and, of course, eucalyptus, on the menu, Koala Eco is worth a try to bring an eco-friendly fragrance to your home. NICOLA FIELD

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PAUL'S VERDICT Paul Clitheroe

Would-be renovator's $300k quandary

I am 37 and earn $120,000pa before tax. My wife works part-time and earns $30,000-$40,000pa. We have two kids, a boy aged seven years and a girl aged three.

Our house, in the inner suburbs of Brisbane, is valued at about $780,000. Including an offset of $116,000, we owe $200,000. Our loan is a mix of interest only and principal and interest. Extra money goes in the offset against the interest-only loan and we pay extra on the P&I.

We have a $50,000 loan invested through the InvestSMART platform, with monthly $400 additions. This is currently worth $100,000. We have no other debts.

We have renovated upstairs (deck/kitchen with CBD views) and want to finish off the bottom by adding two bedrooms (so the kids no longer have to share), rumpus, bathroom, laundry, etc. It will cost about $300,000.

I may change jobs soon and I am thinking about school fees. Can we can afford the reno now? I am reluctant to use the offset and then add $200,000 to our mortgage. ***Dom***

Happy days ... Dom and his son.

Paul's verdict: Enjoy a lovely home while the kids are young

But more debt and job uncertainty are a risky mix

Hi Dom. I remember this stage of life, though it does fade as I rapidly head for 64. With the benefit of hindsight, it is really interesting how life and money move through distinct stages. During school it was all about earning a bit of money, firstly picking oranges and then, when I hit 18, working in a pub. My uni years were great fun. I was pretty poor, but it did not feel like it. Beer was only 33¢ for a schooner and my pushbike was cheap to maintain.

Then it was the first "real" job, back in 1979. My salary was $13,000 and I had so much money I didn't know what to do with it ... until I got married and along came a mortgage. Then I was at your stage, making progress with the mortgage, but children were coming along and we also had issues with space for our three kids, not to mention school fees.

You will be pleased to hear that with careful control of your money, as you are doing now, in about 20 years another stage comes along. This one is a cracker. For me it is like being back at uni, only I have more money. With adult kids, no mortgage and money invested, you can plan for this stage of relative freedom. It is terrific!

At just 37 you are tracking well. Your mortgage is under control; you are saving on a regular basis; you and your wife will be building up superannuation; and you have every reason to be optimistic about the future. Now to your conundrum. I really understand how hard you have both worked to get money into the offset account. I have to leave it to you to do a long-term financial forecast and a budget, but my sense is that, yes, you can afford to use the $116,000 in your offset and borrow another $184,000 to get the $300,000 you need.

The repayments on $200,000 would be around $10,000 a year and the fact that you add $400 to your investments and are building your offset account shows me you can afford this. But the variables I do not know are potential changes in your jobs and school fees.

School fees are quite predictable, and you can build those into your budget. But the change in jobs is a big deal. I presume you would only change for the same or a greater salary, but if there is to be much of a delay between leaving and starting a new job I would be cautious. More debt and job uncertainty do not appeal to me at all.

This is an issue only you and your wife can work out and plan for. One thing I know about life is that it goes by really quickly. Your family will get most enjoyment out of the renovations right now, while the kids are young and at home. It saddens me to see people playing it really safe and extending as the kids leave home. So I have no doubt that if I was in your shoes I would try to make the renovation happen sooner rather than later.

You mention CBD views. From this I suspect your house is in a good location with the prospect of long-term capital growth. So it seems reasonable to argue that the $300,000 you spend is not wasted money. In fact, it should increase the value of your home by that amount or a bit more. So we have a "balance sheet shuffle" where your asset value is unchanged or maybe a bit better. The big issue, though, is that the more valuable asset, your home, does not produce income. You and your wife do that.

I'd be looking to make this renovation happen, but I would want to be very sure that the new job on an equivalent or higher salary was certain. You can plan for all the cash flow issues such as school fees.

Anyway, I wish you all the best for the potential new job and hopefully a beautifully renovated house.

ASK YOUR QUESTION

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

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NEWCASTLE PERMANENT

This recurring household debate is always a close call and there are several options to consider

PAY OFF YOUR MORTGAGE OR INVEST?

OVERVIEW DARREN SNYDER

It's an age-old question and the answer can make a significant difference to your money situation over the longer term. Paying off your mortgage is a notable goal and achievement. Making the most of low interest rates and paying off your home loan early is commendable and will give you great peace of mind. However, will you benefit once you come out the other side of the mortgage and have surplus cash to invest?

Or do you pay off the mortgage for a little longer and consider building wealth alongside the loan? At the very least, this second option is a diversification strategy – having your money grow by investing in other assets, potentially compounding with interest over several years. And as the mortgage is paid, an investment pot develops.

But putting someone else in charge of growing your money is not as easy as it sounds. Several recent studies reaffirm what we already know: Australians are emotionally attached to their money and moving it into an investment vehicle is a difficult decision.

However, what these same studies tells us is that there's a case for homeowners to be putting money towards their home loan as well as additional investments.

In its latest Household Financial Comfort Report, ME Bank says more households are saving. It estimates savers, on average, are now putting away close to $862 a month or more than $10,000 a year, an increase of 7% from the previous biannual report in 2018. Almost half of households with a mortgage (49%) continue to pay above the minimum in repayments, the report also says.

As at December 31, 2018, 47% of households are contributing more than 30% of their income towards housing each month, and this is a nine-point fall from 56% over the previous six months.

What it suggests is that there's some wiggle room for Australians to make additional contributions to superannuation, invest in the sharemarket or work towards buying another property. *Money* has looked at these options and asked three experts to detail their views on the perennial wealth management question: "Do I pay off the mortgage or invest?"

It's a close call, and it reinforces why having a long-term financial plan is critical to improving your future wealth.

PROPERTY

WHEN DEBT IS YOUR $2.4M FRIEND

By leveraging the equity in your home you can start investing in real estate and transform your financial wellbeing. The secret is to make decisions based on numbers, not feelings.

BEN KINGSLEY

Ahh, "Should I pay off my mortgage or invest?" If I had to declare my favourite money management question, this would be it. Why? Because it has the potential to be financially life changing.

Life changing? Well, how does more than $2.4 million over 30 years sound?

A figure like that should raise your curiosity levels. Now I'm not automatically suggesting that what you're about to see illustrated is going to be the same for everyone, because it won't be. I always recommend you seek professional advice to get your own numbers crunched before doing any investing because it's a big financial decision and one that you need to fully plan for and understand to ensure it's the right thing for you.

Before I share with you exactly how this is possible, let's first recognise the two most common household beliefs:

- You should pay down your mortgage debt as quickly as possible.
- You can't afford to invest in property and also pay off your own mortgage.

From the outset, these assumptions seem valid, don't they?

For one, a large chunk of our hard-earned money is already feeding the monthly repayments on the mortgage – surely there's no room to take on another one? Plus, you don't really want debt "hanging over your head" forever, right?

I get it – holding debt is the major reason why most of us don't take this path. Paying off the mortgage makes us feel as if we're making progress – you're seeing your debt going down – whereas buying an investment property means more debt. Debt that, without first crunching the numbers, might feel as if you'll never pay it off and, in the process, you'll end up paying a huge amount of mortgage interest.

The potential problem with this line of thinking is that households wait too long before they start investing. They don't give themselves enough time to build an investment nest egg big enough to sustain the quality of life they might be enjoying now. My advice here is: be careful of making financial decisions based on feelings rather than the numbers.

With that in mind, let's get back to the $2.4 million question: "Why should you prioritise investing in property rather than pumping all of your cash into your mortgage?"

Pay off mortgage only

Year	Family home	Debt	Cash/ savings	Net position
0	$665,000	$400,000	$-	$265,000
1	$711,550	$367,751	$-	$343,799
5	$932,697	$210,007	$-	$722,690
10	$1,308,156	-	$52,991	$1,361,146
15	$1,834,756	-	$399,221	$2,233,977
20	$2,573,340	-	$835,439	$3,408,779
30	$5,062,150	-	$2,052,774	$7,114,924

Source: Empower Wealth modelling.

SO LET'S MEET ALAN AND JULIE.

Here's what their current financial picture looks like:

They're a mid-30s couple, each earning $60,000 a year.

Total income: $120,000 gross = net income of $96,766.

Their home is worth: $665,000.

Current mortgage: $400,000.

Annual mortgage repayments: $35,505 (4% interest, principal and interest repayments, with 15 years remaining on the original 30-year term loan).

Annual household expenditure: $47,400 (bills/spending).

Total annual outgoings: $82,905.

Annual household surplus (cash flow): $13,861 ($1155.08 a month).

OPTION 1
Pay off the mortgage only

As demonstrated in the table, if Alan and Julie commit to trapping their surplus cash flow of $13,861 to make extra repayments on their mortgage, and then continue to trap this surplus over the 30-year modelled term, their future value position will be $7,114,924. In today's dollar terms (allowing for 3% inflation) this will be $2,931,254.

On the mortgage front, by focusing on paying it off sooner, Alan and Julie would pay off the entire loan early in an impressive nine years and one month, instead of the 15 years remaining. This will save them $51,796 in mortgage interest.

Nice job, right?

PROPERTY

OPTION 2
Buy a $500,000 investment property
(and take a little longer to pay off the mortgage)

Well, let's take a look at what might be possible if they chose to invest in a property instead. Spoiler alert! The table below shows you the result, and now I'll explain how they did it.

In this scenario, we see Alan and Julie buy a $500,000 investment property. When you compare the two results, we see and learn a lot.

First, let's look at the difference in cash positions: they would have $283,326 in additional cash if they paid off their home and saved the cash.

What about the additional interest they paid overall in buying the investment property? They paid $47,921 in additional mortgage interest on their home loan.

But here's the kicker – this additional interest allowed them to control one investment, which in turn made them $2,425,868 in net worth over the 30 years, giving them a total net worth of $9,540,792. (In today's dollar terms this amounts to $3,930,680.)

So how did they do it?

First, you need to understand what it costs to acquire and maintain an investment property. At this point, it's important to note that there are a lot of variables to this question, as some properties are going to cost more than others; just as some are going to perform differently in terms of investment returns. Again, speak to a qualified property investment adviser to learn more about the types of properties and investment returns. In the example I use, we're focused on a growth property, meaning we want its value to grow over time (see Table).

Upfront costs and lending

What we know is that Alan and Julie's intentions are to borrow the full amount to purchase the

Top suburb picks

Locality	Typical house values	Yield
Seaview Downs, SA	$501,000	4.1%
Clovelly Park, SA	$472,000	4.1%
Largs Bay, SA	$523,000	4.1%
Karabar, NSW	$525,000	4.9%
Kuluin, QLD	$506,000	4.8%

Postcodes with strong demand and low supply in $500,000 range with >4% rental yields

Buy one investment property with their money

Year	Family home	Investment property	Total value	Owner occupier debt	Investment debt	Total debt	Cash	Net position
0	$665,000	$500,000	$1,165,000	$400,000	$530,000	$930,000	$-	$765,000
1	$711,550	$530,000	$1,241,550	$385,197	$524,049	$909,246	$-	$856,353
5	$932,697	$631,238	$1,563,935	$306,843	$493,896	$800,739	$-	$1,257,093
10	$1,308,156	$844,739	$2,152,895	$148,745	$444,490	$593,235	$-	$2,004,150
15	$1,834,756	$1,130,452	$2,965,208	$-	$263,341	$263,341	$-	$2,965,208
20	$2,573,340	$1,512,800	$4,086,140	$-	$-	$-	$229,377	$4,315,517
30	$5,062,150	$2,709,194	$7,771,344	$-	$-	$-	$1,769,448	$9,540,792

Source: Empower Wealth modelling

property and cover the upfront costs (such as stamp duty, legal fees, etc), a total of $530,000.

They're able to do this based on the equity they have in their existing property, as no lender is going to give more than the investment property is actually worth without additional security to support the borrowings. So they're using their home as security to borrow the full amount. This is a common approach for most property investors starting out, as it means they don't need to use any of their own cash savings.

What is the ideal equity "sweet spot" and how do I work it out?

In my view, the equity sweet spot is when you do not need to use any of your own cash or savings. Instead, you can cover the upfront costs with borrowings.

Let's use Alan and Julie's example to show how to work this out.

They own a $665,000 property with an existing $400,000 debt. This represents a loan to value ratio (LVR) of 60.15% ($400,000/$665,000 x 100). Banks are comfortable with lending up to 80% without asking the borrower to insure the risk of going higher by paying lenders mortgage insurance (LMI).

So I recommend that most people stay under 80%. This means we have $132,000 in available funds using the family home as equity ($665,000 x 80% = $532,000 less $400,000 already borrowed = $132,000).

The same rule applies for the investment purchase to keep this under the 80% LVR. If we want to buy a $500,000 property, then an 80% LVR is $400,000 against this property. For clarity this will also be a principal and interest loan over 30 years.

Assuming our upfront costs are 6% for stamp duty, legal fees, etc ($30,000), then to complete the purchase we need to find $130,000, which we worked out we have. So, for me, the equity sweet spot when you are in the accumulation phase of buying an investment property, or adding one to your portfolio, is to keep your global LVR below 80%.

Can you afford it?

Calculating the equity sweet spot is one of the two critical components needed to work out what you can afford to buy. The other critical component is cash flow: can you afford to borrow all this money without affecting the household budget?

If Alan and Julie want to buy this investment property, the numbers show us that they will need to cover the monthly cost of $1616. If we look back at their current monthly surplus, it was only $1155. So currently they are $461 shy each month of being able to cover the cost of holding the investment property.

What are their options?

The logical first option is to look at their current bills and outgoings to see if there is any discretionary spending they would be willing to sacrifice to find this money, remembering there is, potentially, a life-changing financial story here. Are they willing to forgo some short-term spending for long-term financial gratification? Hopefully they are, but the statistics tell us that most people aren't prepared to do it.

However, what if it were possible to find this $461 a month without impacting the family budget?

Here is a way to do it. You refinance the existing 15-year loan term on the family home, where the current monthly repayments are $2958.75, back to a 30-year term. The new monthly repayments will be only $1909.67, which results in a $1049 cash flow surplus. This clearly covers our $461 shortfall and leaves $588 to go back into the mortgage offset account or available redraw if Alan and Julie need any short-term funds for an emergency. And we learnt earlier what this move costs in terms of additional interest charges on the home: only $47,921.

This household budget restructuring strategy can be a game changer for most people who don't realise, up until now, that it's possible to realise the dream of owning an investment property and, in doing so, potentially build greater wealth.

Risk versus reward

Deploying one's money in different ways, such as buying an investment property instead of just paying off your home loan sooner, can yield a significant transformation in terms of financial wellbeing. It does, however, require a sound understanding of the numbers and potential risks involved, combined with a focus and desire to take a well-planned path less travelled.

Ben Kingsley is a best-selling author, co-host of Australia's No.1 property podcast and managing director of Empower Wealth.

SHAREMARKET

PORTFOLIO CAN PAY BIG DIVIDENDS

Enjoy the best of both worlds: once your home loan is under control, set up a regular investment plan – and even borrow extra funds – to increase your long-term wealth.

JO McCREERY

Paying down your mortgage as fast as you can – faster than minimum repayments – is a great investment plan that can save you thousands in interest costs over the term of your loan.

However, if your mortgage is at a comfortable level – so that you could afford an interest rate increase or a period where, if you are a couple, one of you is between jobs – then it's worth thinking about broadening your investment strategy.

Saving for short-term goals is best done in your mortgage offset account, but if you are willing to invest for the long term (more than 10 years) then a share portfolio is a great option. Investing regularly – say monthly – into a portfolio is also a good way to mitigate risk. This way you invest in the ups and downs of the market, reducing the risk of buying at just the wrong time.

Set up a savings plan

1. INVESTMENT PLATFORM

The best way to save is to automate the process so that it happens monthly, without you having to think about it. The easiest and cheapest way is to invest via a platform that offers a range of managed funds, allowing you to easily diversify your investment. This is also an excellent way to control risk.

Choose one that offers a monthly savings plan with no transaction fees. You will pay the buy spread on the underlying funds, but that cost would be no more than 80¢ on a $400 investment (compared with $10 to $30 brokerage per transaction, if you invest directly into the sharemarket).

You also pay fund management and administration fees ranging from about 0.7% to 1.2% a year ($35pa to $60pa on an investment of $5000), depending on the funds you choose. Fund managers such as Colonial, BT, MLC and Macquarie all have platforms that you can open with $5000 or less and that offer monthly savings plans.

As your initial investment, I would choose either a diversified index fund or a combination of indexed and global share funds, depending on your risk profile.

Indexed strategies are low cost and have low taxable gains on an annual basis (allowing you to defer a lot of the capital gains tax until you sell the investment). Having some Australian shares in the mix will provide you with some franking credits, which helps reduce the tax on income.

This is a really easy way to build an investment portfolio. You do pay the platform provider an administration fee, but for many people it will be well worth the convenience, and for savings plans that start small it will also be cheaper than investing via a share trading account.

2. SHARE TRADING ACCOUNT

An alternative to using an investment platform is to invest directly in shares or exchange traded funds (ETFs) through a share trading account. This is a more hands-on approach that can't be set on autopilot like the platform option. There is no automated way to do this, and to minimise brokerage I would recommend building up funds in a savings account and then investing every quarter or six months. You should also be prepared for a fair amount of mail associated with the investment (dividend and holding statements, etc).

If you choose to invest directly and your portfolio is starting out relatively small, I would go for a broadly diversified exchange traded fund such as the Vanguard Diversified Growth Index ETF (ASX: VDGR, fee 0.27%pa). Once your savings grow, you could add other funds such as the BetaShares Australia 200 ETF (A200, 0.07%pa) for a broad Australian share exposure and the Vanguard International Shares Index Fund (VGS, 0.18%pa) for global developed market shares.

Those who are risk tolerant could also consider an emerging market fund such as iShares MSCI Emerging Markets ETF (IEM, fee 0.69%pa). To reduce the risk in your portfolio, you can add some investment-grade bonds via an ETF such as the Vanguard Australian Fixed Interest Index Fund (VAF, fee 0.24%pa).

There are also actively managed listed funds that give you exposure to a more select portfolio of shares, and some of these funds should do better than an indexed fund over the long term. But if they are high-turnover strategies, you may find they also result in you having to pay more tax on the annual distributions than with indexed funds. These types of funds need to be chosen with care and reviewed periodically.

POTENTIALLY INCREASE LONG-TERM RETURNS BY ALSO INVESTING BORROWED FUNDS

With either of these approaches, you can potentially increase your long-term return by investing borrowed funds alongside your savings. I prefer to use home equity loans rather than a margin loan because the interest rate is usually much lower.

You would have to wait until you have some equity in your home and then ask your bank to create a new loan account that you use only for investment purposes. To keep it simple, you could add a deposit from your home equity loan to your investment portfolio each year.

Naturally, borrowing to invest is a lot riskier than investing savings, and if there's a sharemarket fall you could find you have more debt than equity. So if you're not highly risk tolerant, keep the level of debt low compared with the amount invested.

IS THE OUTCOME LIKELY TO BE BETTER THAN JUST PAYING DOWN YOUR HOME LOAN?

Achieving a successful outcome for this borrowing-to-invest approach will depend on a number of factors:

- You stay disciplined with the investment – don't sell shares when there's a dip. Stay focused on the long term and keep adding to the investment regularly.
- Your long-term portfolio returns, after fees and tax, are higher than your mortgage rate.

To put some numbers to this approach, we will assume:

- You have a $400,000 loan with a 30-year term at an interest rate of 4.5%pa.
- You have $100 a week to invest in a portfolio (or you could use that to increase your loan repayments).
- Strategy 1 – pay more into your loan, then when it has been paid off early, invest the repayment amount in an investment portfolio earning 6%pa after fees and tax until the original end date of the 30-year loan.
- Strategy 2 – make minimum repayments on your loan and invest $100 a week into a portfolio earning 6%pa, after fees and tax, every year for 30 years.

The chart compares the two strategies – it shows the addition of the value of the loan remaining and the investment account balance. Given the assumptions, Strategy 2, investing from the start, provides a better outcome. Note that, in reality, investment returns are not this smooth and there will be times when your portfolio value falls and other times when it increases by more than 6%pa. You should also be aware that the right investment strategy for you will most likely change over time as factors such as your time to retirement, mortgage rates, your disposable income and your risk profile change.

The table compares the final outcome under different return scenarios. It shows that if you earn only 4%pa, you would have been better off simply paying down your home loan.

The table also shows that gearing can potentially increase your return, but it also increases the risk. In the case that returns are only 4%pa and you had borrowed to invest, you are a lot worse off than you would be by just saving without borrowing. If, however, you earn 6% or more a year, it's a worthwhile strategy.

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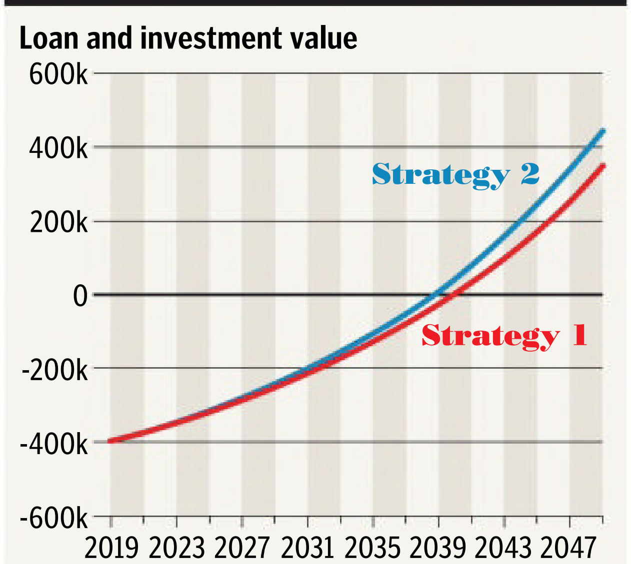
Note that this is general advice and you should consult a financial adviser about how appropriate these strategies may be for your own situation.

Power of investing



How to get ahead

	Saving from the start is ahead by:	
Investment return after fees and tax	**No borrowing to invest**	**Borrowing to invest**
4%	-$19,329	-$67,821
5%	$22,330	$5056
6%	$75,893	$97,855
7%	$144,284	$215,494

Assumptions in the borrowing scenario: you borrow $52,00pa and invest that in your portfolio as well as saving $100pw ($5200pa); the loan interest rate is 5%pa and you pay the interest from your investment account. Note that there is likely to be capital gains tax payable when you sell down your investment portfolio. This can be mitigated to some extent through a staggered selldown.

SUPER

BOOST YOUR RETIREMENT SAVINGS

Thanks to the tax advantages, coupled with the potential for higher investment returns, extra contributions can enhance your future lifestyle.

STEVE GREATREX

Everyone should try to make additional payments into their superannuation. This can seem challenging if you're a family with bills and a mortgage to pay. However, the federal government now limits your extra payments (both non-concessional and concessional) into super so you cannot easily "catch up" once your home loan is paid off.

Therefore, you are better off taking advantage of the concessional payments you can make every year and let your home loan run a little longer (though in many cases you can do both).

There are two contributions you can make if you are an employee: salary sacrificing and (for lower income earners) a non-concessional payment that generates the federal government's co-contribution.

Let us take the example of John and Maria. John earns $37,000 and Maria earns $80,000 a year. They have a mortgage of $400,000 with an interest rate of 4% and a term of 30 years. They pay off their loan fortnightly (meaning they make a few extra repayments a year) with $881 instalments.

DOES IT PAY TO SALARY SACRIFICE?

If John salary sacrifices $18,799 ($723 per fortnight) into super and reduces his taxable income, he can save more than $1100 and grow his super balance (see table). Additionally, if John puts $812 into super as a non-concessional (after-tax) payment and then does a tax return, he will be eligible for a $406 co-contribution.

For Maria, she decides to salary sacrifice $17,004 ($654 per fortnight) into super. When evaluating the difference between her marginal tax rate of 32.5% (plus the Medicare levy of 2%) and the super tax rate of 15%, Maria can effectively save more than $3300.

WHAT IF THEY PUT THE MONEY INTO THE MORTGAGE INSTEAD?

Over 30 years, if the standard mortgage repayments are made (not including fees), the total repaid will be more than $687,000 – including interest of more than $287,000 – according to ASIC's Moneysmart mortgage calculator.

Salary sacrifice into super: how you can save

	John	Maria
Income	$37,000	$80,000
Salary sacrifice into super (taxed at 15%)	$18,799 (-$2820)	$17,004 (-$2551)
Tax rate outside super plus Medicare levy	19% +2% $18,799 (-$3948)	32.5% +2% $17,004 (-$5866)
Non-concessional super contribution (after tax)	$812 + $406 (government co-contribution)	–
Tax savings	$2346	$3315

Source: Wealth on Track

However, if John and Maria did not salary sacrifice into super and decided those same dollar amounts were to be put towards the mortgage (after tax), they would have about an additional $26,000 or $1000 per fortnight to put towards their loan. It would effectively pay off the loan in less than 10 years for a total of about $485,000 and with less than $85,000 in interest payments.

However, considering this model does not take into account annual household expenditure, it's likely to need a more realistic middle ground.

MOVING THE GOALPOSTS

Let's say Maria had a surplus income of $8000, or $5400 after tax ($208 per fortnight). If the mortgage repayments were to increase from $881 to $1089 per fortnight, the loan would be repaid in 20 years and 10 months.

In other words, Maria and John would knock more than nine years off their home loan. Total repayments would be more than $589,000 (including interest of more than $189,000), saving the couple about $100,000 from the original 30-year loan term.

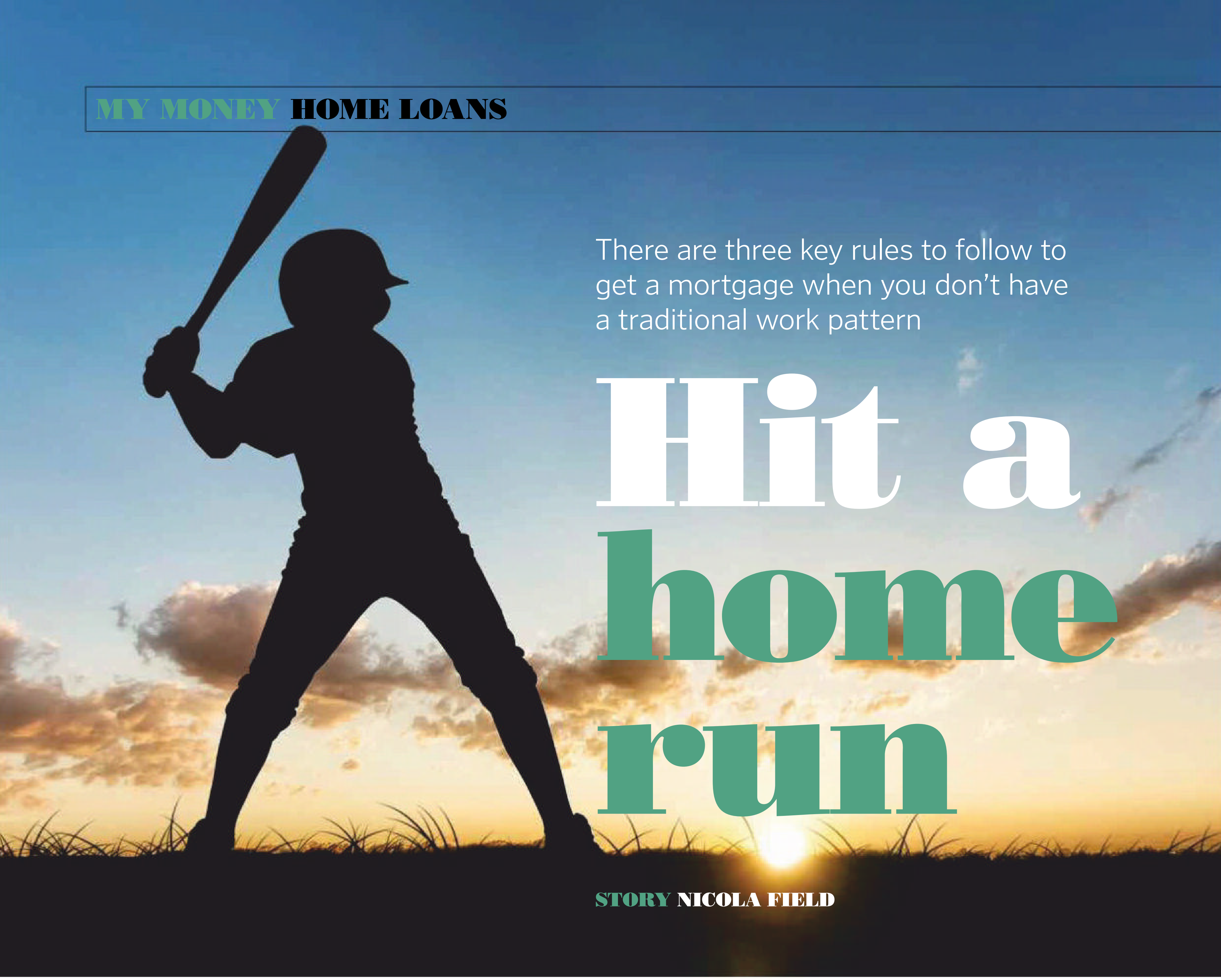
Yet if Maria's surplus income of $8000 was instead salary sacrificed to super for 21 years, rather than going towards paying the mortgage earlier, it could enhance her super balance by more than $315,000.

Based on the super guarantee alone (and its increase to 12% in 2024), Maria's balance would grow to more than $350,000 over 21 years (assuming returns of 7%pa after fees). This means her super balance could well be in excess of $665,000.

Put simply, if used to accelerate mortgage repayments, $5400 net over 21 years would result in savings of about $100,000. Whereas if $8000 gross was salary sacrificed to super, it would result in more than $315,000 being saved. However, this would have to be reduced by the amount of the mortgage still outstanding at the end of year 21, which is around $175,000.

If my logic is correct, salary sacrificing to super as opposed to making additional mortgage payments certainly seems to be the winner. The reasons for the difference are the higher net investment being made to super on a regular monthly basis as opposed to after-tax mortgage repayments, and the higher earnings being achieved inside the superannuation environment. ***M***

Steve Greatrex has worked in financial services for 30 years and founded financial planning firm Wealth on Track in Adelaide in 2009.



There are three key rules to follow to get a mortgage when you don't have a traditional work pattern

Hit a home run

STORY NICOLA FIELD

More than one million Australians are swapping the 9-to-5 grind for the freedom of the gig economy, picking up work from a variety of freelance jobs – from driving for Uber to designing websites. Add a further 1.27 million people running single-operator businesses and it's easy to see how the world of work has changed.

Like all self-employment, the gig economy can be rewarding from both a lifestyle and financial perspective. The downside can come when you want to buy a home.

"Generally speaking, it has always been more challenging for self-employed workers to secure a home loan, as it can be difficult to demonstrate a stable income and continuity of employment," says Susan Mitchell, CEO of Mortgage Choice.

A 2017 report by non-bank lender Pepper Money found that 26% of Australians who had been knocked back for a loan were refused because they were self-employed or worked part time. The thing is that working for yourself doesn't have to spell the end of home-buying dreams. It just means you may need to take a few extra steps to become home-loan ready.

Phil Gallagher, mortgage broker with Aussie Belmont in the Lake Macquarie region in NSW, says that around one in three of his home-buying customers is self-employed. The good news, according to Gallagher, is that self-employed borrowers can usually access the same loans and lenders as home buyers working for an employer – often with a deposit as low as 5% – as long as they meet all the usual income and affordability requirements.

That said, Gallagher recommends following three key rules of thumb: "Have your tax returns up to date, show that you're earning a profit and keep things simple."

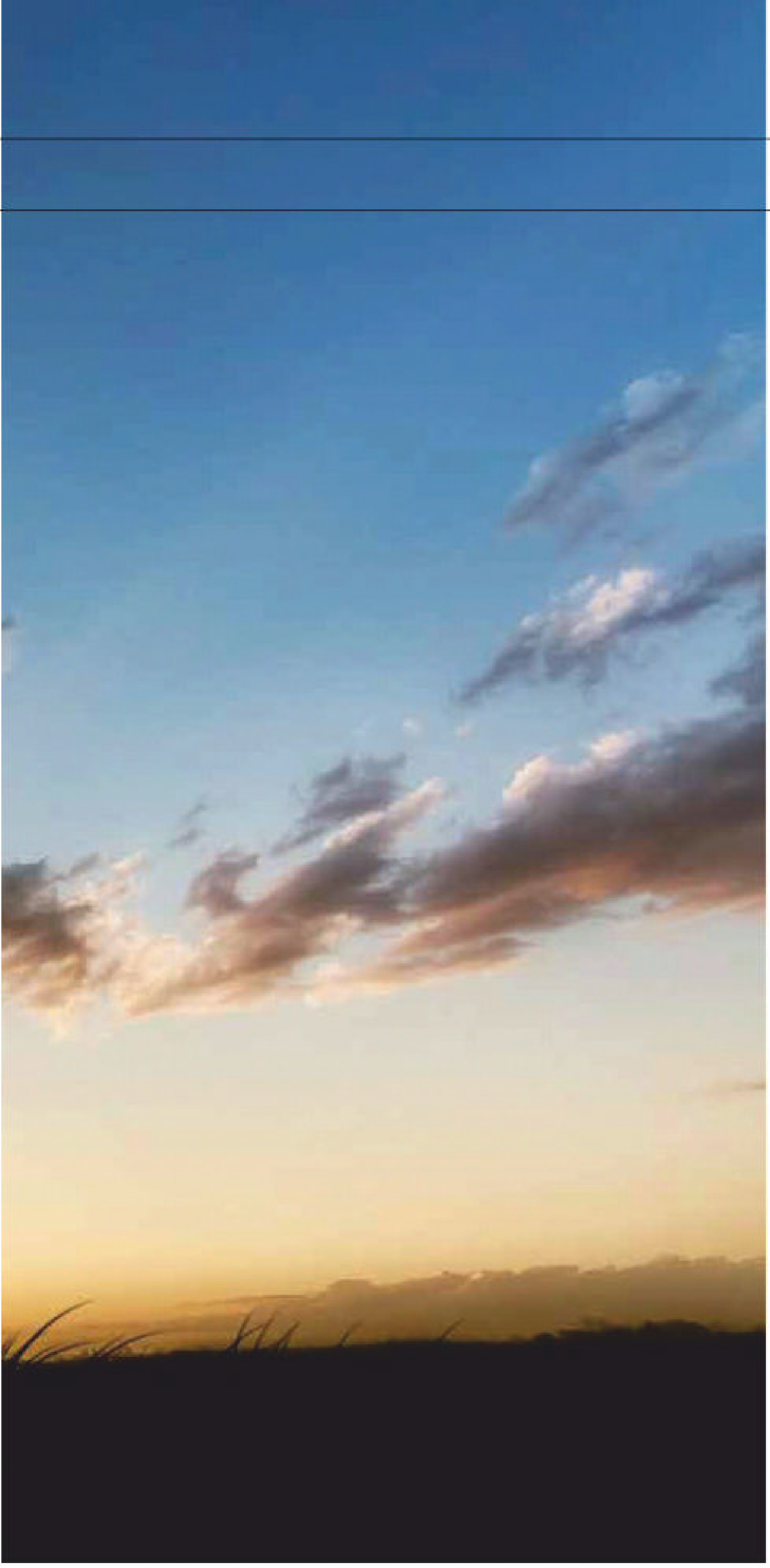
Stay on top of tax returns

Without a regular payslip, lenders rely on formal tax assessments to confirm a self-employed borrower's income. "If you are self-employed, a freelancer or a contract/temporary worker, you need to be able to demonstrate a history of income by way of your tax returns," says Mitchell. Two years of tax assessments are preferable but Mitchell says that as an absolute minimum "lenders require a borrower's most recent full tax return and notice of assessment".

The catch with tax returns is that it can be tempting to downplay income. As Gallagher points out, banks want to see that a business is profitable, yet accountants and tax professionals can focus on tax minimisation.

Mitchell cautions that if you've structured your business and your financials to minimise tax, it can be difficult to qualify for a home loan. Put simply, the lower your taxable income, the lower your borrowing capacity will be.

Trying to convince a lender that you really earn more isn't the answer. Not only is it the equivalent of admitting you fudged your tax return, it can also flag you for a tax audit. Having a lifestyle that's out of sync with



your taxable income is one of the issues that catches the tax office's eye.

The solution can involve compromise. "If your goal is to purchase a property in the next 12 months or so, speak to your accountant and make them aware of the potential need to maximise your income for that purpose," says Mitchell. It can come down to the choice between saving on tax and qualifying for a home loan.

Lumpy cash flow isn't a problem

One of the downsides of working for yourself is the potential for irregular income. Some weeks can bring a flood of pay cheques while others can see just a trickle of income or none at all. Without the benefit of set pay days, it can take discipline to stick to a budget and manage regular mortgage repayments. Fortunately, this "lumpy" cash flow shouldn't work against you when you apply for a home loan.

"It's generally not a problem," says Mitchell. "Lenders will look at a borrower's total income over the past 12 to 24 months. The fact that the income may have been earned irregularly is not that important."

Mitchell adds that lenders like to see consistency.

> Lenders also like to get a better idea of a borrower's living costs regardless of employment status

"Be prepared to explain fluctuations in your income, especially if it has significantly increased or fallen over certain periods."

Keep it simple

One pitfall to be aware of is over-complicating your business affairs. "Banks are very process driven," says Gallagher. "If you have something like complex lease arrangements, the lender is unlikely to invest time trying to understand how it all works. Presenting information that is easy to understand will work in your favour."

This particularly applies to the way you structure your business. "If you don't have control of the income flow a lender may say no to a loan," says Gallagher. It's a problem that can arise if you have less than a 50% stake in a venture, as can be the case with a three-way partnership. Even then, Gallagher says loan options for more complex work arrangements may be available through specialist lenders, though this could mean paying a higher rate or stumping up a larger deposit.

Lowdown on low-doc loans

If you don't have up-to-date tax returns, it may be possible to be considered for a low-documentation home loan. Mitchell says this means providing evidence other than tax returns, such as business activity or bank statements.

It may sound like an easy option but not all lenders offer low-doc loans. Among those that do, the interest rate is often higher than for a regular loan. As a guide, Bendigo Bank's low-doc home loan comes with a rate of 5.58% compared with 3.99% for its basic home loan. And as lenders regard low-doc loans as higher risk, you may need a deposit of at least 20%, in some cases more. The upshot is that it can be worth getting your tax affairs up to date and putting yourself in the running for a more affordable home loan with a mainstream lender.

Maintain good records

These days lenders don't just want to see evidence of income. They also like to get a better idea of a borrower's living costs regardless of employment status. This makes good record keeping a must for all home loan applicants.

Mitchell says that lenders have their own requirements for expense verification, but self-employed workers should keep all invoices relating to their business expenses so that they can supply them to the lender if need be.

One final point worth noting is that if you've only just begun working for yourself, it may pay to delay your home-buying plans until you're established and have a better idea of your annual income. "If you've become self-employed in the past two years, don't have an expectation that you will automatically be eligible for a home loan," says Mitchell. "Lenders want some comfort that your business is generating enough income to service a loan. This is especially so if you're in a start-up business where cash flow is tight."

Speaking to a lender or mortgage broker at an early stage will give you a better idea of whether you're likely to qualify for a home loan and how much you can borrow. *M*

Along for the easy ride

STORY
DAVID BONNICI

A Netflix-style service allows you to have a car without the ownership and financial hassles

By 2025, 1.9 million cars on Australian roads could be subscription cars. That's 10% of the country's current road fleet, and almost four times the 515,472 private vehicles sold in 2018.

Even if you halve that optimistic prediction by Forbes, it's going to require a revolutionary shift in how Aussies view the ownership of their cars, which have long been seen as the second most significant purchase after the family home.

So what is car subscription and how does it differ from buying or leasing?

For car enthusiasts, the annual expenses of owning a special car are like any other part of a hobby or passion. But it's a different story for people who view their car as a necessary appliance and prefer not to be bogged down by registration, insurance, finance and maintenance costs, as well as associated inconvenience and paperwork.

It's the discerning but time-poor driver that a number of vehicle brands and third party providers are targeting with Netflix-style subscription services, which allow you to swap your vehicle according to your lifestyle, without the commitment of ownership or finance contracts.

The format varies from brand to brand but each service revolves around the same principle. For a weekly, monthly or annual subscription, customers have access to a range of models. If, for example, the subscriber is off to the snow for the weekend, they might request a large SUV to cart around people and kit. Back home, a smaller passenger model may be more practical to live with for the daily commute and, occasionally, there could be a convertible or something a little more rewarding to drive on a summer weekend.

Not to be confused with car-sharing schemes that, for a membership fee, allow you to rent a vehicle when you need it, car subscription is a little like a mobile phone plan in which all costs are covered by one monthly payment but it allows you to change the handset whenever you like.

Of course, the service comes at a price, but for many users the fee may be less than their ownership costs.

When all associated costs are factored in, including finance, registration, tax and maintenance, the subscription may be the most cost-effective solution, particularly if a customer is able to replace more than one car as part of the plan.

How much it costs

Car subscription is still in its infancy in Australia but there are already a few services such as Carly, FlexiGo and Carbar that offer affordable options using new and used cars from a wide variety of makes, models, sizes and powertrains, including electric vehicles.

Carly and Carbar compare their services to Netflix in that there are lock-in contracts and you can cancel at any time, subject to a relatively brief notice period.

Using Carbar as an example, you can obtain a vehicle from as little as $169 a week, which will get you something like a base-spec 2013 Holden Cruze hatchback. Of course, that price goes up as you opt for something bigger, better and newer.

For example, want a new 2018 model year Mazda CX-5 with leather seats valued at $33,990? That would cost

$269 a week with an up-front fee of $1699 should you want to hang onto this car for the term of the subscription, which has no minimum term.

Alternatively, you can opt for a flexible Shift subscription, which will let you swap from the CX-5 to another vehicle every three months for $379 a week with a $2000 upfront fee. This is great if you really like that new car smell.

These prices include insurance (subject to liability excess), registration, roadside assistance and maintenance. And for many people this would also include the cost of financing a vehicle, which in the case of a $30,000 unsecured loan would be about $155 a week over five years based on an 11.9% interest rate.

Manufacturers are also adopting the subscription model, though so far this is mostly confined to luxury brands. Audi will be one of the first to introduce the concept in Australia with its Audi on Demand service that from next year will provide subscribers with a selection of models to suit their lifestyle.

Other brands such as BMW, Mercedes-Benz, Porsche, Volvo and Lexus, which also have subscription services overseas, will look closely at how Audi fares in Australia before fully committing to the concept here.

Such subscription rates will cost anywhere from $1500 to $4000 a month, and even more for high-end sports cars. It's hoped more mainstream brands such as Ford and Toyota will enter the market to offer more affordable options.

Audi will be one of the first to introduce the concept in Australia from next year

The pros

- Easy online shopping takes the footwork and stress out of buying a car. Some providers will even deliver it to you.
- Flexibility to change vehicles to suit lifestyle or different needs.
- A single payment covers everything. No more forgetting to pay your rego or insurance bill.
- The ability to not pay for a car when you don't need one, such as when travelling overseas.
- The promise that all cars, including used ones, will be in good shape.
- It allows you to try a model or type of vehicle before committing to buying one.

The cons

- Upfront payments when taking a subscription.
- Your subscription may include conditions such as limited kilometres and restrictions on additional drivers or using the vehicle for business.
- The weekly payment may factor in depreciation, meaning you're paying for depreciation for a car you won't own.
- Car manufacturer subscription will limit the type of vehicles on offer.
- As with renting a house, you can't make any modifications to the vehicle.
- Car subscriptions may not be available in your area, particularly if you live outside the eastern states. *M*

David Bonnici is a senior writer at WhichCar.com.au.

STORY NICOLA MORAS

Under the

Whether you're marketing a product or yourself online, these strategies can harness the power of social media to make money

Whether you're starting out in business, building a side hustle or expanding an already successful business, you can leverage the power of social media.

Becoming an influencer in your own right isn't difficult. You can build a strong presence, and use "influencer marketing" strategies to cash in on the ever-growing number of people spending more and more time (and money) on social media, when you follow these three steps.

1 Decision

You've got to decide what it is that you want to sell online – be it a physical product or even yourself as an influencer.

There are two main things to be aware of in the decision-making phase.

The first is to find something that you want to sell and that you know is needed. If it's something you're also passionate about, that is even better! And if it's "Brand You" you want to sell (in other words, you become an influencer), then social media is the way to go.

Once you have made that decision, it's important to then choose the specific audience you want to sell this to.

If, for example, you have seen the rise in the popularity of soy candles and you know there is a market for them, you would then double down on the next steps, making soy candles the hero of all of your social media efforts.

You could share the life of a soy candle from concept to production to retail to the home. You may have decided that the people who buy these candles are women who love to decorate their home and have it well scented at all times. They love the fact that

influence

the candles are made of soy wax and don't contain even a hint of petroleum.

Alternatively, you might have seen the rise in the power of influencers online and you want to become an influencer in a specific industry. In this case, you need to become the face of your entire digital presence. Choose the industry that you want to represent and get ready to move to step two.

The payoff for making the decision to be specific about what you're going to focus on, and the audience that you're going to speak to, is that it helps you to build your brand presence faster and with consistency.

2 Positioning

In the world of social media everyone is fighting to be seen and heard, to cut through the noise and stand out.

The answer to this is positioning, which is all about cultivating and enhancing the point of difference in you (or your company), not just your product.

People tend to skip the positioning step and go straight into advertising and marketing, which is not the best way to do things if you want to create a fast and lasting impact.

Advertising guru David Ogilvy famously said "positioning should be decided before the advertising is created", which is exactly why step two comes before deciding what platforms to use or creating any type of advertising material (which we'll discuss in step three).

You can become known as an influencer with a relatively small audience– it's what you do with that audience and how you communicate with it that counts.

If you want to be known as an influencer in the travel industry, for example, what makes you different from the other influencers in that area? Are you funny? Well travelled? Down to earth or the opposite of that? Perhaps you are completely new to travel and this can be an excellent point of difference.

Alternately, if you want to promote a product in the travel industry, what makes that product unique? You need to inspire, motivate and educate your audience in a range of different ways online, and there are a couple of steps to that.

The first thing to do while you're building your positioning is to own your space in the niche. This means embracing your inner confidence and being ready to share your knowledge freely and creatively with your audience.

Take on the stance that you are the expert and that what you have to say matters. This is about developing inner confidence and certainty before you start growing your positioning.

The second thing to do to use positioning as a tool to create influence and impact quickly is to start sharing these opinions and thoughts in your area of expertise online – this is commonly known as thought leadership.

Developing yourself as a thought leader helps you to create influence quickly and bolsters your positioning because it's based on a solid foundation – you.

Positioning is crucial to speedy influence building as it creates a point of difference and the space for you to cut through the noise online. Once you have this in place, it's time to start sharing it online.

3 Platforms

You don't need to be on every social media platform to make money and build influence, particularly if you're time poor.

Best practice is to use your website as the first digital platform that you populate with content. You'll use Facebook because it has the largest, most targetable audience of all the social media platforms and then choose either Instagram or LinkedIn as the next platform to utilise depending on where your audience spends the most time.

Embracing 3Pillars.Digital to bolster your presence is an efficient and effective use of your time rather than trying to be on every platform.

If you decided to go down the product route, once you have the product sourced or in production you can then start promoting it by putting up posts, photos and videos.

This is particularly effective on Facebook and Instagram, given the high proportion of visual media that is posted every day. This works on everything from swimsuits to candles to pottery. Make sure you have a mix of stylised photos featuring your product as well as some images that show it in situ with people.

Hint: Be on both of these platforms and always add pictures. Customers are six times more likely to purchase a product if the page includes pictures from social media.

If this is about you becoming an influencer in your industry of choice (also known as micro-influencers), then it's critical to have photos of you living and breathing your philosophy in that area, and articles or text posts where you share your opinions and experiences.

When you have step three implemented, you'll find that with steady consistency your audience will build. More people will notice you and you will start being seen and heard, which leads to success.

While your audience and profile are growing, you can start to make money for what you're doing, and that can be as little as $50 to post and talk about someone else's product, or a 20% commission for recommending someone else's product, or even earning thousands of dollars if you're promoting your own product or service for sale.

Be sure to make it clear in your posts where and how your audience can purchase from you (this is known as your call to action) and you're on your way to making money using social media. **M**

Nicola Moras is a social media specialist, sought-after speaker and author of Visible: Learn to leverage the online world with no bullshit, so you stop struggling and start getting a return on your investment.

Win a copy

Money has five copies of *Visible* (Vivid Publishing, RRP $29.95) by Nicola Moras to give away. For your chance to win a copy, tell us in 25 words or less your top tip for making money online. Enter online at moneymag.com.au/win or send your entry to *Money* magazine, Level 7, 55 Clarence Street, Sydney NSW 2000. Entries open April 29, 2019 and close on June 5, 2019.

Focus on people, not just profit

Measuring a bank's social worth could save it from a billion-dollar headache

Whoever said some things cannot be measured has clearly never met an actuary. The Actuaries Institute has produced a report suggesting there is a way to avoid another royal commission into financial misconduct.

The premise is simple. The board of any financial services business, particularly a bank, needs to measure what is seemingly unmeasurable: how public goodwill towards the business improves or deteriorates over time.

Instinctively, we all know what unacceptable business behaviour looks like. But apart from anecdotal evidence, it's been very hard to pin it down in numbers.

The institute wants to change that with a new way of thinking: treat social capital as you would financial capital, and measure it accordingly. It suggests a living document called the Social Condition Report (SCR) that measures social relationships and risks, as a nod to an existing mandatory report, focused on finance, called the Financial Condition Report (FCR).

The SCR would give banks a powerful tool to avoid self-inflicted wounds caused by focusing too much on money and less on the people around it: investors, staff, suppliers, banking customers and the public.

Unlike the FCR, which looks at hard numbers, the SCR would look at identifying key social groups (KSGs) as the data sources. The report proposes that boards and senior management systematically measure the quality of its relationships with the following: customers (retail banking, wealth, business); employees; suppliers and partners; shareholders; the public (ex-customers, others); politicians and bureaucrats; regulators; and the media.

Once those social groups are properly identified, the institute suggests using "signal analysis" and "relational analytics" to rate the bank's relationship with each of these key social groups. Signal analysis refers to the use of human signals such as

smiles, frowns, fashion sense or even car choice to predict human behaviour. But these signals can be unreliable, so the SCR focuses instead on other signals that are processed unconsciously or are otherwise uncontrollable. For example, the report would look at connectivity (who people communicate with), interactivity (how they communicate) and vocabulary (the language style they use when communicating).

Signal analysis can also use social network analysis, psycho-linguistics, machine learning, artificial intelligence and other methodologies, such as sentiment analysis.

Goodwill measure

The second metric, the relational analytics, uses a tried-and-tested proprietary framework that many UK companies already implement. Put simply, it measures the "distance" in the relationship between two parties, to identify the signs of bad practice being tolerated in certain parts of the business.

It doesn't end there. The report then calculates the social goodwill measure, which combines the weighted average measure of the quality of relationships across all key social groups to track changes over time and whether intervention is needed.

Restoring public trust

Employee culture is a key part of the report. While focus groups, surveys and customer feedback are useful, the role of the SCR is to turn those qualitative assessments into numbers that, just like the signal analysis and relational analytics above, can be monitored over time. This has been one of the missing links in existing risk management tools that are popular today.

Worse, the institute argued that risk assessments tend to be backward-looking. By contrast, the SCR will focus on forward-looking indicators that monitor underlying risks rather than past outcomes.

For example, instead of rewarding a bank for its record improvement on handling complaints, an SCR could look at the source of the complaints and how that has changed in previous months, not years.

Ultimately, the institute says that while it is common practice to identify risks in a number of major groupings – financial, credit, insurance, operational and strategic– it is high time to add another grouping, called social risks, to this list.

A scorecard built on social capital and social goodwill might just be the circuit breaker banks need to restore public trust.

The Social Condition Report – A Suggestion for Financial Services Business is available on the website actuaries.asn.au.

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

Beat the debt burden

With few savings in super, single women over 60 often struggle financially

When Elizabeth's hot water system blew up she didn't have spare funds to fix it. The 66-year-old needed around $1200 to buy a new system and have it installed.

Living alone, Elizabeth didn't want to ask her adult children, who had their own families, for help or to load up her credit card, which already had a long-standing debt of $7000. So she had to live without hot water for six months.

Before she went to hospital for a second knee operation, she visited her bank for advice. The loans manager suggested she take out a reverse mortgage. But it sounded like a lot of trouble for a hot water system.

Then she heard a radio interview with a financial counsellor and booked to see Kristen Hartnett, with the Salvation Army's Moneycare. Hartnett, who has 18 years' experience helping people with financial problems, told Elizabeth she had done the right thing by avoiding a reverse mortgage and suggested she consider a no-interest loan instead.

Elizabeth is typical of the many older, stoic women with debt whom Hartnett is seeing more and more. Single women aged over 60 are in the lowest income group in the 2017 HILDA (Household, Income and Labour Dynamics in Australia) survey, earning on average around $30,000 a year. About 34% of single women aged over 60 live in poverty.

Hartnett says the older women she sees are typically highly capable and tenacious, but for a number of reasons – such as an earlier than planned retirement or the death of a partner – find themselves in debt. Often they still support adult children and grandchildren. "Everyone in their family pulls on them," she says.

Where to get help

While it is tempting to take on more debt, the best strategy is to avoid:

- Taking on a payday loan;
- Increasing the limit on your credit card;
- Getting a rent-to-buy deal;
- Going bankrupt, as it has serious consequences.

Instead, talk to a professional financial counsellor who is trained to clearly explain your options. Financial counselling is free, confidential and independent.

Call the National Debt Helpline, a not-for-profit service, on 1800 007 007 between 9.30am and 4.30pm, from Monday to Friday, or visit ndh.org.au.

Consider a no- or low-interest loan. See nils.com.au to find out more.

No-interest loans are typically for household appliances, medical emergencies, repairs, funerals, relocation, pet bills, computers, beds and much more. But they can't be used for rent, general expenses or debt repayment.

She has seen women who take out personal loans for their children's weddings, pay their rent or pay all the bills for working kids who still live at home. "They don't want their kids to feel discomfort," she says.

When financial difficulties arise, typically older women load up the credit card or, worse, visit a payday lender. This is because they don't have the back-up of superannuation. Around 50% of women retire with a super balance under $50,000, compared with 33% of men.

Women's pattern of career breaks to raise children or be caregivers costs their super an average of nearly $160,000, according to Women in Super, an advocacy group.

Also, lower earnings catch up with women in old age. The HILDA survey found that up until 28, male and female earnings are on par but then they diverge significantly. While the female average weekly income remains between $1000 and $1250, the male average increases to over $2000 before age 40.

What can older women with financial problems do?

Hartnett says it is important for them to reach out to their network for support if they are experiencing difficulties. If they have credit card debt, speak to the hardship department that all major lenders operate. "You will be pleasantly surprised with what they do."

She recommends that women in debt investigate the No Interest Loan Scheme (nils.com.au) to see if they qualify.

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

Calling all freelancers

Regardless of your skill set, this online job market is a good place to pick up work

Freelancer.com.au connects people or businesses that need a project completed with freelance contractors. The website is open to anyone regardless of skills – there is a category for handyworker and local labour. However, the most popular categories tend to focus on IT and software, and creative skills such as content writing, design and photography.

Where to start

To begin pitching for work you'll need to write a profile, noting skills and expertise, then upload a profile photo. The next step is to complete a verification centre checklist – basically a proof of identity exercise that prevents the website being used for fraud or money laundering.

Price and costs

It costs nothing to sign up to Freelancer, and once you've sorted the admin you can chat and negotiate with "employers" and bid for projects – all for free.

Projects can have a fixed price or freelancers are invited to bid for the work. Average bids are displayed so you can see whether your bid is likely to be in the ball park. As a guide to the sort of money on offer, at the time of writing, a job to improve a travel website had an average bid of $437, a project to add a search function to a real estate website had an average bid of $750 and a photo-editing project attracted an average bid of $518.

It's only when freelancers are awarded a job that Freelancer takes its cut. Expect to pay 11% of the project fee or $5.50, whichever is greater. If you are awarded a project with an hourly rate, Freelancer charges 11%. This cost is something to factor into your bid. Employers also pay Freelancer a fee equal to 3.3% of a project cost.

The other way to make money on Freelancer is via a "contest". This is where a job is posted with a set fee or "prize". Freelancers compete by entering a finished product – maybe a T-shirt logo or a sales video. It costs nothing to enter, but Freelancer pockets 11% of the prize or $5.50, whichever is greater. It's worth noting that as far as the tax office is concerned, the so-called prize would constitute taxable income.

As Freelancer.com.au is part of a global network, projects can be posted from around the world – and conversely freelancers from across the globe can compete

for work. It doesn't take long to realise that here in Australia we enjoy high wages. As a guide, in early April contest prizes ranged from $US50 ($70) for a website logo to $US550 ($776) for 16 PowerPoint presentations, each comprising 25 slides. Given the time taken to complete this sort of project, the hourly rate would be low, even if you're a PowerPoint master.

When it comes to being paid, Freelancer.com.au recommends the use of its Milestone Payments system. This works on an escrow basis, with the employer's account being automatically charged the project fee, and the funds only being released to the freelancer when the employer says they're happy with the work done or the project is marked as complete. It's a system that seems like fertile ground for disagreements, and there is a disputes section on the Freelancer website.

On the plus side, the Milestone Payments system generates invoices that freelancers can download for help with tax records.

Freelancer.com.au offers a desktop app to track progress, monitor hours and communicate with employers. A mobile app is also available to help freelancers and clients stay in touch.

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

AT A GLANCE

- Freelancer.com.au is open to all-comers, though many of the projects call for IT skills (such as web design) or professional creative flair (for example, copywriting, photography or design).
- Freelancers can bid for a project at the rate they choose. Or put your hat in the ring for a "contest", by completing a piece of work specified by the client, and hoping you're the winner to pocket a fee. No winner is guaranteed.
- It's free to join but Freelancer.com.au takes an 11% cut of a freelancer's project fee.
- You may be competing for work on a global scale and potentially be paid in a different currency. It can be an eye-opener to see what freelancers in other countries will charge for what can seem like time-consuming projects.
- Competing websites include Upwork, Fiverr, CloudPeeps and ServiceScape.

In dangerous waters

The same survival skills apply to financial markets and the surf

I recently took a family holiday to the Sunshine Coast to take advantage of the last few warm days of the year. My teenage boys and I found ourselves standing alone on an unpatrolled beach, excited and full of anticipation. As we always do before we dive in, we studied the water, pointed out where the forces coming in and out from the beach were (the rips), and talked through what we would do if we got caught in a rip or found ourselves in danger. In that moment I had a realisation that the mindset you need to keep safe at the beach was very similar to the mindset needed to confidently dive into the treacherous waters of financial markets. Diving into investments with the wrong mindset can have devastating consequences.

The wisdom of the beach was passed down to me as four simple rules. The first rule, and by far the most important is, don't panic. Ever. If you panic you're more likely to spend unnecessary energy, make poor decisions and make a bad situation worse. Panic is the enemy, not the water. When you are calm you are in a better position to assess the danger and choose a course of action that gets you to safety with the least amount of energy spent.

People often panic when they get caught in a financial rip and then make poor decisions. They waste a lot of energy swimming against the tide, doubling down on bad investments or convincing others there is no "rip". The first rule to protect your financial life is don't panic. Be calm and present in the situation.

The second rule is to assess the current state of the beach before you swim. Rips are created when energy (waves) comes crashing into the beach and displaces water that is already there. The displaced water needs to go somewhere and so creates a rip back out into the ocean. Financial rips are also created when strong forces displace or disrupt. For instance, digital disruption is challenging many companies' shares which were traditionally considered blue chip investments.

You can't always tell what's going on underneath the surface, but you can look at cues that give a good indication of danger. You can't rely on recent history either. While it's important to learn from historic events, history rarely repeats itself and therefore it's an unreliable indicator of future success. Look at the financial environment for what it is.

Rule No. 3: don't swim alone. Social support in times of trouble has saved many lives. Seek out trusted others in your social circle with similar investments and learn from each other. A word of warning, though, about discussing investments with others – watch out for group effects such as group think, confirmation bias and herd instinct when either of the first two rules are broken. You often see these effects when herds of people panic or get over-excited. However, with this in mind, realise that collective learning often trumps individual brilliance.

Finally, test the waters. When you're in unfamiliar territory, don't go in too deep too quickly. Make some small investments and consciously observe what happens. If it's more dangerous than it first appears it's always easier to walk out of the shallows than swim out of trouble.

As you look to enter or navigate the treacherous waters of financial investments, check your mindset. Be market-wise in the same way you are water-wise – it might just save your life.

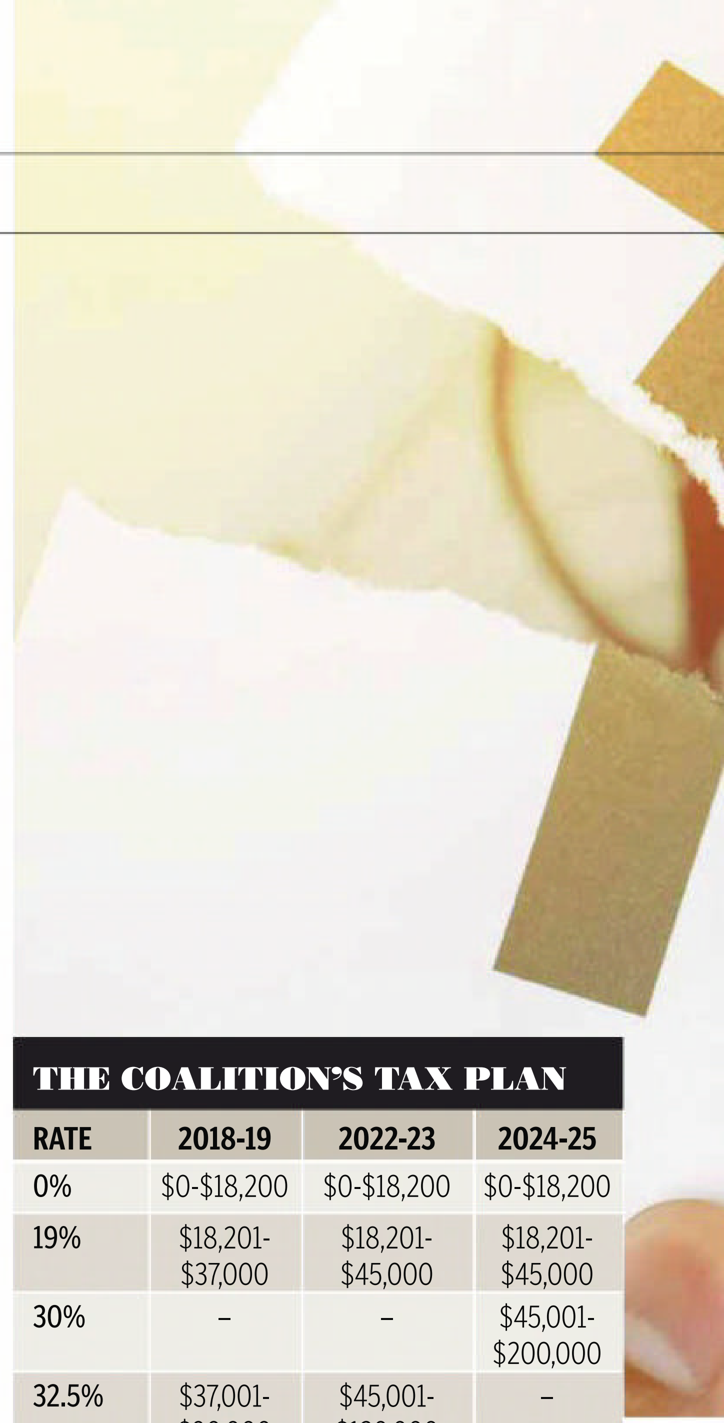
BETWEEN THE FLAGS

Two practical tips to help you financially "swim between the flags":

1. **Focus your thinking.** We have limited cognitive capacity, so short sprints of defined focus are needed to direct attention and remain aware. Over the course of a week pick a particular investment to research and challenge your current thinking. Find others with similar investments to talk with and ask questions such as, "What are the external forces impacting the investment?" and "Are any changes the result of others panicking or getting over-excited?"
2. **Create exit strategies and visualise them.** No one gets it right 100% of the time. Have a clear exit strategy for any decision and articulate the conditions that would trigger it. Then practise making this decision through visualisation. Imagining the situation and yourself making the decision lowers status quo bias and loss aversion, helps recognise warning signs early and reduces negative emotions that undermine good decision making.

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.

WHAT IF? Annette Sampson



I get a tax cut after the election

Both political parties are making big promises but some workers will be much better off than others

A SURE THING

The good news is that both Labor and the Coalition are prepared to splash cash to get your vote. Both are offering an immediate tax cut that can be claimed when you lodge your tax return this year, though there are bigger differences further down the track.

THE OFFSET OFFER

Both parties have promised to introduce a new low- and middle-income tax offset that can be claimed by anyone earning up to $126,000 in this year's tax return. This is in addition to the existing low income tax offset, which is only available to a smaller group of taxpayers.

After being outbid by Labor when it announced its original offset last year, the Coalition has promised to lift its offset from $200 to $255 for those earning less than $48,000. It will then be phased up to a maximum of $1080 (previously $530) for those earning between $48,000 and $90,000 and then phased down again so that anyone earning more than $126,000 is ineligible.

Labor has agreed to match the maximum offset but offered a $350 offset for those earning less than $48,000.

Labor has also agreed to match the Coalition's plan to increase the top threshold for the 37% tax bracket from $87,001 to $90,001, which will deliver everyone earning more than $87,000 a tax break as they will be paying less tax on that extra income.

According to the government, this will result in a tax cut of $135 for anyone earning over $126,000. All up, it says someone on $90,000 will receive a $1215 tax cut.

DOWN THE TRACK

However, the big differences emerge in the longer-term view.

The Coalition has put forward a plan for major tax reform that extends out to 2024-25 and succeeded in having this

THE COALITION'S TAX PLAN

RATE	2018-19	2022-23	2024-25
0%	$0-$18,200	$0-$18,200	$0-$18,200
19%	$18,201-$37,000	$18,201-$45,000	$18,201-$45,000
30%	–	–	$45,001-$200,000
32.5%	$37,001-$90,000	$45,001-$120,000	–
37%	$90,001-$180,000	$120,001-$180,000	–
45%	$180,001+	$180,001+	$200,001+
Low income offset	Up to $445	Up to $700	Up to $700
Low and middle offset	Up to $1080		

Source: Pitcher Partners

THE CHALLENGE Maria Bekiaris

Accident isn't your fault

The other party should pay but it can get tricky

Having a car accident is never fun. With any luck, both parties have come out of it physically unscathed but chances are at least one person's wallet will take a hit.

Just who will have to pay for the repairs depends on who is at fault. In some cases – for example, if you were hit from behind or one of the drivers was drunk – it's clear cut, but in some instances both drivers might be partly responsible. If the accident was not your fault, then the other party should pay.

Ideally, you should have exchanged contact details at the time of the accident. If the other party has admitted liability and agreed to pay for the damages, then you should get two or three written quotes. The LawAccess NSW website says that sometimes getting more than one quote can help show that the amount you are asking for is reasonable. The other driver can then choose whether to pay

DID YOU KNOW?
Think tax rates are high now? In 1985-86, anyone earning more than $35,000 was on a marginal rate of 60%.

BEST-CASE SCENARIO
It depends on what you earn, but pretty much everyone will get a tax cut, whichever party wins government.

WORST-CASE SCENARIO
A weak economy could put pressure on future budgets, with the possibility that tax cuts further out could be cancelled or deferred.

THE WILD CARD
A minority government, or lack of senate control by the future government, could throw a spanner into the plans of either party.

plan legislated last year, despite having to win two elections before it can be fully implemented. As the table shows, the Coalition has promised to eventually eliminate the 32.5% and 37% marginal tax rates so that everyone earning between $45,001 and $200,000 will have a marginal tax rate of just 30%. (The new offset will disappear as the tax rates are changed so that the tax cut is maintained in the new rates.) It claims 94% of taxpayers will be on a marginal rate of 30% or less by 2025.

Labor wants to keep the immediate tax cuts but repeal the future changes, which it says are too expensive to be locked in so far in advance. It also argues that the future cuts, particularly the extension of the 30% bracket to higher earners, are skewed to higher-income earners and it would prefer to offer a better deal to lower-paid workers. Those earning less than $37,000 receive no benefits from the cuts after those coming in this year.

In his budget reply speech, Labor leader Bill Shorten said 6.4 million people would pay the same amount of tax under Labor as under the Coalition, while another 3.6 million people would pay less.

The Coalition claims around 13.3 million people will pay less tax by 2025 when its full plan is implemented.

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.*

out of their own pocket or claim on their insurance (if they have any).

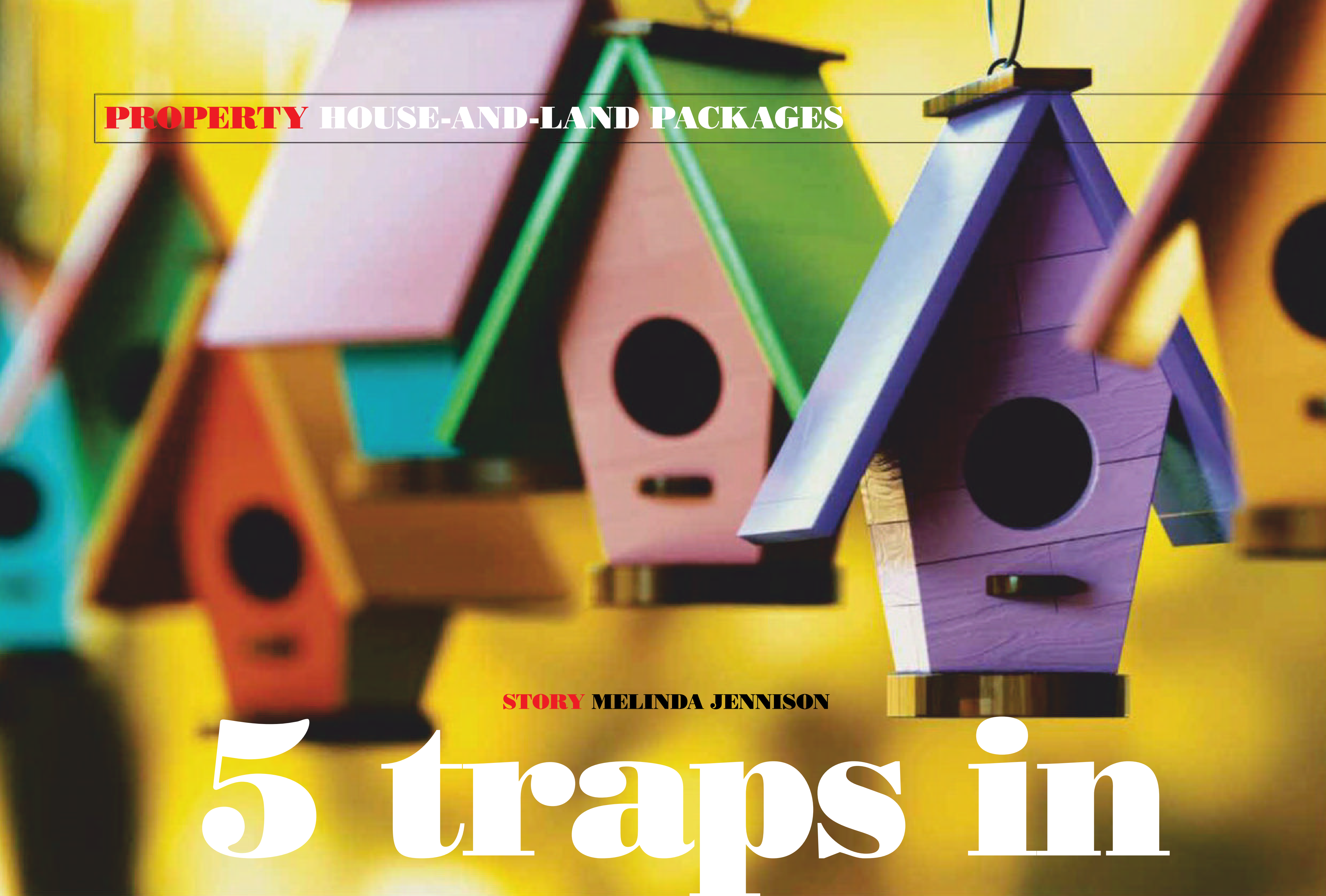
If they don't co-operate you can send them a formal letter of demand. LawAccess NSW says the letter should state how much you are claiming and when you would like the money. Go to lawaccess.nsw.gov.au for more details.

If the letter of demand isn't successful, you may be able to take the other party to court, but this can be time-consuming and costly. If it's all getting too hard to get the other driver to pay and you have comprehensive car insurance, you may choose to make a claim on your own policy. Your insurer will contact the driver and try to recover the cost from them.

Even though you're not at fault, you may have to pay the excess if you make a claim on your policy. Insurer GIO, for example, says: "If your car is insured and involved in an incident, we agree that the driver of your car is not at fault, and you can give us the name and address of the at fault driver and the registration number of the at fault car, you will not have to pay an excess. Should you be unable to provide details of the at-fault car at the time of lodging your claim, you will be required to pay the applicable excess. If at a later time you are able to provide the required details, then the excess can be refunded."

It's a good idea to check with your insurer about whether you will have to pay the excess. Also ask if your no-claim discount will be affected. Then weigh this up against the cost of repairs before making a claim. You may find you're better off paying for the repairs yourself.

If you have third party property damage insurance (not to be confused with compulsory third party) and the other driver doesn't have insurance, check if your policy has an uninsured motorist extension. Essentially this is cover for accidental damage to your car if you're not at fault and the other vehicle is uninsured. The maximum cover is usually about $5000. You can then also make a claim on your own policy.



STORY MELINDA JENNISON

5 traps in buying new

Look beyond the fresh designer appeal to make sure your dream home doesn't become a nightmare

There are many brand-new homes on the market and, let's face it, for many of us, the thought of living in a place that has not been occupied by others and being able to personalise its design has strong appeal. The many types of property include units, townhouses, duplexes and house-and-land packages in a new estate.

But before jumping in and committing to a new home purchase, it is important to be aware of the pitfalls. Here are five reasons why buying a new house-and-land property may not pay off over the longer term.

1 YOU ARE PAYING FOR SOMEONE ELSE'S PROFIT

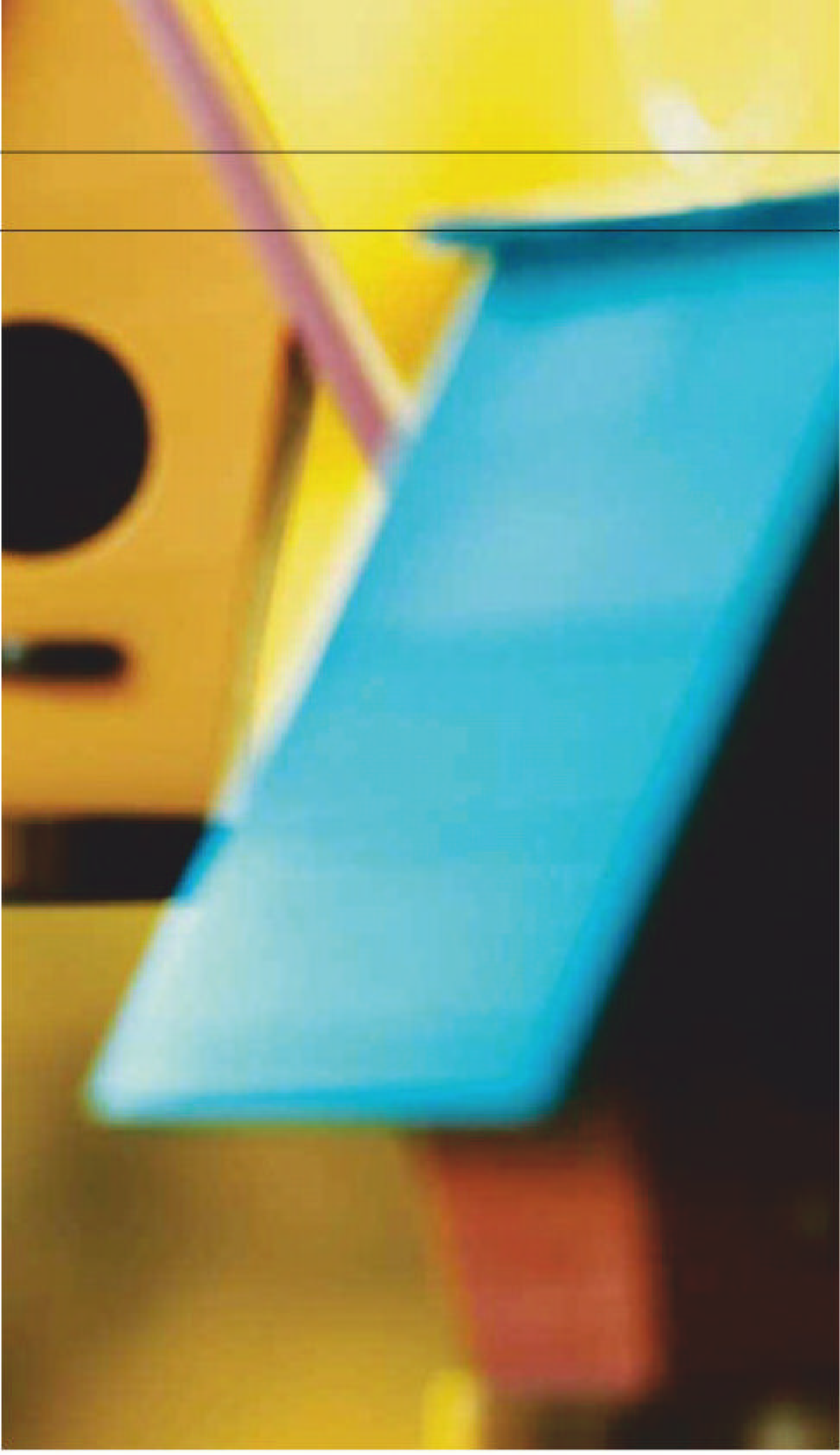
Property development involves a number of steps to deliver the end product to the market. Usually from the time a site is acquired by a developer to the time a dwelling is ready for sale, the steps include obtaining council and building approval, construction, marketing and sales. Every step in this process involves a cost and every consultant, contractor or company engaged along the way will usually make a profit.

This cumulative cost resulting from the development process is built into the purchase price of a new property ... engineers, building designers, certifiers, surveyors, builders, project marketers, sales agents and the developer will all be making money, and this is reflected in the listing or offer price. These are all "hidden" costs, and they could be equivalent to a number of years' worth of capital growth, which will put you behind right from the outset.

Remember, if someone is helping you purchase a new property but their service is "free", then it is likely that they are being paid directly by the developer. Ultimately, this means that you are paying for their services anyway because it will be built into the purchase price.

2 YOU ARE LIKELY TO EXPERIENCE LOW CAPITAL GROWTH

When we look at new house-and-land properties, we generally find that these estates are on the outskirts of the major capital cities. This is usually where there is an abundance of land and therefore an almost endless supply of new housing may be possible. We also usually see with these estates that the land is released in stages, so that as stage 1 nears completion the stage 2 land is released, and so the pattern continues.



The problem lies in the fact that, in most cases, the value of the building depreciates at a faster rate than the value of the land appreciates. Investors who buy brand new have the ability to write off the value of the property through depreciation, as the value of the building and its fixtures and fittings falls. Homeowners do not have this benefit.

The relationship between the declining value of the building and the slower increase in the value of the land has an effect on capital growth soon after purchase. Think about this ... when stage 1 in a new estate is sold out and stage 2 is starting to sell, the price of the stage 2 properties is generally the same as the original price of the stage 1 properties. But the stage 1 properties are now second-hand, so buyers will no longer pay the same price for a second-hand property when they can buy a brand new one just around the corner!

3 THERE MAY BE UNCERTAINTY ABOUT THE QUALITY OF FINISHES AND OTHER BUILDING ISSUES

Display homes, used to demonstrate the types of new homes that can be built in a new estate, are often fitted out with superior finishes and many "extras" that do not form part of the standard inclusions in a new house-and-land contract. Many buyers can be confused about what they are actually getting and, in some cases, even basic features such as driveways, fencing, a mailbox and a clothesline may not be part of the standard price.

Getting the contracts reviewed by a professional before signing up is critical to ensure there are no costly surprises along the way. And just because a property is new does not guarantee that it will be completely free from faults. It is always a good idea to perform your own due diligence on the builder and find out from previous customers if the after-sales service of the builder and developer lives up to their promises.

4 YOU DON'T KNOW WHAT THE NEIGHBOURHOOD WILL LOOK LIKE

One thing often overlooked by people buying in new estates is that you have very little control over what the surrounding neighbourhood may look like. At the time of purchase, for example, you may have a lovely outlook, but that may be impacted by future development in the immediate area.

You also have no control over what the neighbouring homes may look like. In an established area, it is not unusual to consider the appeal of the street when purchasing. But when all of the homes in the street are not yet constructed, you are at increased risk of the area being different from your vision.

Another big unknown when buying a new house-and-land package is that it is likely you will not know the demographic information of the other residents. This is something that is already known in established areas, so property buyers can get a feel for the suburb and who lives there. You also have no control over whether your neighbours are likely to be predominantly owner-occupiers or tenants.

5 YOU INCREASE THE RISK OF SETTLEMENT DEFAULT

There is a possibility that the value of a new house-and-land property may decrease between the original contract date and settlement. This has certainly been the case in some instances in recent years when property values have fallen. If a pre-settlement valuation is less than the original value when finance was first set up, then there could be a shortfall in funds to complete the sale. This may leave some buyers scrambling for cash to make up the difference.

No one wants to be in this position, so it is important to understand this risk and have a financial buffer to cover any shortfall in the event that the market value falls during the construction period.

There are plenty of reasons why buying a new house-and-land package may appeal to property buyers, and there are obviously some lifestyle elements that will contribute to this decision. But it is important to be aware of the pitfalls, to prevent your home purchase becoming a financial drain or a lifestyle burden. No one wants to have sleepless nights because of the decisions they make about where and how they want to live. ***M***

Melinda Jennison is buyers agent and property investment adviser at Streamline Property Buyers.

Weigh the long-term benefits

Government incentives, including the First Home Owner Grant and transfer duty concessions, provide big benefits to people wanting to enter the property market. Many developers use these incentives to attract buyers to their new properties. It is important that buyers are aware of this and make sound decisions based on what is right for them over the longer term, and not what will give them the greatest short-term lift.

Impact of tax changes

With the pending federal election, the Labor Party proposes to abolish negative gearing on existing properties and wind back the capital gains tax discount from 50% to 25% for newly purchased properties (and other assets) held for more than 12 months. This would encourage property investors to move away from established properties and buy new. Investors need to understand what their long-term goals are and not get caught up in the short-term benefits.

STORY NICOLE JACOBS

Boost your profit in style

The trick to preparing your home for a successful sale is to appeal to the emotions of potential buyers

You could just tidy up and hope for the best but anyone can tell you that a few small updates can make a huge difference when it comes to selling your home.

Darren Palmer, renowned interior designer and judge on *The Block* TV show, is adamant that when you're presenting your home for sale you need to make it as "beautiful and amazing as possible".

You need to paint a picture of how a prospective buyer's life will fit into your home. That means removing any reference to the specifics of your own life. It needs to look as clean and organised as it can be and it needs to be liveable and approachable with lots of emotional devices to grab buyers by the heart strings.

People do not look at a house or apartment they're thinking of buying in the same way they look at the place they live in. That perfectly cohesive look teamed with beautifully styled accoutrements is aspirational – it helps a buyer imagine how they'd ideally like to live.

> **Design to evoke an emotion. For example, leave a book with a throw on a sunlounge near a window. This allows the buyer to envisage themselves in that space.** Norm and Jess (*The Block*, Season 14)

Clear away clutter
Take all the kids' drawings, old tickets, photographs and magnets off your fridge and place them safely in a big envelope. Any cupboards, wardrobes and drawers stuffed to overflowing should be thinned out and organised properly. The same goes for overflowing bookshelves or sideboards covered in little ornaments and framed photos. Packing these sorts of belongings into boxes – if they have sentimental value – or getting rid of them in a garage sale or at the local charity shop will put you in good stead when it comes time to move. It is quite cathartic, too!

Any spare rooms that have become junk rooms need to be cleared out, their contents boxed up and stored or thrown away.

Clear your kitchen benches. Chances are you have all your everyday appliances, like the kettle, toaster and juicer, out where you use them. Clear some space in your kitchen cabinets where they can be put away, at least when you are having open houses.

If you have kids, especially little ones, grab some plastic storage boxes and cull the number of toys for use during the selling period.

Keep it neutral
Now is not the time to play with strong colours. Some people will tell you it is all about white, and that is definitely one of the safest options. But check out any colour chart and you will see there is a huge variation in even the palest of shades. One of the most popular whites of all time is Dulux's Antique White U.S.A.

Painting can add thousands of dollars to your end price, so it is definitely a worthwhile investment. Most companies have a colour consultant who can advise you in your home. If you have no idea on colours, then this is a good option. They come at a cost, but that will be redeemable on the price of any paint you then buy.

There are a number of free tools to help you decide on colours too, like the one at visualizecolor.com, which lets you virtually paint your walls.

Otherwise, stick to the basics. A great idea is to get a few sample pots, then paint large swatches on your walls and live with them for a week or so.

Accent your world
The place to use colour is in the accessories you use around the home. Be bold here, but also look around at what is popular. Interior design and home magazines are your friend. The latest ones will show you which colours are on trend. Rich and luxurious colours – peacock blue-green, deep purples, bronze – will work in most spaces to create a warm, cosy feeling, as will pastels like dusty pinks and mint greens.

Layer the comfort
These days, everyone talks about textures and they're an amazing way to make a home feel special and inviting. Satin and velvet cushions, alpaca throws and soft rugs can add real warmth to living spaces.

Layers can also hide a multitude of sins. If your carpet or tiles are a little bland, choose a beautiful rug then use the colours in it to coordinate throw pillows, blankets and curtains.

Don't forget about plants. They can make a space feel fresh and add a sense of life to rooms. In bathrooms, add a pop of green with some succulents in small containers.

Cohesion is key
When you are working on making your home more attractive to buyers, keep the same feeling throughout all the rooms. Give your style a name: beach house, Scandinavian chic, contemporary country, warehouse cool. Then, as you are working on your styling, each and every room should have that theme.

Play with furniture placement
Even if you are working with a compromised floor plan, you can always look at the flow and move or take out furniture. You may need to put certain pieces into storage with your boxes and you may need to reposition so the natural flow of the room is better for people walking through. Play around with the pieces and go with what feels more spacious and allows flow.

Shoving all the furniture, especially sofas, up against the walls can make a room appear small.

The clean scene
People will have very definite views on a bathroom, so it is best to show yours in the best light. If any of the fittings are outdated, you could buy some new, relatively inexpensive ones to be installed. Change the toilet seat if yours is an odd colour or has seen better days. If grout is discoloured, get yourself to the local hardware shop and find something to clean it up.

Look for streaks on glass and mirrors before any open houses or inspections. And clear off the top of the vanity and keep only essentials in drawers and cupboards.

Invest in a fancy matching handwash and lotion, a beautiful scented candle and some matching towels.

If you have more than one bathroom, clean them all and then assign the whole family to use just one. That way you only clean one bathroom before open houses and the others will just need to be wiped over for dust.

Bedroom bonanza

Of course, you can say this about all of the house, but unless bedrooms feel welcoming and lush, people aren't going to feel connected to them.

Do not overcrowd any of the spaces, but if the main bedroom has room for a beautiful armchair beneath a window – styled with a chic floor lamp and even a small side table – that is a great addition.

Children's bedrooms, wherever possible, should be styled in a gender-neutral way. It may be difficult to believe that a potential buyer could walk into a boy's bedroom and discount it because their child is a girl, but it's worth factoring in to improve your chances of a successful sale.

Seize on street appeal

If you are selling an apartment, sometimes there is not much you can do to make the exterior more appealing to buyers, apart from ensuring that the hallways are clean and tidy, there is no litter in the common areas or out on the street, and sweeping up leaves on the driveway. The same goes for townhouses and villas.

If you are selling a house, you have more freedom to make adjustments to the exterior. Even if it does not need painting, adding a shot of colour by painting the door a brighter, welcoming colour can give you a little bit of "wow" factor.

If the whole place looks a bit dusty, hire a power spray to give it a good clean. You can do the concrete in the garage and the driveway while you have it.

Walk around the whole of the house and make sure the window frames and gutters are in good order. Anything that needs fixing or cleaning should be done straightaway.

If your garden is looking a little shabby, either plan on spending a day doing some mowing, trimming and planting or find a local gardener who can come in and do some sprucing up for you. Even little pots of coloured flowers added to a garden bed or containers near the front door can make a huge difference.

Potential buyers will drive or walk past before the home is open for inspection. A well-maintained and tidy garden will make a great first impression.

Fresh is best

On the day, there are a couple of tricks that can really help make your house feel like a home. Fresh flowers, if the budget allows, will make the room feel fresh, airy, and appealing.

You have already stripped your kitchen benches of any superfluous appliances and accessories, but consider a big bowl of fresh fruit. There is something very striking about a big pile of citrus in a single colour – lemons or oranges work best, of course – in a big bowl.

You might read suggestions that you bake something that smells delicious before buyers come to visit, but that can be time-consuming and messy. Unless you are

Martha Stewart or Nigella Lawson, a few candles can also give a feeling of home. Try to choose fragrances that are not overpowering and that will not compete with each other.

Hire an expert

If all of these tips have you feeling a little overwhelmed, it may be time to call on someone who does this kind of thing for a living.

Most agents now have their "go to" interior stylists; their fees are even paid by some agents. But what exactly do they do? Well, it depends on your needs. Many will come in to vacant properties and use the huge range of furniture and accessories they have in their warehouse to give your property a cohesive look that appeals to a particular market. Professional stylists (or stagers) can also help hide awkward floor plans or finishes that aren't as high-end as they could be.

Under most circumstances stylists will hire out this furniture to you, in the first instance, for five weeks – one week is for the styling and photography and the other four are for your sales campaign. For a one-bedroom apartment this can cost as little as a couple of thousand dollars, but the returns are usually in the tens of thousands of dollars.

If you do not have the luxury of moving out of your home while you are selling it, some home stagers will offer partial styling. They will work with your existing furniture, tell you what should be put into storage and bring in artwork, lamps, rugs, soft furnishings and extra pieces of furniture to give you the best possible chance of attracting the biggest number of potential buyers.

It may seem like you are spending money that could be put towards your next purchase, but properly styled properties can be the difference between selling and not selling. ***M***

Artwork and things on the wall are my styling go to! The space isn't finished unless there is art on the wall!! You are selling an aspiration.

Shay (Shay and Dean, winners of Season 11, *The Block: Blocktagon*)

Win a copy of the book

This is an edited extract from *Sold!* by Nicole Jacobs (Hardie Grant Books, RRP $29.99) available nationally. Nicole is a property adviser, buyers advocate and expert on Channel Nine's *The Block*. Money has five copies to give away. For your chance to win a copy, tell us in 25 words or less your top tip for styling a home for sale. Enter online at moneymag.com.au/win or send your entry to *Money* magazine, Level 7, 55 Clarence Street, Sydney NSW 2000. Entries open April 29, 2019 and close on June 5, 2019.

Negative implications

Investors need to be aware of possible disruptions from Labor's gearing proposal

The clock is ticking for wannabe negatively geared property investors and those wanting to add to their tax-advantaged real estate portfolio. The federal Labor opposition has nominated January 1, 2020 as the start date for its controversial plan to scrap negative gearing on existing properties, limiting it to new properties only, and halving capital gains tax (CGT) relief from 50% of the gain to 25%.

Of course, it first has to win government at the election, but if the opinion polls (and bookies) are right, it's a distinct possibility. And then it will also need to negotiate its changes through the upper house.

Labor's negative gearing policy will prevent investors from writing off the losses from their property investments against the tax they pay on their wages. The latest tax office figures show that 1.3 million investors made a combined loss of $12 billion on their rental homes and units in the 2016-17 financial year.

First announced in February 2016, the Labor policy's aim is to help make housing more affordable, generate construction industry jobs and raise $32 billion over a decade. "Labor wants to create the conditions that promote home ownership, not a system which promotes a nation of property oligarchs and renters," said the shadow treasurer Chris Bowen.

The powerful real estate lobby and the federal Coalition government have both warned that the plan will cause residential property prices to fall and rents to rise. And since early 2016 residential property prices, which had been booming, have declined. The biggest cities with the highest prices have been hardest hit: Sydney house prices are down 13% from their July 2017 peak and Melbourne prices are down 10% from the November 2017 peak.

Many economists, including the Grattan Institute, and Treasury modelling disagree that Labor's policy will cause Armageddon in the property market, but any change in the rules will have implications for investors.

There's a possibility that house prices will rally as investors rush into the market ahead of the January 1 deadline, as all negative gearing arrangements in place on that date will be preserved.

But this also depends on banks loosening their purse strings, which were firmly tightened in reaction to the royal commission into financial services, which heard evidence of inappropriate mortgage lending. New home lending volumes dropped by $11.9 billion (12%) in the quarter to December 2018, according to Australian Prudential Regulation Authority (APRA). In the 2018 calendar year, new home lending settlements fell by $25.1 billion (6.5%), driven by a sharp drop in new investment lending, which was down $17.7 billion (14%), from $126.9 billion to $109.2 billion over the year.

Tyron Hyde, a quantity surveyor and property investor, says he understands why many Australians are against the tax deductions available to negatively geared property investors. It can lead to someone owning 50 properties, claiming all the losses and reducing their taxable income down to zero and paying no tax.

But Hyde, who is the managing director of Washington Brown, argues that Labor's solution to curb these excesses is not the correct one and he warns it will itself spark new problems that investors should be aware of.

He foresees the rise of spruikers pushing overpriced off-the-plan property under a tax regime that favours new over old. "Next thing you know investors will be flying off to the Gold Coast and shown the red carpet!" he says.

Another big concern for investors is the creation of a two-tiered market. "In a market where you allow far greater deductions on brand new property compared to a similar second-hand property, it will be very hard to sell almost new property," says Hyde.

"Why would an investor buy a property that is, say, one year old when he or she can buy the one that is brand new next door and get significantly better tax benefits?"

There is already a significant benefit in buying new, thanks to the changes in depreciation implemented in May 2017 (you can only claim depreciation on plant and equipment in brand new buildings) and Labor's policy will just increase this bias against second-hand properties, claims Hyde.

But, of course, first home buyers will not discriminate between new and old because they get no tax breaks from either.

And he also believes, as many in the property industry argue, that the timing is wrong. "Labor's policy on negative gearing was launched at a time when property in Sydney and Melbourne were, quite simply, inflated. As we all know, things have changed."

Hyde says he's OK with the proposed changes to CGT as it will affect all asset classes equally. He is working on a solution to enable Labor to keep its election promise in a way that will not disrupt the property market and will still increase the government's revenue. Stay tuned!

Pam Walkley, founding editor of Money *and former property editor with* The Australian Financial Review, *has hands-on experience of buying, building, renovating, subdividing and selling property.*

STORY VITA PALESTRANT

Legal reforms are welcome but starting early in life is the secret to accumulating retirement wealth

Better luck in the lottery

The first experience of super that many students have after leaving school is bewildering. Juggling different jobs with different employers, they steadily accumulate multiple small, dormant accounts that are soon depleted by fees and insurance premiums.

Anyone aged 18 and over who earns at least $450 a month is entitled to the 9.5% super guarantee (SG) contribution. However, many young workers starting out are left with a jaundiced view of super when their meagre savings are consumed by fees (see "Battle to get a refund").

Typically, they don't actively choose their super fund, which means their SG is paid into a default fund selected by their employer. Consequently, every time they start a new job another account is established.

The multiple-account problem was highlighted in last year's Productivity Commission report on superannuation, which described it as "an unlucky lottery" for many workers, with a third of accounts (or 10 million) being unintended multiples.

The report put a figure on how much this costs consumers: a staggering $2.6 billion goes into the industry's coffers every year. It said an obvious flaw was that the default fund was tied to the employer rather than the employee. Following its report, and recommendations of the financial services royal commission, legislation was passed to address the problem.

From July 1, small, dormant accounts will be given special protections in legislation called Protecting Your Superannuation Package (see breakout).

When it comes to super, everything old is new again. Until 2013, accounts with balances under $1000 had a cap on fees. The fund's administration fee could not exceed the investment return. The ban was dropped with the introduction of MySuper in 2014.

Jason Andriessen, managing director of CoreData Research, says the erosion of account balances has a huge impact on young people and is a stark example of super funds behaving in a way that is detrimental to their membership.

"That's an unconscionable situation because that wasted money is paid by members to super funds and insurance companies – institutions that are legally and morally required to act in their customers' best interests," he says.

He says many young workers shrug it off as a rip-off and treat the SG as just another tax. "It's a huge problem because these funds and insurance companies have a fiduciary, best-interest duty to prioritise their members over themselves.

"It changes the way young people think about super. It makes them cynical and less engaged. And it's happening at a time when contributing to super could make a big difference to their lifetime wealth. So just when they should be engaging with it, they are having a poor experience."

Andriessen says the multiple accounts are an outcome of a super system designed 30 years ago that is no longer fit for purpose. "We no longer have a 40-year career and then 30 years of putting our feet up. Work is far more intermittent than that, and retirement isn't necessarily a time we stop working," he says.

Active interest is key

He says the July 1 changes will lead to the consolidation of small, inactive accounts and change the economics of many super funds. "They are in the best interests of their younger members and will lead to better outcomes for them. It means super funds will need to find growth in alternative ways."

Andriessen advises students to take an active interest in their super when they start with a new employer and ensure their SG is paid

into a preferred default account. They should also ensure they are being paid the correct amount.

"Recognising the amounts that are contributed in the early days will have a huge impact on what will be there at the end of your working life because of the effect of compounding. It matters even more than how the money is invested," he says.

Adrian Raftery, associate professor in superannuation at Deakin University and course director of financial planning, says the cap to stop fees from eroding small balances and making insurance an opt-in rather than opt-out is a welcome improvement.

"You don't need to have insurance if you are under 25. However, if you do have commitments, if you do get married young, or have kids young, or have taken out a mortgage or do risky work or risky sports, then I would encourage you to have insurance. There's a lot of tradies out there and they are not adequately covered."

In terms of long-term savings, Raftery says super really works. "Super is a long-term asset. The earlier you can start putting money into super the better it is. If the student were to ask their parents what they would do differently when it comes to super, many would say they wished they had started putting money into super much earlier.

"Take advantage of the super co-contribution. If you put $1000 post tax into your super, you will get $500 from the government. That gives you a 50% return automatically. Do that every year and it mounts up if you earn less than $37,000 a year," he says.

If you do change jobs, roll over your super straightaway. If you change your address, notify your super fund and make sure your fund has your tax file number.

Once you start earning a lot more and your degree has paid off, Raftery says super's tax concessions really take off. "I'd be encouraging [young workers] to start taking advantage of the favourable tax concessions around super. They're really fantastic." *M*

CASE STUDY

BATTLE TO GET A REFUND

It's a little-known fact that you can withdraw your super balance if it is less than $200 and your employment has been terminated. This takes into account the fate of small account balances, which are decimated by fees.

Susan Hill*, 19, found her industry fund unresponsive when she requested a refund on her super guarantee. She had worked at her first casual job over the Christmas period before starting a university degree.

After checking her super account in February, she noticed her modest SG contribution of $53 was shrinking due to a $10 deduction for insurance, $1.30 per week for administration, plus an investment fee of 0.1%. Contributions tax of 15% had also been deducted.

After her fund's call centre said there was nothing it could do to help her, she called the Australian Financial Complaints Authority. "I established that super funds are able to refund the SG to the member if the total balance is less than $200," says Hill.

After quoting the rule to more senior staff and making it clear she was studying full time, not working, and had a termination letter from her employer, her insurance premium was refunded. But the fund held onto the rest of her money with a grim determination.

"For a student who isn't working, every dollar counts," says Hill. "All the ongoing fees mean the compulsory contribution will quickly dwindle to zero." She welcomes the July 1 reforms to protect small accounts.

"That will be fairer to students like me who were Christmas casuals but not currently working. I don't think compulsory super should disadvantage us because fees and commissions are being unreasonably taken."

Not only should her super fund have refunded her entire amount, no contribution tax is payable on any refund you receive on a balance under $200.

For details, see ato.gov.au/individuals/super/withdrawing-and-using-your-super/Early-access-to-your-super/?=redirected_early-release#Superlessthan200.

*Name has been changed at the case study's request.

PROTECT YOUR PACKAGE

From July 1, a super account classified as having a low balance – that is, one with less than $6000 in it – will have fees capped at 3% to stop the savings from being eroded.

Accounts that have not received a contribution for 16 months, have balances below $6000 and show no sign of any member activity, such as investment or insurance changes, will be transferred to the tax office.

The ATO will auto-consolidate dormant accounts and reunite them with a member's active account if it can identify one. This underlines the importance of always giving your super fund your tax file number.

"There's also some protection around insurance so students and young workers don't end up with zombie insurance policies they don't require," says Andriessen. "Members under 25 will have to opt into insurance rather than opt out."

See moneysmart.gov.au/superannuation-and-retirement/how-super-works.

STORY PAM WALKLEY

Clean & green

Peer-to-peer lenders are refining their platforms to cater for a growing demand for credit

RateSetter, one of the few Australian peer-to-peer (P2P) lenders enabling retail investors to participate in the lucrative consumer and business credit marketplace, is not letting a lack of competition stop it from introducing new initiatives.

Investors in P2P loans enjoy superior returns – think 5% to 8% – compared with bank accounts, including term deposits. But this comes with increased risks, as investors in P2P loans do not enjoy the federal government guarantee over deposits up to $250,000 that covers banks, building societies and credit unions.

RateSetter (ratesetter.com.au) has expanded into clean energy loans, changed the rules for early withdrawals and is improving its educational offering for investors. It also plans to launch an app by the end of the year.

Investors can start with as little as $10, and at the time of writing, interest rates ranged from 2.5% for one month to 7.7% for five years.

SocietyOne, the first P2P lender to set up shop in Australia, has still not changed its business model to enable retail investors to participate. Only institutions and high-net-worth individuals and self-managed super funds (with over $2.5 million in net assets or at least $250,000 in gross earnings a year over a minimum of two years) can invest via the lender. A spokesperson says potential retail investors can register their interest online at societyone.com.au

but there's no estimate of when they might be able to invest.

ASX-listed Wisr (wisr.com.au) is another P2P lender that accepts retail investors, although Andrew Goodwin, chief financial officer, describes it as a "neo-lender" rather than a marketplace lender. He says it has an ecosystem model, offering genuine benefit to its customers and promoting financial wellness, for example, by showing people their credit scores and providing tools to enable them to pay off debt sooner.

TruePillars (truepillars.com), which boasts an average annual return of 12.35%, offers retail investors the opportunity to fund business loans with as little as $100. You need to register to invest and set up your investment instructions, and the platform will invest your funds in loans that match your criteria. As the borrower makes their monthly loan repayments, you will receive distributions equivalent to your share of the loan.

Latrobe Financial (latrobefinancial.com.au), which is a long-established and well-performing mortgage lender, also labels products as P2P investments. Its Select Investment Account (P2P) enables investors with a minimum of $1000 to select loans they want to participate in. All loans are secured by first mortgages over Australian property. Returns, which are from 6% a year, are paid monthly.

Focus on retail investors

Former P2P lender MoneyPlace, which was taken over by Liberty about 18 months ago, no longer seeks retail investors.

"I'm very surprised there's not more competition [in the category]," says Daniel Foggo, CEO of RateSetter, which set up shop in 2014. It would be good to have more participants to make P2P a bigger investment class, he says. But, on the other hand, the lack of competitors really helps RateSetter capture the types of high-quality borrowers it is trying to attract.

A major reason for the lack of companies in the space, compared with the situation in other countries, is the high barrier to entry. "It took us a lot of time and cost us a lot of money to meet the requirements of the regulatory regime," says Foggo.

But this does give investors in the relatively new sector a degree of comfort. For borrowers, including businesses, there are more options including Harmoney, Marketlend, ThinCats and Bigstone.

RateSetter is firmly focused on retail investors, says Foggo. The company has 15,000 registered lenders, both young and old, and the average investment is $20,000 by individuals and $100,000 by self-managed super funds.

By the time this article is published, Foggo expects the lender will have passed a milestone, with half a billion dollars in lending, meaning the business is coming to scale after a period of deliberate growth. "We're now lending $20 million to $25 million a month compared with $50 million to $90 million by the major banks."

RateSetter is not sitting on its hands either. Following the successful launch of its green loan marketplace in May 2017 with $20 million, the P2P lender has recently attracted an extra $100 million in support from the federal government's Clean Energy Finance Corporation. As a result, it's now the largest funder of consumer loans for the purchase of renewable energy equipment, such as solar panels and home batteries.

"What is maybe most surprising is that our renewable energy lending markets have attracted a lot of retail and SMSF investor interest," says Foggo. "Investors are clearly attracted by the positive impact they can have on the environment by supporting the uptake of renewable energy, but also by the strong credit characteristics [of the borrowers] – homeowners improving their monthly finances by reducing energy bills."

To date, RateSetter has funded $25 million of these loans at an average rate of 6.9% and it's growing at 10% a month, says Foggo. Returns available to investors in these options at the time of writing were 5% for investments in South Australian renewable energy and 6.4% for those in national clean energy.

Apart from the clean energy products, RateSetter's main point of difference is its provision fund, which lowers the risk of any defaults impacting investors. The money in this fund comes from charges paid by borrowers, and RateSetter is able to direct the provision fund trustee to compensate a lender in the event of a borrower's late payment or default. This fund now sits at $13 million, equating to 6.2% of the loan book, says Foggo.

RateSetter has also introduced a sell-out feature, partly aimed at younger investors saving for a home deposit. It means that if you're in the three- or five-year lending markets and your life circumstances change you can request an early exit, paying an exit fee of 2%, says Foggo.

The online lender's next move is to improve the customer experience, launching an app by year end and improving education through online tutorials and calculators. This should help make the process of reinvesting early repayments easier for investors.

Wisr's retail product is deliberately much less hands-on. It says its Personal Loan Fund, which requires a minimum investment of $10,000, has paid a 7.67%pa return (net of fees) since inception in May 2015.

Diversifying investments

Your investment is diversified across all loans held in the fund, meaning the impact of any individual borrower not paying is greatly reduced. You aren't required to select loans or manage monthly reinvestment. And you can choose to either receive your distributions monthly or reinvest them. To date the fund has made about $100 million in loans, says Goodwin, but only about 5% to 10% have been funded by retail investors, with the vast majority from wholesale investors.

TruePillars' platform provides investors with the opportunity to vet each loan opportunity and make their own decisions. Starting with as little as $100, investors can bid in the TruePillars marketplace for a new loan or invest in an existing one.

Prospective investors can view the details of each individual investment online, including the borrower rate, the time frame, the estimated default rate and investor bidding. Keep in mind that if you invest you will receive the borrower rate less the 2% that TruePillars retains on each loan.

Investors who don't want to be so hands-on can instruct the company to invest on their behalf based on a set of fixed parameters. Investors with loan units are scheduled to receive payments on a monthly basis. But as your payments depend on the business borrower making repayments as they fall due, the actual timing of payments will depend on when the business does so. Investors who want to liquidate their loan units early can list these investments, which will be available to other investors in the TruePillars marketplace. If they're purchased, the incoming investor replaces you, and your loan units will be converted to cash units, less a 0.5% conversion fee. **M**

Disclosure: Pam Walkley invests through RateSetter.

World's hot spots

STORY SUSAN HELY

Returns are bouncing back but investors should be prepared for the downs as well as the ups

After an appalling 2018, emerging markets surprised investors with a strong start to 2019. The Chinese sharemarket, for example, jumped 29% over the first quarter, recording its best performance in more than four years. The rally was sparked by the Federal Reserve's backflip on raising interest rates. China topped all sharemarkets, beating Colombia (up 19% for the quarter), Greece (18%) and the UK (16%).

At a time of low returns, investors are taking a renewed interest in emerging markets. Some funds are bouncing back into the black with, for example, State Street's SPDR S&P Emerging Markets exchange traded fund up 9.32% over the three months to the end of March 2019.

But on the whole developed markets are still ahead – the MSCI World Index is up 4.6% over the year to March, compared with -7.4% for emerging market equities. Emerging markets had two stellar years before that when they comfortably outperformed by 7%pa.

The long-term history of emerging markets often reflects either remarkable outperformance or under-performance, compared with developed markets.

The questions for investors are: does this represent an opportunity and, if it is a good time to add emerging market equity exposure, what is the best way to invest?

One way to look at emerging markets is that they offer attractive valuations – particularly after negative returns last year – in a world full of expensive sharemarkets.

"The valuations are fairly cheap," says Geoffrey Wong, head of emerging markets and Asia Pacific equities at

UBS. "In fact, they are trading at 10% above what we would consider to be crisis levels."

The forward price-earnings valuation for the MSCI Emerging Markets Index is 11.8. This compares with 15.3 for the MSCI World Index and 16.8 for the US. Emerging markets are usually cheaper, so a valuation discount is not unusual.

But before you dive in, there is a lot to weigh.

"Emerging markets are for investors looking for higher rewards but also higher risks," says Sarah Shaw, a global investment manager and chief investment officer at 4D Infrastructure.

The politics of emerging countries are often more unstable, with higher levels of corruption than in developed countries. Many emerging markets are dominated by commodity-producing companies, which tend to go through long highs and lows.

"Certainly in the short run there are plenty of event risks such as the trade war [between US and China] and a number of elections, and further afield we have Brexit happening," says Wong. "But if you look beyond that at the long-term growth in the world in the next five years, two-thirds of the growth is coming from emerging markets, with half of that coming from China and half from the rest of emerging markets."

Why is growth so strong in emerging countries?

"Given the potential size of the middle class in emerging markets, with China, India and Indonesia alone accounting for 40% of the global population, changes in spending and consumption patterns will have significant implications for global business opportunities and investment for decades to come," says Shaw.

The 24 countries that make up the Morgan Stanley Capital International Emerging Markets Index (MSCI EMI) include Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Qatar, Peru, Philippines, Poland, Russia, South Africa, South Korea, Thailand, Turkey and United Arab Emirates. This index tracks the market capitalisation of every company listed on the countries' stockmarkets. There are also eight countries, such as Argentina, Hong Kong, Jordan, Kuwait, Saudi Arabia, Singapore and Vietnam, that are tracked by other indices.

While there are troubles in some emerging markets, there is a range of robust countries that are performing well. On the whole, the International Monetary Fund estimates that the economies of emerging markets will grow 4.5% in 2019 and improve to 4.9% in 2020.

Asia is a standout, says the IMF, with estimated growth of 6.3% in 2019 and 6.4% in 2020.

"We are very bullish on the long-term outlook for China and the opportunities in China's economy," says Hamish Douglass, chairman and lead portfolio manager at Magellan. "It's a massive economy with a massive educated population, with probably what will be the world's largest domestic market."

India's economy will pick up in 2019, says the IMF, boosted by lower oil prices and a slower pace of monetary tightening than previously expected, as inflation pressures ease.

Economic growth forecasts

One of the weakest emerging markets will be emerging and developing Europe in 2019, with a meagre forecast economic growth of 0.7%. This is down from 3.8% in 2018, pulled back by the Turkish economy despite generally buoyant growth in Central and Eastern Europe. It is forecast to recover to 2.4% in 2020.

Latin American growth is forecast to recover over the next two years to 2% in 2019 and 2.5% in 2020 but is being dragged down by Mexico, Argentina and Venezuela.

Growth in the Middle East, North Africa, Afghanistan and Pakistan is expected to remain subdued at 2.4% in 2019 before recovering to about 3% in 2020.

Economic growth forecasts for emerging markets are typically well ahead of those for developed markets. A 2012 report by MSCI points out that there is no significant relationship between economic growth and investment returns in emerging markets. This is for several reasons. One is that sharemarket prices already have the growth expectations embedded in them, so investors need to be careful about being guided by growth information.

So what is the best way to invest in emerging markets?

Emerging market ETFs	
iShares Asia 50 (AU)	IAA
iShares FTSE China Large-Cap (AU)	IZZ
iShares MSCI BRIC (AU)	IBK
iShares MSCI Emerging Markets Index (AU)	IEM
SPDR S&P Emerging Markets	WEMG
Vanguard FTSE Emerging Markets	VGE

You probably have a stake in emerging markets through your superannuation fund's global investments. For example, the MSCI All Countries World Index has 12% in emerging markets, so if your diversified investment portfolio included 25% in global equities then you would hold around 3% of your overall portfolio in emerging markets.

But take a look at the benchmark for your global investments. If the index is the MSCI World, for example, then emerging markets are not included. If it is the MSCI All Countries index, then they are included. If you want to hold more in emerging markets, you can consider a dedicated emerging markets ETF or managed fund.

There are active investment managers who can take advantage of a number of market inefficiencies such as sectors, countries, stocks and currencies and consistently outperform the index. But if you prefer a passive approach, there are diversified, low-cost exchange traded funds (ETFs).

Three broad index funds are Vanguard FTSE Emerging Markets Shares (ASX: VGE), which charges 0.48%pa in total fees; SPDR S&P Emerging Markets (WEMG), which charges 0.65%pa; and iShares MSCI Emerging Markets Index (IEM), which charges 0.69%pa.

Vanguard's ETF holds more than 4000 stocks with 36% of the fund invested in Chinese shares, 14% in Taiwan, 11% in India and 8.6% in Brazil. iShares holds 800 companies covering China (33%), South Korea (13%), Taiwan (11%), Brazil (7%), South Africa (6%) and Russia (4%).

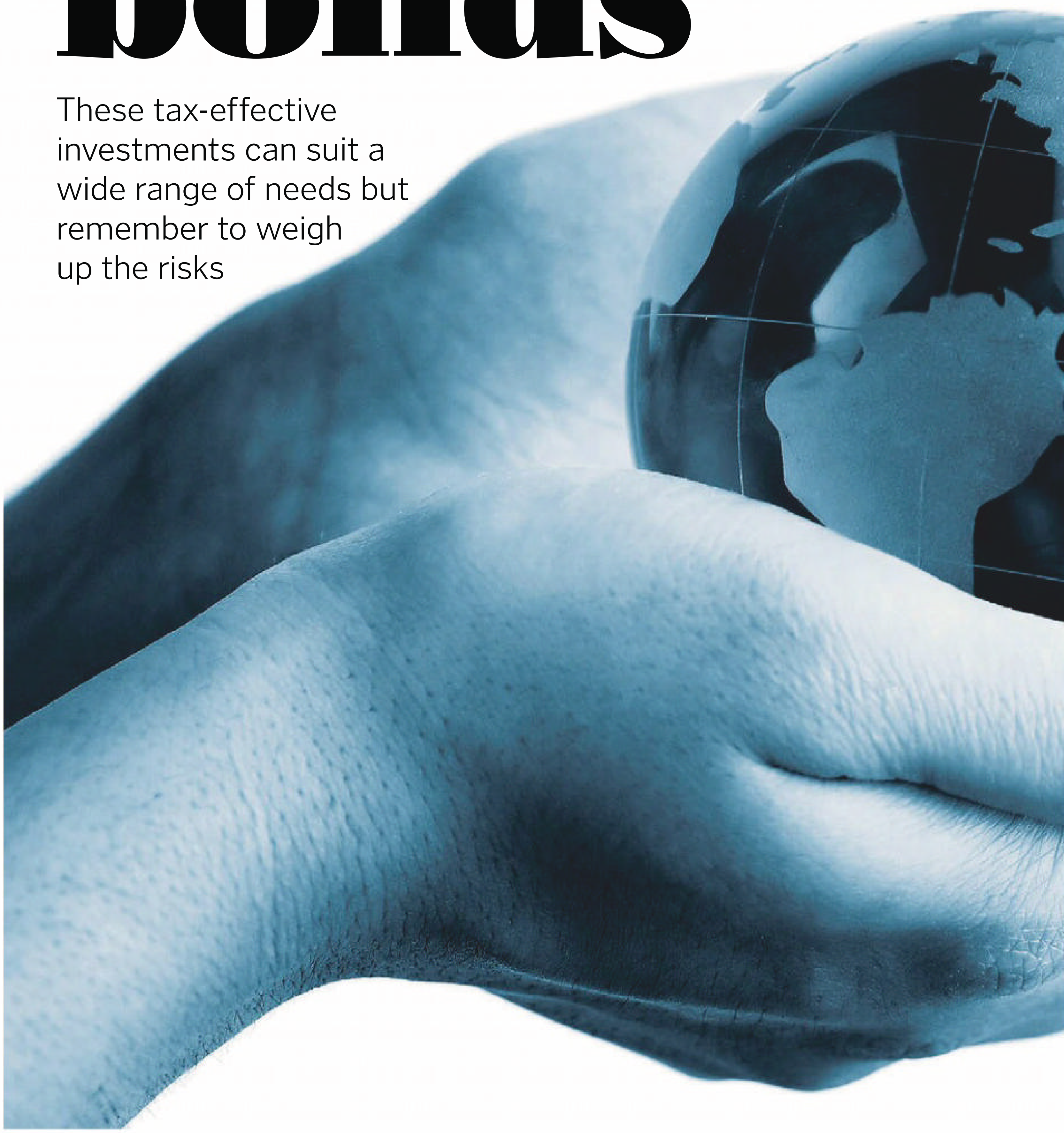
Russell Investments' Emerging Markets Class A is a fund of funds, which picks and mixes different specialist investment managers. One of the advantages of the fund is that it also invests in countries that are considered to be "frontier" or "pre-emerging", as well as shares listed on developed markets' stock exchanges where the company receives much of its revenue from emerging markets.

The lines between emerging market and developed market companies are blurring. When it comes to big multinational companies, it doesn't matter so much where they are listed but where they derive their income. They could be listed in Australia but have a large chunk of their sales to China.

You will also have indirect exposure through Australian companies such as BHP Billiton and Rio Tinto, which depend on demand in emerging markets such as China. *M*

Building bonds

These tax-effective investments can suit a wide range of needs but remember to weigh up the risks



THE EXPERTS

Adnan Glinac
Executive general manager, life and super, Australian Unity

Michael Blake
Head of Centuria Life

Sue Herrald
Investment specialist, IOOF

Darren James
Financial adviser, AMP

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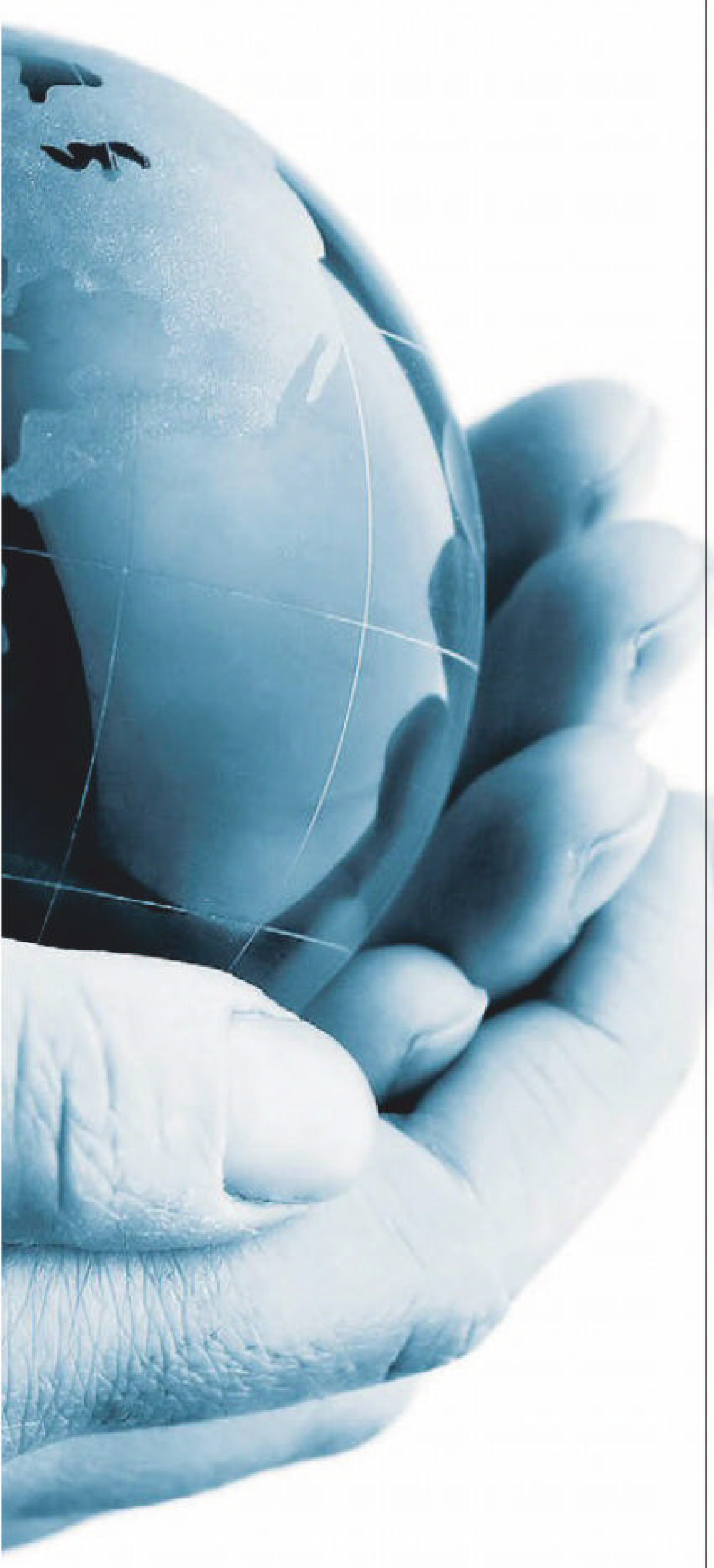


10 MOST-ASKED QUESTIONS

Q What is an insurance bond?

An investment bond (also known as an insurance or growth bond) is a tax-paid investment offered by an insurance company. It's technically a life insurance policy so you need to nominate a life to be insured and a beneficiary. Provided certain rules are met, investment bonds can be a tax-effective way to invest for long-term investors with a marginal tax rate higher than 30%, as the owner is not required to include the income on their tax return.

DARREN JAMES

Q What can an investment bond be used for?

First and foremost they are for investing in funds. You are simply gaining investment exposure by accessing a range of managed fund options within a capped tax structure. As a bond is an investment life insurance product provided by an issuer, it can be used for a wide range of strategies, from tax management and estate planning to general wealth accumulation and building retirement nest eggs.

Some of the reasons people invest in bonds include: saving outside the super system for early retirement access; superannuation caps have been exhausted; trusts want to keep distributable income down; estate planning issues; and as a simple saving strategy.

SUE HERRALD

Q When is the best time to start an investment bond?

If we start with the premise that many people use an investment bond to help pay for a major expense, then it's never too early to start. Other people use investment bonds to accumulate a deposit for a first home or to maximise the tax efficiency of their discretionary family trust. You don't need to start with much – a little can go a long way if you let the power of compounding returns do the heavy lifting.

ADNAN GLINAC

Q How is money invested?

Issuers of investment bonds can offer a range of underlying options. These include high-quality externally managed funds where investors have the opportunity to switch between investment options over the life of the bond at no cost.

Investment options can cover cash and fixed-interest funds, diversified balanced funds, diversified growth funds, Australian share funds, international share funds and property and infrastructure funds, among others.

MICHAEL BLAKE

Q What returns should an investment bond deliver?

Each investment option has a different investment objective, strategy and level of risk. Ultimately, the risk-and-return profile of each investment option depends on the underlying assets. Investors should read the product disclosure statement carefully before making a choice, and ensure they choose a strategy that meets their risk appetite, investment objective and time horizon.

Of course, no investment can ever guarantee a specific return, and all investment involves some risk. This includes the risk that returns are lower than expected, they do not materialise and, in some cases, there is a capital loss.

MICHAEL BLAKE

Q How are the fees structured?

Investing in investment bonds is essentially the same as investing in managed funds. Therefore, the usual management expense ratios (MERs) associated with the underlying managed funds are applied. The MER is the fee charged by the underlying fund manager for managing the investment. Also the issuer charges an administration fee to cover the maintenance of the investment, including unit price calculations, tax administration and general operations.

SUE HERRALD

Q What are the tax considerations?

Investment bonds use a "tax-free" structure – this means that tax paid on any investment returns is paid within the bond at a rate of 30%. Returns are reinvested during the life of the investment, so earnings have no impact on an investor's personal tax position while the bond is

held. A key attraction of an investment bond is that no personal tax is payable when money is withdrawn from the bond after 10 years.
ADNAN GLINAC

Q When can I access the money?
Money in investment bonds is accessible at all times but they are designed to be held for 10 years to generate the maximum tax benefits for the owner.

However, even if you make a withdrawal within the first 10 years you can take advantage of the 30% tax offset to reduce your personal income tax.

Should an investor need to withdraw from the bond within 10 years, the following rules apply:

- In the eighth year or earlier, all of the earnings on the withdrawal are assessable.
- In the ninth year, only two-thirds of the earnings on the withdrawal are assessable.
- In the 10th year, only a third of the earnings on the withdrawal are assessable.
- After 10 years, you do not pay any further tax on the withdrawn earnings.

ADNAN GLINAC

Q Can the bond be paid to beneficiaries?
Yes. The owner can nominate beneficiaries on the bond and the bond therefore does not form part of the owner's estate, nor is it dealt with by their will in the event of death. This can be an effective way of ensuring funds are passed in a more timely manner to selected beneficiaries than they would have been had they been passed through a will.
DARREN JAMES

Q What are the main pros and cons of an investment bond?
They have a number of benefits. They can be a tax-effective, long-term investment, can provide an effective way to invest for children, and also can be used as an estate planning tool.

Generally, bonds have a reasonable level of investment choice, which gives the investor access to a number of options to choose from, to cater to their lifestage.

> A key attraction is that no personal tax is payable when money is withdrawn after 10 years

If you are considering investing in a bond there are a few things to be aware of, such as the fact that the tax benefits from investment bonds are only realised if certain rules are followed. It's good to be across the fees involved for the management and running of the fund and it's important to remember that you have no direct control over the investments within the bond and low visibility of the underlying assets that are being invested in.
DARREN JAMES

STORY SUSAN HELY

Employees are missing out on millions of dollars in retirement savings because of a legal loophole

Pay day's high cost

If you want to boost your superannuation savings but don't have any extra cash to kick in, there is one simple step that could deliver you more dollars when you retire.

It comes down to how often your employer is paying you super. A staggering 70% of employees aren't aware of how often employers make their super guarantee (SG) payments. Although payslips currently record super entitlements, they don't tell you if payment has been made. It is a good idea to check with your super fund, which is easy to do online.

The trick is that if you get your super quarterly instead of every pay period – usually every fortnight – you are losing valuable investment earnings that compound over time.

Phil Gallagher, from Industry Super Australia (ISA), believes that about half of employees are paid quarterly. He says the long initial gap between starting a job and getting your first super contribution means that people lose investment earnings on their contributions. Data from the tax office shows Australians are losing millions of dollars in interest due to laws that allow super to be paid quarterly rather than fortnightly.

Gallagher found that around 2.3 million employees aged 20-29 collectively missed out on $35 million in investment earnings over the 2015-16 financial year because they were paid every three months rather than every two weeks.

As well, 2.2 million employees aged 30-39 missed out on $55 million; 1.9 million aged 40-49, $55 million; 1.6 million aged 50-59, $50 million; 506,000 aged 60-64, $20 million; and 212,500 aged 65-69, $10 million.

For all employees aged 20-69 years, this was a significant amount. "The investment earnings lost by SG-eligible workers from quarterly SG is estimated to have been $225 million in 2015-16," says Gallagher.

He found that for a person on an average wage working full time from 20 to 67 the real lifetime gain from fortnightly payments would be $12,475.

"Every penny counts in retirement, and this interest could be the difference between having enough and going without," says Bernie Dean, ISA chief executive.

ISA wants to see super payments synchronised with wages. Dean says that while payslips may record super entitlements, they do not confirm actual payment. Currently SG payments must be made to complying funds by the quarterly due date, which is 28 days after the end of each quarter. This means that people can, in effect, be paid four months after they receive their wages.

"We've welcomed all efforts to improve compliance, but it won't change the fact that some employers will go on using the payment hiatus for business cash flow," says Dean. "Essentially, workers are subsiding businesses at the expense of their retirement savings."

Being paid every fortnight could also help people identify that they are missing out on super. Gallagher believes that, in broad terms, currently 3 million Australians are underpaid an average $2000 each at a cost of $6 billion each year.

The four-month initial gap between starting a job and getting your first super contribution means that people lose interest in tracking their contributions.

"If the SG was paid fortnightly at the same time as wages, ISA estimates that 10% of unpaid super would be detected and paid. So currently this equates to $600 million per year," says Gallagher. "So the annual benefit of pay-cycle SG payment could be over $800 million per year, when we add in the investment interest loss." *M*

Make sure the cap fits

Topping up your deductible contributions minimises tax and maximises savings

The end of the financial year is fast approaching and it's worth checking to see how your super contributions are tracking. If, like most people, your employer's super guarantee hasn't hit the annual $25,000 cap you may want to top it up with a personal deductible contribution.

Thanks to a rule change set in place a few years ago, fund members can make concessional contributions directly into their fund and claim a tax deduction when doing their tax returns. The rule change provides members with greater flexibility and an incentive to save.

Apart from boosting savings, there are other tax benefits. Concessional contributions are taxed at just 15%. For many employees this is lower than the rate paid on their take-home pay, which can be as high as 45%. It also has the potential to lower your tax bracket.

"The key thing here is that anyone can make a personal deductible contribution to super and you don't have to go via your employer to do so provided that your employer contribution, and your personal deductible contribution combined, don't exceed $25,000," says Claire Mackay, a director and independent financial adviser at Quantum Financial.

Previously, only salaried employees could top up their super with concessional contributions using their employer's salary sacrifice benefit. However, not all employers offer it, which meant many employees, especially those working for small business, missed out.

Most people make their contribution towards the end of the financial year when they can more readily determine how much they can contribute directly without exceeding the cap.

While many employers pay the 9.5% SG contributions fortnightly or monthly, with their employee's pay, others choose to pay it quarterly, making it harder to monitor how much your employer has contributed for the financial year.

HOW IT WORKS

Previously only those who earned less than 10% of their total income as an employee were eligible to claim a deduction for personal super contributions.

This meant full-time employees and people who were self-employed but also worked part-time for an employer were largely excluded.

The 10% rule was dropped in July 1, 2017, giving people under 75 the ability to claim an income tax deduction for after-tax personal super contributions.

Make sure the contribution hits your super fund before the end of the financial year. If the contribution is received after June 30 you will have to wait until the following financial year to claim it. Paperwork is also important.

Once you have made your contribution either by BPay or cheque, fill in a notification form called "Notice of intent to claim or vary a deduction for personal super contributions". It's available on the website of most funds and the ATO. Once you've sent it back to your fund, you should receive an acknowledgement. You'll need this to claim the deduction when you lodge your tax returns.

"If you don't tell the super fund or you don't claim a deduction in your personal tax return, it won't be classified as a deductible contribution. It will be classified as a post-tax contribution," says Mackay.

For more information see ato.gov.au/individuals/super/in-detail/growing-your-super/claiming-deductions-for-personal-super-contributions.

"The law requires every employer to pay your super contribution for a quarter no later than 28 days after the end of a quarter," says Mackay. "So your employer might have paid the end of the 2017-18 quarter in July last year, and then decided to pay the June quarter this year in June.

"This is where people get tripped up. The employer may change it year on year depending on their cash flow and the like. So make sure you err on the side of caution," she warns.

This means checking your payslips and asking payroll to let you know exactly when the contributions were paid into your super from July through to now. You should also cross-check it with the transaction history in your super account for the period from July 1.

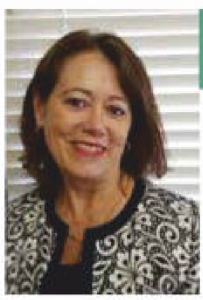
Mackay says the rule change is welcome. "Knowing that you don't have to rely on your employer to make the payment means that everyone, regardless of your employment situation, can do this, without breaching these really archaic rules – the old 10% rule [see breakout].

"Everyone has control of how they set themselves up for retirement. And every little bit that you can put into super helps – you are getting a tax deduction and it can improve your lifestyle in retirement.

"However, if your employer does provide salary sacrifice, you might look to make your personal contribution this year but then instigate regular salary sacrifice. The beauty about having it is that the money doesn't hit your bank account, you don't spend it and it's guaranteed to happen every pay cycle."

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

Should you divest a company you no longer believe in?



YES

MICHELLE BRISBANE
Financial adviser,
Ethical Investment Services

Why would you invest in a company you don't believe in? As a financial adviser, I aim to not only improve my clients' financial positions but to also get capital working for better environmental or social outcomes.

We do this by having a conversation about what clients value and what they believe in and then incorporate this into their investment portfolios.

Working with clients in the ethical investment area means that we also have a values conversation. The values concept is different for each of us, but that doesn't preclude combining values with investment considerations. Proof that you can combine profit with principles has been demonstrated year on year as our portfolios deliver solid long-term results.

How do you reconcile with your own conscience if you know your investment capital is supporting anything you don't believe in?

Take weapons production, for example – responsible for death and permanent pain or disability – there are plenty of people who don't want their money supporting such products.

I've been constructing screened portfolios for ethically minded clients for over 20 years with pleasing returns. At Ethical Investment Services we deal with a range of people, including very high-net-worth clients who all have strong convictions regarding where they want their money invested. The old saying "if you don't stand for something, you'll fall for anything" applies to investments as well.

If you have an opportunity to support positive change and make money, then why not? Screening for ethical concerns can be a proxy for good governance, management and profit. Ethical investment clients and advisers have strong convictions and they expect strong results.

NO

JULIA LEE
Equities analyst,
Bell Direct

There's a saying in markets that you should cut your losses early and let your winners run. And yet when it comes to practice, it's mostly entirely the opposite. Investors hardly realise losses and mostly sell winners. The disposition effect describes a behavioural bias, where investors tend to keep capital losses to avoid the feeling of regret and realise gains to enjoy the feeling of joy.

Most companies are impacted by different cycles. Chances are that if you no longer believe in a company, it's because of a prolonged period of share price pain. There's a general rule in markets that it's OK to sell if you sell early, but what do you do if you've watched the share price fall for a prolonged period? Unfortunately, most investors sell at the maximum point of pain. Share prices tend to overreact to good news and bad news. Usually this means that at some point the market overreacts and there is a buying opportunity. This is also usually the point where professional investors find the company interesting. Ask if perhaps the worst is behind it. If so, consider holding on for a turnaround.

In the end, risk management is a key to returns over the long term. If you haven't sold a losing position in a stock that you no longer believe in, make sure it's not your emotions helping to make the decision. Evaluate whether this is a buying opportunity rather than a selling one, and evaluate what business cycle may be impeding or helping the company and whether it could turn soon.

It's always darkest before the dawn. Unfortunately, many investors sell at the maximum pain point based on emotion rather than evaluating it from a stock and business cycle point of view. But if you still don't like the investment, then, sure, run for the hills, but do it after evaluating it from a logical not an emotional viewpoint.

WHAT YOU NEED TO KNOW

Research from the Responsible Investment Association Australasia says more than 60% of Australians expect their financial adviser to incorporate their values or consider the societal or environmental implications of investments.

How to nail a

Jumbo Interactive hits the jackpot

	2012	2013	2014	2015	2016	2017	2018	2019 (F)
Revenue	$24.1m	$25.2m	$24.1m	$29.2m	$34.3m	$32.4m	$39.8m	$63.0m
Net profit	$6.8m	$3.9m	$2.8m	$0.7m	$4.7m	$5.6m	$12.1m	$25.0m
Earnings per share	16.7¢	6.9¢	6.4¢	1.5¢	10.6¢	12.6¢	23.4¢	40.5¢
Dividends per share	3.0¢	3.0¢	3.0¢	3.0¢	7.0¢	8.5¢	18.5¢	30.0¢
7-year annual revenue growth								14.7%
7-year annual profit growth								20.4%
7-year annual EPS growth								13.5%
7-year annual DPS growth								39.0%

Jumbo's Australian success

	2012	2013	2014	2015	2016	2017	2018	2019 (F)
Revenue	$24.1m	$24.4m	$23.8m	$29.4m	$34.2m	$32.4m	$39.8m	$61.5m
Pre-tax profit	$9.1m	$6.4m	$6.8m	$8.1m	$12.4m	$12.3m	$18.9m	$40.0m

STORY **GREG HOFFMAN**

One of this column's most successful calls reveals the recipe for a jumbo investment return

Owning a stock that rises 10-fold from your original buy price is an aspiration for most investors. The term "10 bagger" was coined to describe such stocks by American fund manager Peter Lynch in his book *One Up on Wall Street*. These days, a more modern term "10x" (pronounced "ten ex") is

10 bagger

used by big talkers in Silicon Valley. It's the same thing, but I like the older terminology.

Owning less than a handful of 10 baggers in your lifetime can meaningfully impact your financial position. And online lottery ticket reseller Jumbo Interactive (ASX: JIN) has now become a 10 bagger for those who bought around the time of its first mention in this column back in October 2012, when it was trading at about $1.20 per share. It's now a 50 bagger based on the first shares I purchased for my family at 30¢ each (I bought more shares at higher prices as the story unfolded).

It's worthwhile revisiting the story to see what factors were at play in such a profitable result and to draw out a few key points that might increase our odds of spotting the next 10 bagger.

Original case

In October 2012, I made a case for backing online lottery tickets: "Compared to lining up at the newsagent, or the prospect of a pocketed winning ticket going through the wash, playing the lottery online makes plenty of sense. In the same way those who've moved to paying bills online will never go back to lining up for the task at the post office (as my 69-year-old father continues to do, for reasons best known to himself), once people begin playing the lottery online, they tend to stick with it."

Back then, around 8% of Australian lottery tickets were sold online. Today that figure is more than 20% and growing. The factors behind the trend haven't changed and I expect it to continue long into the future as older consumers, who tend to buy fewer tickets online, are replaced by tech-savvy younger ticket purchasers.

This can be a good point to look for in a potential 10 bagger – a company being pushed along by a strong industry tailwind. Another way of expressing this is to say that the trend towards online lottery ticket sales had (and still has) a "long growth runway".

The top table (see opposite page) shows some of Jumbo's key statistics from 2012, including my forecast for the 2019 financial year.

These high-level numbers don't tell the whole story, though. That's because Jumbo's management team made expensive forays into overseas markets that cost shareholders many millions of dollars in the middle part of this period.

The second table shows only the Australian business over the same period as the first table. It demonstrates the strength and consistency of the Australian business by stripping away the losses from international operations. There were variations along the way due to some years when a run of high jackpots drove higher interest in lotteries, but the overall trend is clear.

The value of this kind of "segment" analysis was highlighted in the March 2016 edition of this column, using Jumbo as an example.

Boost for the bottom line

What's also clear in these numbers is Jumbo's increased "scalability". This is financial jargon for revenue increases falling to the bottom line at a faster rate than in the past. For instance, Jumbo's Australian business recorded $5.6 million more revenue in 2015 than it did in 2014 and 23.2% of this ($1.3 million) fell to the bottom line as pre-tax profit.

This year, I expect the business to increase its revenue by $21.7 million on 2018 and for virtually all of that to flow through to the bottom line as pre-tax profit. The effect is that a 55% rise in revenue should see profit rise by around 100%.

As a thought experiment, imagine if JB Hi-Fi or Woolworths were somehow able to open 50% more stores and increase their revenues by that amount. I'd probably expect their profits to rise by a similar amount – maybe 65% or 70% at the maximum (due to some benefits from fixed advertising and distribution costs). But they certainly wouldn't get the same magnifying effect as an online business like Jumbo.

So scalability is rightly valued highly by investors. And that's why investors are currently prepared to pay more for each dollar of Jumbo's profit than they have in the past. In 2012, investors were paying $8 or $9 for every $1 of Jumbo's profits. Today they are paying around $40 (based on 2019's likely profit). That's a high number and one deserved only by those businesses able to grow their profits quickly. As a rough guide, investors might pay $15 or $16 for each $1 of profit produced by an average company on the ASX.

This valuation expansion is the final ingredient in our 10 bagger cocktail, which now consists of these five parts:

- An attractive starting valuation.
- A long growth runway.
- A defensible competitive position.
- Scalable business economics.
- A valuation re-rating.

There are other ways to 10-bag. For example, buying a company that is on the verge of going bust but somehow manages to pull through is another, riskier, path. But the formula above is one that has worked well for me with stocks such as Jumbo and Pinnacle Investment Management (PNI), which have featured regularly in this column.

Of course, that's the way things go in the brochure, not always in real life. But if you don't even have a road map to begin with, then your chances of success are diminished.

I'm hopeful that stocks previously covered in this column – such as Matrix Composites & Engineering (MCE), Smart Parking (SPZ) and Swick Mining Services (SWK) – might all benefit from this game plan to some extent. But chances are that at least one or two will continue to disappoint.

The good news is that just a couple of 10 baggers can make up for quite a few duds. But they're rare and if there's a surefire way to identify them in advance and avoid the look-alikes that end up disappointing, then I haven't found it yet. ***M***

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).

Disclosure: Private portfolios managed by Greg Hoffman own shares in JIN, PNI, MCE, SPZ and SWK.

The earth moves

STORY GAURAV SODHI

Wesfarmers stunned the market with its bid for Lynas but the rewards could justify the risks

When Wesfarmers announced the demerger of Coles, investors cheered. Those jubilations went mute, however, when the same company – renowned for its investment and capital allocation nous – turned around to make a bid for Lynas Corporation, a miner of rare earth metals.

The market's shock was palpable – Wesfarmers' market value fell by more than $1 billion the day the bid was announced. Yet when a smart investor makes an unexpected move, we should take note.

Lynas' share price shot up 35% but at the time of writing still trails the $2.25 bid price, perhaps because Lynas' management has stridently rejected the bid and Wesfarmers shareholders haven't offered the strongest support.

The bid has, however, sparked endless speculation. Who else might make a move? Why is Wesfarmers interested? How might China react?

That raises the bigger question: is Lynas really worth all the fuss?

Let's begin by correcting a widespread misnomer: rare earth metals, despite their name, aren't rare at all. They were given that name because, in mining's early days, similar chemical properties prevented individual elements from being separated. Today's technology has removed that constraint.

Complex processing is required to extract individual rare earth elements from ore. It's hard, expensive and dirty work. Two-thirds of the cost of producing rare earths – and all the risk and the difficulty – comes from the processing of ore. This is chemistry masquerading as mining.

Even after rare earths are successfully separated, the process can leave a trail of radioactive waste. Dealing with that waste is another problem.

It's best to think of the business not as a mining business but as chemical manufacturing that happens to use mined ore as a raw material. The economics and risks of rare earths production are therefore different from those in traditional mining.

The economics of each rare earths project differ, and their profitability depends on the proportion of individual elements present in the ore. Lynas is already decently profitable and returns will climb as it scales up output and perfects its processing.

Lynas mines ore from WA and ships it to Malaysia, where it undergoes extensive processing. Production is characterised by a high proportion of neodymium/praseodymium (NdPr), a pair of high-value elements that are vital in the production of high-powered magnets used, among other things, in electric motors and generators, including those in wind turbines and electric cars.

The high-value nature of the output makes Lynas particularly attractive. Since processing, which accounts for the bulk of cost, is a fixed expense, higher-value output increases margins.

Lynas is the world's second largest producer of vital NdPr and demand is increasing. China overwhelmingly dominates the supply of rare earths, contributing about 95% of global supply.

Japanese firms are Lynas' largest customers and, for them, NdPr is a small cost in a large value chain. Japan is on record, along with the US, in expressing discomfort about Chinese dominance of the market.

China has been uniquely willing to bear high waste and environmental costs and Lynas is now the only

source of supply outside China. This is unquestionably a strategic asset that could be immensely profitable if everything goes to plan.

The range of outcomes from here is wide. Lynas today is burdened by regulatory obligations to deal with its waste.

Under its current Malaysian operating licence, waste must be recycled or stored but regulators have suggested that will change. A renewal of the licence, due in September this year, will depend on meeting stricter waste disposal obligations. Lynas is currently investigating ways to comply with the stricter rules.

Wesfarmers' bid has put Lynas in play and there are many suitors for an asset that is both strategic and potentially profitable.

While Chinese and Japanese interests are both logical buyers, Wesfarmers is also a sensible owner. With a huge balance sheet that will comfort regulators who worry about another miner making a mess and walking away, Wesfarmers also has some chemical expertise.

It could even move the entire processing chain back to Australia to maintain long-term production. That would be expensive but it would secure supplies and remove the political risk that has long hung over the business.

Despite the market's misgivings, we're impressed by Wesfarmers' choice of target. Lynas could become a hugely profitable business and the current share price, even after rising following the bid, values the company at less than $1.5 billion.

> **The poor history of rare earth miners has meant few have taken this business seriously**

To justify that market capitalisation, it would need to make, on average, about $100 million a year in net profit. Last year it made $53 million but that was with historically low commodity prices while operating below full capacity. At full capacity, Lynas could easily generate over $200 million in net profit – more if commodity prices kick higher.

Still, investors should bear in mind the high degree of risk. Lynas has already earned a warning from its auditors and there is still a possibility of the company going broke. But the more likely outcome is that another buyer emerges – or at least another bid.

The poor history of rare earth miners, and of Lynas itself, has meant few have taken this business seriously. It could be time to put it on your watchlist.

Gaurav Sodhi 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.

STORY MARK STORY

Investors are enjoying a $30 billion bonanza but they need to choose their stocks carefully to keep up their future income

Playing the yield

At face value, the higher the dividend a stock pays the better it is. After all, it means more money is paid to you as a dividend cheque or more shares are distributed to you by way of a dividend reinvestment scheme.

But where investors often come unstuck is in assuming that a dividend of, say, 6% is indicative of a company's future earnings (or yield), when it could be eroded by one-off events, surprise announcements, poor earnings or due to a falling share price (aka a yield trap).

The recent spate of abnormally high dividends is due to a flurry of stocks, including Fortescue Metals, Rio Tinto, South32, Telstra, Wesfarmers, Caltex Australia and BHP, issuing special dividends or buybacks. Most of these special dividends can be attributed to federal Labor's plans to take a blowtorch to franking credit refunds (worth around about $5 billion annually).

Thanks largely to special dividends and buybacks, CommSec expects total dividends paid to shareholders for February to June this year to be around about $30 billion (ex-banks), up by more than 33% on the February 2018 reporting season. Admittedly, it's worth hunting for companies with cash war chests or hefty franking credits – with which to make future special dividends – but John Christou, senior investment adviser at CommSec, warns investors not to get used to them.

An extended season of special dividends, as companies move imputations off balance sheets, will eventually unravel. However, given the imponderables surrounding Labor's plans to remove franking credit refunds, Denis Donohue, of Pentalpha Investment Management, says it's not a foregone conclusion that companies will hurriedly move imputations off balance sheets.

Dividends stack up regardless

Assuming most companies offload their imputation credits by June 30, 2020, Christou reminds income investors that an average ASX dividend of about 4.5% (even without franking credits, which grosses up to around 5.7%) is a compelling alternative to sub-3% term deposits. "We could see some rotation out of miners, banks, non-bank financials and REITs into other sectors that, while they lack franking credits, simply offer good yield," he says. "There could be some dividend traps out there, so be careful of buying stocks solely on expectation of consistently high yields." While stocks paying more in dividends than earnings risk falling into yield-trap territory, so too do those that "smooth out" underlying earnings weakness with a higher payout ratio, says Donohue. When searching for stocks with payout ratios justifiably higher than the 75% average, he suggests looking for industries not requiring much capital to sustain the business or dividend, and cites health insurers as one example.

Sean Sequeira, CIO with Alleron Investment Management, says that underscoring the likelihood of future strong dividends across the market was the quality of last reporting season, with around half of companies announcing higher profits, while a similar percentage lifted their cash holdings. "Stocks with stronger balance sheets and sustainable cash flows are more likely to ride out short-term issues, without compromising their dividends."

Given that the big four banks are under pressure to hold dividends at current levels, Sequeira urges investors to seriously question how much they're prepared to pay to own them. With the big four potentially moving into yield-trap territory, he says dividends from infrastructure stocks with highly sustainable core earnings may look increasingly more attractive, even if they're relatively overpriced and lack franking credits.

Where to find extra income

To help you pick strong, high-yielding businesses to supplement your income, *Money* searched for key stocks from the top 150 companies (ex-bank stocks) that should, based on certain criteria, be high on the radar (see table on the next page). The top 10 dividend earners come from a cross-section of sectors and have an average forecast yield of 8.42%.

Based on the criteria we used, bauxite miner and alumina refiner Alumina surfaced as the ASX's top dividend stock after delivering a final payout of a fully franked 19.6¢ per share. The only other stock with a double-digit yield was Whitehaven Coal, with the cashed-up miner splashing $200 million in (unfranked) dividends following a 15¢ interim dividend and a 5¢ special dividend.

Given that they're susceptible to volatile commodity prices, Donohue reminds investors that resource stocks can quickly become yield traps.

KEY FUNDAMENTALS

The key fundamentals *Money* magazine looked at to arrive at 10 stocks (top 150 excluding banks) most likely to support future dividends at or above current levels include:

Market cap: $1 billion-plus stocks typically have strong defensive characteristics.

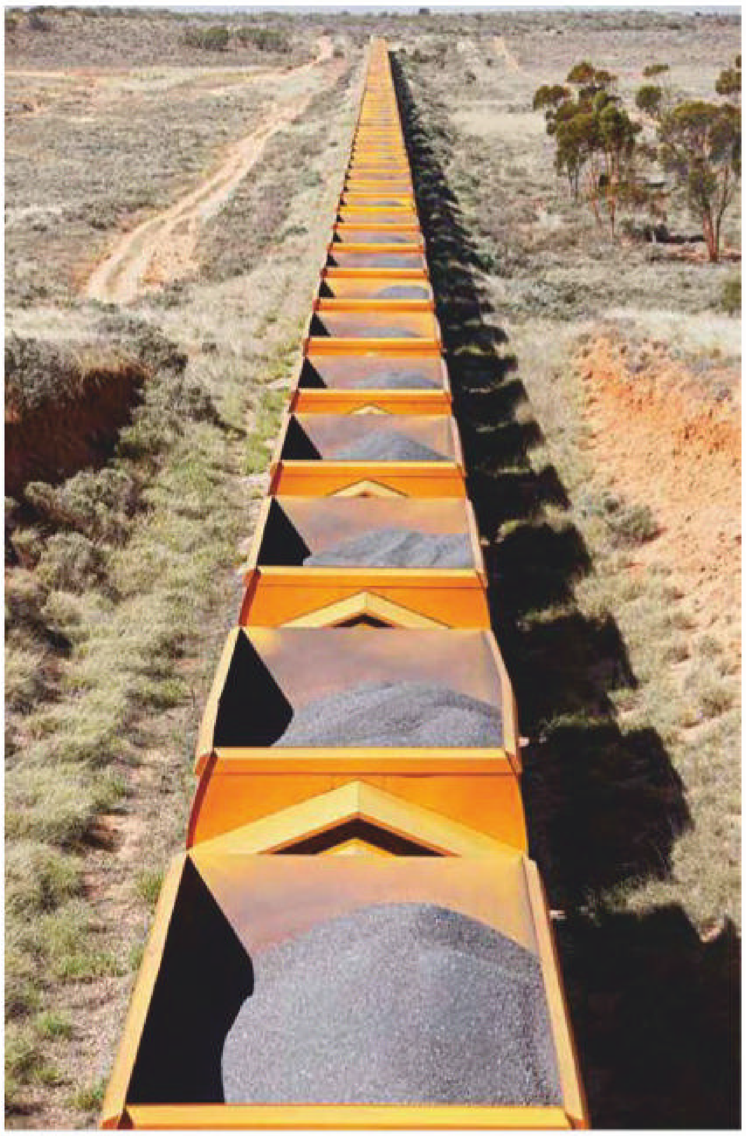
Forecast return on equity: Above 6% to ensure earnings cover dividend payments.

Stock covered by: At least five analysts.

Forecast and historical dividend: Above 4.5% ASX average.

Analyst recommendations: No consensus calls to sell.

Net/debt to equity: Less than 60% ensures balance sheets aren't over-geared.



TOP 10 NON-BANK DIVIDEND PAYERS

ALUMINA: What's encouraging about the future sustainability of the miner's (fully franked) dividends is the shape of its balance sheet, and strong return on equity (ROE) outlook of 32%. Further softening of the $A (below $US0.71), and stability in spot alumina prices, around 25% above long-term estimates bode well for future dividends.

WHITEHAVEN COAL: Despite an encouraging set of interim numbers, including net profit up 19%, increased operating costs place downward pressure on the share price. The stock's fortunes are wired to the coal price, but medium-term outlook is encouraging, with India and China expected to drive future demand.

AIR NZ: Has been under selling pressure since late January following downgraded earnings, due to tougher trading conditions, but the 41% forecast change in value is encouraging. While the payout ratio may fall from 68.95% to 60.05%, rising earnings per share (EPS) support the dividend at current levels. Watch fuel prices and competition closely.

BHP GROUP: The big miner looks well placed to continue supporting excellent dividend returns on a modest payout ratio at 50%-plus. Shareholders stand to benefit from further price increases in the miner's four primary commodities, iron ore, coal, petroleum and copper.

IOOF: Due to the strength of its diversified business model, it delivered a solid interim result, including growth in underlying net profit after tax. With an interim dividend payout ratio of 104.33%, management appears confident of future earnings improvement. Having fallen from the ASX-100, some funds may no longer need to hold it. Reputational damage following damning royal commission findings will take time to repair.

GENWORTH MORTGAGE INSURANCE: A 12-month payout ratio of 94% means the dividend isn't well-covered by its earnings. A lower payout ratio of around 89%, coupled with EPS weakness, could result in a lower dividend payment. Despite a strong balance sheet, it's heavily leveraged to housing market weakness.

STOCKLAND: The payout ratio has been low compared with other REITs. While it has the capacity to increase this, it could be offset by any underlying weakness in EPS growth, which has been poor.

CSR: Dividend payments have been relatively unstable over a decade, with some years experiencing drops of over 25%. The 12-month payout ratio of 71.9% means the dividend is well covered by earnings. However, watch out for any underlying EPS weakness.

SUPER RETAIL GROUP (SUL): Strong long-term cash flow, relative to its reported profits, supports the 12-month payout ratio of 75.3%. While the payout ratio may fall to 65.7%, a strengthening EPS should support dividends.

HARVEY NORMAN: A 12-month payout ratio of 89% means the dividend is covered by earnings but any underlying weakness in EPS could see falling dividend payments, should the payout ratio drop to 80%, as speculated. *M*

"Stocks with stronger balance sheets and sustainable cash flows are more likely to ride out short-term issues"

Top up your future income

STOCK	FORECAST DIVIDEND YIELD	ROE	FORECAST ROE	NET DEBT TO EQUITY	FORECAST CHANGE IN VALUE
Alumina (AWC)	12%	16%	32%	3%	-19%
Whitehaven Coal (WHC)	10.6%	15%	18%	8%	-25%
Air NZ (AIZ)	8.5%	18%	13%	55%	41%
BHP Group (BHP)	8.5%	7%	19%	19%	5%
IOOF (IFL)	8.4%	12%	11%	-29%*	6%
Genworth Mortgage (GMA)	8.1%	4%	6%	11%	16%
Stockland (SGP)	7.5%	7%	8%	35%	5%
CSR Ltd (CSR)	7.5%	18%	15%	0%	-19%
Super Retail Group (SUL)	6.6%	19%	18%	59%	4%
Harvey Norman (HVN)	6.5%	13%	12%	25%	-1%

* Negative figure means company has more cash than debt. ROE: return on equity. Based on top 150 ASX-listed stock. As of March 11, 2019
Source: shareanalysis.com

Housing slump takes its toll

A slowing economy increases the odds of another interest rate cut

Expectations for the Australian economy have shifted notably in recent months – and sadly not for the better. The good news, however, is that some of the worst fears for the global economy, which led to the equity market slump in late 2018, are starting to dissipate.

But first, the Australian economy. The bottom line is that the housing downturn has deepened and broadened across states, so much so that it's now posing a serious risk to consumer spending, which accounts for a considerable 60% of the economy.

Having been sustained at very high levels for several years, home building approvals have finally started to slump, as the weight of house price weakness, a desertion of foreign buyers, tax-related fears and pockets of apartment oversupply all start to take their toll.

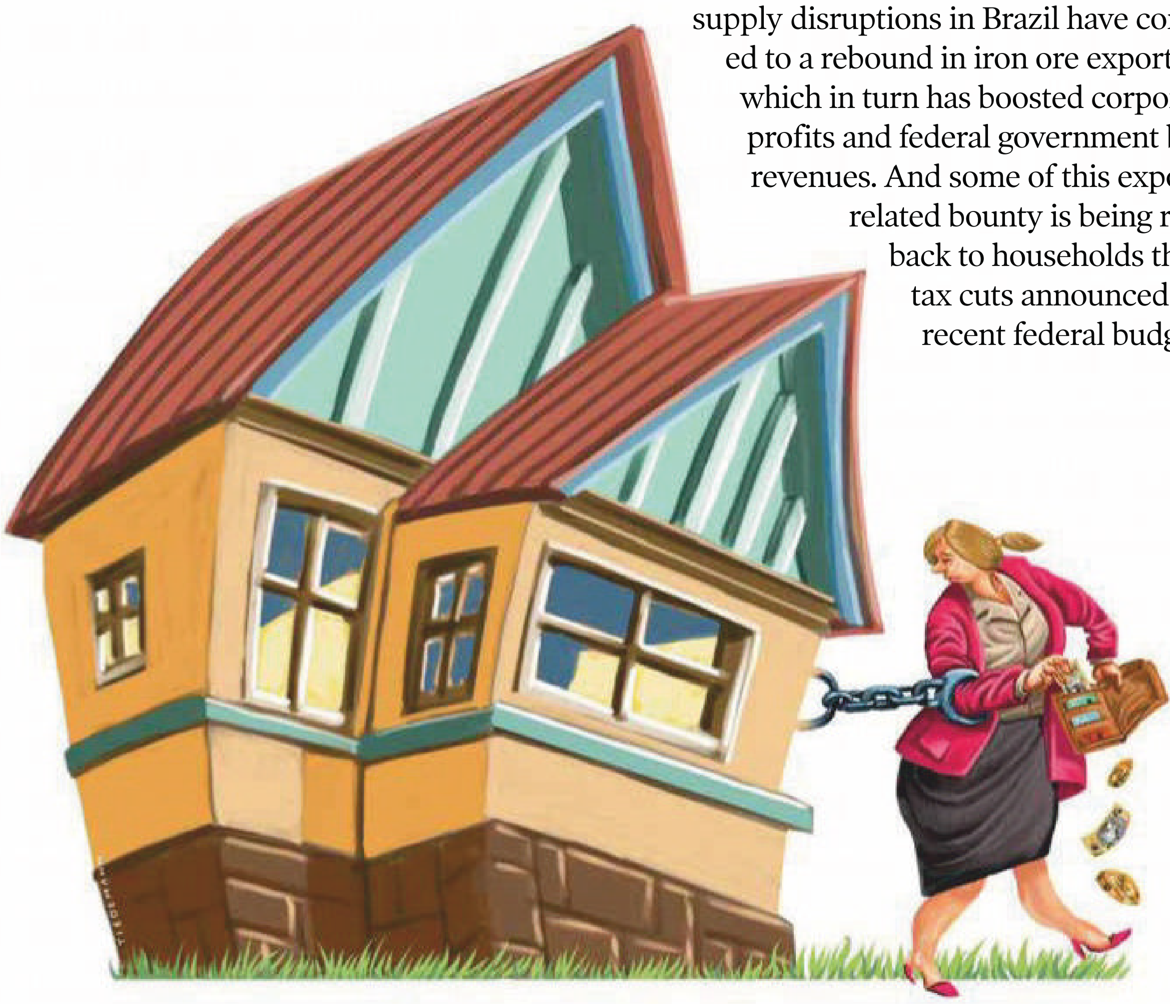
Although home building remains at a high level, the pipeline of activity should start to diminish over the coming year, which will undermine both jobs in this highly cyclical sector and related home-buyer spending on new furnishings and whitegoods.

At the same time, the progressive decline in Sydney and Melbourne house prices appears to have finally weighed on consumer spending, with more households feeling not as wealthy as they once were. Consumer spending over the second half of 2018 was quite weak. It's no surprise that once-buoyant measures of business sentiment have also taken a tumble since late 2018.

Of course, it's not all gloom and doom in the economy.

State governments across the country are undertaking multibillion-dollar infrastructure programs. Construction of office blocks and health-related facilities (such as aged care) remain strong. Also a cheaper Australian dollar is seeing more tourists and foreign students flock to our shores.

Continued solid Chinese demand and supply disruptions in Brazil have contributed to a rebound in iron ore export prices, which in turn has boosted corporate profits and federal government budget revenues. And some of this export related bounty is being recycled back to households through tax cuts announced in the recent federal budget.



That said, even allowing for added fiscal stimulus from whichever political party wins the federal election, it's unlikely to be big enough and fast enough to offset the increasingly downbeat outlook for the housing and consumer sectors. The cyclical swing effects of the housing sector can be significant at major turning points, while slower-moving consumer spending nonetheless accounts for a sizeable 60% of the economy.

All up, it now seems likely that growth will slow to a sub-trend pace over the coming year and the unemployment rate will start to rise, which in turn makes it likely the Reserve Bank will be forced to cut interest rates to even lower levels.

Globally, the doom and gloom of late last year is starting to ease, although it still seems likely that global economic growth will slow and equity markets will find it harder to continue the strong bull rally of recent years.

Most importantly, the US Federal Reserve has shifted its thinking and no longer feels it needs to lift interest rates further this year. This has come as a big relief to markets. It is also encouraging that US-China trade talks continue and both sides seem keen to avoid escalating tensions.

That said, US economic growth and corporate earnings are slowing to a more moderate pace after being buoyed by tax cuts over much of 2018. Chinese growth also continues to slow, albeit in a controlled fashion. The biggest disappointment in recent months has been Europe, where China's slowdown, new environmental regulations, Brexit woes and sluggish population growth are all taking their toll. As a result, the European Central Bank has joined the growing group of global central banks that have decided to indefinitely delay lifting interest rates back to more normal levels.

David Bassanese is chief economist at BetaShares.

A real labour of love

There are sound reasons why people like to manage their own finances

When I retire, you would imagine that I – as a fund manager, stockmarket newsletter writer, financial planning business owner, financial educator and long-time stockbroker – will relish managing my own retirement funds in perpetuity.

But when I do retire, in, say, 10 years, assuming I have hit the number I currently estimate I need in retirement funds, the truth is that, like a retiring mechanic, the last thing I will probably want to do when I turn my mind to more leisurely pursuits is to fix my own car. I probably will, as do many people, but why do they take on the task of managing their own retirement funds, especially when they don't have the history, as I do, of experience in that industry. Why would you manage your own equity portfolio? Let me tell you.

Because they can. Individual investors have unfettered access to the stockmarket. It didn't used to be this way. Before the early 1990s, everybody had to deal through a full-service broker. It was all telephones and 1% brokerage. But the internet changed everything. Through technology and the availability of research and opinion, individuals have the ability, if they have the time and interest, to take control of their finances at a fraction of the cost. People manage their own investments because they can; it is an option available to every citizen, in every kitchen, in every home in Australia.

Trust. It is an unfortunate fact of the finance industry that it has lost the trust of the populace. The banking royal commission has done a good job of killing the industry without providing anything to fill the void. Many investors understandably now choose to fill that void themselves.

If there is a cycle of trust and persecution in financial advice, we are hopefully close to the bottom of one cycle and at the peak of the other. But while the mistrust remains, many investors feel that the only person they want going anywhere near their money is themselves. That's why they manage their own portfolios because, win or lose, they prefer to be the person responsible. They can handle their own failures, but not the failure of others.

The chance to do better than average. If you invest through one of the big superannuation or industry funds you can pretty much guarantee the average return from every asset class. For some people that prospect is too dull.

You might think the big funds have smart stock pickers trying to beat the average. But the truth is that they have so much money under management that they simply cannot materially outperform the average, and rather than attempt it they accept it and end up more concerned with not underperforming than performing. If you look at the data (see Databank, page 87), you will see that the performance of the top 20 MySuper funds over the past five years ranges from 6.6% to 9% a year. They are all pretty much doing the same thing, giving you access to the average return.

These multibillion-dollar funds (AustralianSuper has over $100 billion under management) hold so many stocks in so many asset classes that this is pretty much all they are capable of: administering your access to the average return rather than genuinely attempting to outperform.

Most individual investors will hold less than 20 stocks and their returns will be anything but average, but they do at least have a chance of making above-average returns. When you are behind the eight-ball, you need this chance. Managing your own share portfolio is a more hopeful prospect; you are not resigned to the average. Some investors need that hope.

The ability to exclude stocks. We have run a top 50 portfolio in the *Marcus Today* newsletter since 2011. The investment process involves taking the top 50 stocks and, rather than picking the best, we exclude the worst. This portfolio will outperform because of the stocks we don't hold rather than the stocks we hold. Individual investors will tell you that this is one of the major reasons they do it themselves, because an index includes all stocks, so by simply excluding stocks they reckon they can do better, and I'm sure many do.

As a social activity. The stockmarket offers the medium to connect with other people. This is something that has become a way of life, a necessity even, for some investors.

Organisations such as the Australian Investors Association, the Australian Shareholders' Association and the Australian Technical Analysts Association (you don't have to be a technical analyst) provide not-for-profit opportunities to travel to conferences and events, gather with like-minded investors, share ideas, make friends and network with other members. It can be worth it just for that.

Because they love it. The stockmarket is an intellectual pursuit, a learning experience, and for many it becomes a hobby. As one investor once put it: "When the only organ that still pumps blood is the brain, the stockmarket is as close to sex as I can get." If you come at the stockmarket out of necessity, if you don't enjoy it, if you don't get passionate about it, you are going to burn time and create stress and you are more than likely going to stuff it all up.

The only people who should manage their own portfolio are those who want to do it, see it as an intellectual activity, have passion and enjoy the whole process, whatever the outcome. For some investors the stockmarket is everything; it occupies every vacant moment, because they love it.

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

SECTOR **RETAILERS**

Goods times are over

A slump in building activity will hit the sales of items such as couches and carpets

With national aggregate residential building approvals plunging in recent months, it is an odds-on bet that building activity will soon do likewise. Building always comes after approvals, so if approvals have slumped, it follows that construction activity will too.

Of course, there are serious second-order consequences for retailers of furniture, electronics and other household goods, not least because fewer new apartments being built and sold means fewer couches, tables and carpets.

The construction industry employs 9.6% of Australia's workforce and 37% of that number is employed directly in residential construction. That means 3.5% of the entire workforce may soon face less income or an increase in unemployment.

UBS has reported that residential building approvals have fallen from about 280,000 dwellings to 170,000 most recently – a 40% decline in forthcoming activity, taking into account that construction cannot commence without an approval.

Over the past 12 months we have noted in this column the deteriorating outlook for car and furniture retailers. This month we examine the outlook for the retailers exposed directly to the deterioration in sales of household goods, noting that furniture and homewares is a $13.6 billion market (excluding appliances and DIY).

As you consider these companies, ask not only whether the outlook is deteriorating or improving but what might already be factored in. It is frequently the case that a deteriorating backdrop is already built into the price and the share price recovers long before business conditions do. And as Godfreys proved last year, even the least loved retailers can receive takeover bids.

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

❶ Adairs

Adairs is a bedlinen and homewares retailer with a market cap of $280 million after its share price fell almost 40% from its 2018 highs. In the half year to December 31, 2018, Adairs reported strong like-for-like sales growth but declining margins and cash flows, and consequently analysts downgraded their earnings per share forecasts. Further deterioration in domestic conditions could offset the company's online penetration and online sales gains as well as its overseas sales aspirations.

ASX code ADH
Price $1.66
52wk ▲ $2.71
52wk ▼ $1.53
Mkt cap $280m
Dividend 14.5¢
Dividend yield 8.8%
PE ratio 8.7
SELL

❷ Beacon Lighting

Beacon Lighting's first-half 2019 result was in line with market concerns, but following deteriorating January like-for-like sales the company noted that trading conditions were "unpredictable". Expect those conditions to persist. Indeed, they are unpredictable and not in a positive direction for the reasons explained. Adairs' guidance was for flat profits in 2018-19, which implies a softer second half and the requirement that analysts downgrade.
If the predicted slump in construction occurs, further downgrades are likely, possibly delivering an even lower share price than the current PE of nine times.

ASX code BLX
Price $1.10
52wk ▲ $1.69
52wk ▼ $1.08
Mkt cap $239mm
Dividend 5.05¢
Dividend yield 4.6%
PE ratio 12
HOLD

❸ Temple & Webster

Temple & Webster describes itself as the leading online retailer for the home. In the half to December 31, 2018 it reported a 40% year-on-year jump in revenue to $49.3 million, EBITDA of $900,000 and a debt-free balance sheet. With only 4% of the furniture and homewares category having migrated online, the long-term thematic appears positive. The share price, however, is up from 15¢ two years ago to around $1.60 today. Operating leverage will ensure profits grow quickly if sales growth can be maintained, but the reverse will be true if the slump in household goods sales deepens.

ASX code TPW
Price $1.68
52wk ▲ $1.62
52wk ▼ 52¢
Mkt cap $181m
Dividend -
Dividend yield -
PE ratio 45
HOLD

Prices as at close of business, 12-April-19.

BANKS

Strike the right balance

Investors would do well to reassess their love affair with the banks

Few stocks, as a group, have made so much money for so many people as our banks have over the past three decades. Many a retiree portfolio (and not a few inheritances) have been swelled by the simple act of putting money into bank floats and reinvesting the dividends. In the past 25 years, the average share price gain for our big banks is 420%, meaning $10,000 has become $52,000.

But add back reinvested dividends and your $10,000 investment is now worth more than $200,000. Talk about the power of both compounding and reinvesting your dividends. It's no wonder that many investors have portfolios in which banks are 50%, 60% or more of the total. It's a dangerous level of concentration, but it's a nice problem to have when it's caused by decades of dividends and share price increases.

The past few years haven't been so kind, of course. Even after dividends, bank shareholders are in the red over the past 12 months or so, while they've relied on dividends alone for a positive return since 2016. Falling house prices haven't been kind and the potential changes to franking credit refunds don't help either.

Still, as the largest single sector of the ASX, financial companies deserve a look. And it's not just the big four banks, either. There are the smaller banks, insurance companies, mortgage brokers, collection agencies, payday lenders and non-traditional lenders, too.

The breadth of different business models, and the differing goals among investors, make this a challenging sector to review. How do you compare Cash Converters, QBE and Commonwealth Bank? Especially when some investors are untroubled by share prices and happy to just receive a steady flow of dividends, while others are looking for capital growth.

For our purposes, we'll look for total shareholder return (capital growth plus dividends) and emphasise quality. The former means we need to find a business with a high probability of decent profit growth. And the latter stops us buying the sharemarket equivalent of lottery tickets – a very low probability of a big win and a much higher likelihood of losing money.

Plus, given the risk that financial institutions take on and the ever-present possibility of a good old-fashioned bank run (not to mention the fact that even one of the big four, Westpac, went close to going broke back in the early 1990s), it behoves us to make quality a top-drawer criterion.

For customers and investors alike, reputation matters in financial services. An insurer needs a reputation of "reserving" – putting money away for claims – adequately. And a bank must lend prudently, for similar reasons. Investors should also look for companies with either inexpensive shares (on a valuation basis) or good growth potential. Ideally both.

Scott Phillips is The Motley Fool's chief investment officer. You can reach him on Twitter @TMFScottP and via email ScottTheFool@gmail.com. This article contains general investment advice only (under AFSL 400691).

Best in Breed's tips so far

SECTOR	STOCK	ASX CODE
Banks	Macquarie Group	MQG
Resources	South32	S32
Consumer staples	Treasury Wine Estates	TWE
Discretionary retail	Premier Investments	PMV

Foolish takeaway

Putting our criteria together, one name bubbles to the top. Accordingly, my pick of the ASX financial services sector is Macquarie Group (ASX: MQG). It's not as simple a business as one of our domestic banks, to be sure, but it has both a reputation for making money and experience of innovating across both geographies and business lines as circumstances require.

Its executives and employees have plenty of skin in the game, and it deserves its moniker "the millionaires' factory". It simply isn't tied to a single market or asset class the way our other large banks are and offers impressive diversification.

To be fair, it's also higher risk than those banks, but the returns on offer make it a risk worth taking.

YOUR GUIDE TO SUPER DATA

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

MySuper options are default superannuation products that employees choose or are allocated by their employers. Most employees can choose another fund if they don't like the one selected by their employer.

The performance results displayed are the annualised investment returns each MySuper option has delivered after taking account of all taxes and fees.

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

Best Super Funds: Top 20 MySuper – February 28, 2019

RANKED BY 3-YEAR RETURN

FUND & INVESTMENT OPTION NAME	Fund Type	Strategy	1-year Return	Rank	3-Year Return (%PA)	Rank	5-Year Return (%PA)	Selecting Super Rank	Quality
LGS Accumulation Scheme - High Growth	Industry	LC	5.7%	24	11.0%	1	8.7%	4	AAA
HOSTPLUS - Balanced	Industry	S	5.6%	26	11.0%	2	9.0%	1	AAA
FirstChoice Employer FC Lifestage (1970-1974)	Retail	LC	5.2%	38	10.8%	3	7.4%	29	AAA
Qantas Super Gateway Glidepath Take-Off	Corporate	LC	6.8%	5	10.6%	4	Nav	Nav	Not Rated
Mercy Super MySuper Balanced	Corporate	S	6.7%	6	10.5%	5	8.3%	9	AAA
AustralianSuper Balanced	Industry	S	5.5%	30	10.5%	6	8.7%	3	AAA
Sunsuper Super Savings Lifecycle Balanced Pool	Industry	LC	6.3%	10	10.4%	7	8.3%	8	AAA
Club Plus Industry Division MySuper	Industry	S	6.0%	14	10.3%	8	7.7%	20	AAA
Telstra Super Corporate Plus MySuper Growth	Corporate	LC	4.9%	46	10.1%	9	8.0%	15	AAA
StatewideSuper MySuper	Industry	S	6.0%	15	10.1%	10	8.9%	2	AAA
Media Super Balanced	Industry	S	7.0%	3	10.0%	11	7.9%	16	AAA
First State Super Employer Growth	Industry	LC	5.4%	35	10.0%	12	7.5%	26	AAA
Cbus Industry Super Growth (Cbus MySuper)	Industry	S	5.7%	25	10.0%	13	8.5%	6	AAA
Mercer CS Mercer SmartPath 1974-1978	Retail	LC	5.8%	21	9.9%	14	Nav	Nav	AAA
Prime Super (Prime Division) MySuper	Industry	S	5.0%	43	9.9%	15	8.1%	12	AAA
UniSuper Balanced	Industry	S	7.7%	1	9.8%	16	8.5%	7	AAA
Intrust Core Super MySuper	Industry	S	4.8%	47	9.8%	17	8.1%	11	AAA
HESTA Core Pool	Industry	S	6.1%	13	9.7%	18	7.9%	17	AAA
NGS Super Diversified (MySuper)	Industry	S	6.0%	19	9.7%	19	7.4%	30	AAA
Lutheran Super Balanced Growth MySuper	Corporate	S	6.0%	18	9.7%	19	6.6%	51	AAA
SelectingSuper MySuper/Default Option Index			5.0%		8.8%		7.0%		

Rankings are made on returns to multiple decimal points.

SelectingSuper Benchmark Indices – Workplace Super

INDEX NAME	Performance to February 28, 2019		
	1-year	3-years p.a.	5-years p.a.
SelectingSuper Growth	5.0%	9.4%	7.3%
SelectingSuper Balanced	4.5%	7.8%	6.4%
SelectingSuper Capital Stable	3.8%	5.1%	4.5%
SelectingSuper Australian Equities	4.5%	11.1%	6.5%
SelectingSuper International Equities	4.3%	11.4%	8.8%
SelectingSuper Property	12.2%	8.4%	9.6%

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

DATABANK

WHAT THEY MEAN

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

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

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

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

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

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

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

Top 5 Multi Sector funds by size

Name	APIR Code	Mngmnt fee %pa	Start Date	Size (m)	1-year return	Rank	5-year return (%pa)	Rank
AMP Balanced Growth	AMP0442AU	0.71%	30/09/1985	$5,429m	3.7%	48	6.1%	36
QIC Growth Fund	QIC0002AU	0.50%	06/03/2002	$4,266m	3.3%	53	5.7%	43
Vanguard Growth Index Fund	VAN0110AU	0.36%	20/11/2002	$4,145m	6.0%	7	7.9%	12
Vanguard Balanced Index Fund	VAN0108AU	0.34%	20/11/2002	$3,701m	5.5%	11	6.9%	25
Vanguard High Growth Index Fund	VAN0111AU	0.37%	20/11/2002	$2,211m	6.4%	3	8.8%	6
AVERAGE*		0.73%		$545m	3.9%	81	6.3%	68

Top 5 Australian Equities funds by size

Name	APIR Code	Mngmnt fee %pa	Start Date	Size (m)	1-year return	Rank	5-year return (%pa)	Rank
Vanguard Australian Shares Index Fund	VAN0002AU	0.18%	30/06/1997	$10,760m	6.6%	25	7.2%	64
Fidelity Australian Equities Fund	FID0008AU	0.85%	30/06/2003	$5,762m	7.4%	11	8.3%	41
Investors Mutual Australian Share Fund	IML0002AU	0.99%	30/06/1998	$2,786m	4.5%	47	7.7%	49
Bennelong ex-20 Australian Equities Fund	BFL0004AU	0.95%	02/11/2009	$2,529m	-1.0%	92	10.7%	5
Dimensional Australian Core Equity	DFA0003AU	0.31%	03/07/2006	$2,522m	5.0%	42	8.4%	38
AVERAGE*		0.77%		$598m	3.7%	102	7.9%	94

Top 5 International Equities funds by size

Name	APIR Code	Mngmnt fee %pa	Start Date	Size (m)	1-year return	Rank	5-year return (%pa)	Rank
Vanguard International Shares Index Fund	VAN0003AU	0.18%	30/06/1997	$13,755m	10.2%	53	11.9%	34
Platinum International Fund	PLA0002AU	2.45%	30/04/1995	$10,548m	-3.4%	153	8.4%	90
Magellan Global Fund	MGE0001AU	1.35%	01/07/2007	$10,009m	14.2%	19	12.7%	20
MFS Global Equity Trust	MIA0001AU	0.77%	24/04/1997	$6,318m	11.1%	39	12.3%	25
Antipodes Global Fund	IOF0045AU	1.20%	31/07/1994	$3,932m	0.6%	137	13.6%	13
AVERAGE*		0.94%		$661m	6.7%	164	10.7%	105

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

Name	APIR Code	Mngmnt fee %pa	Start Date	Size (m)	1-year return	Rank	5-year return (%pa)	Rank
Fiducian Ultra Growth Fund	FPS0014AU	1.63%	01/09/2008	$175m	2.2%	68	10.1%	1
MLC Horizon 7 Acc. Growth Portfolio	MLC0449AU	1.24%	02/10/2002	$74m	4.7%	31	10.1%	2
Perpetual Split Growth Fund	PER0066AU	1.16%	31/03/1999	$43m	6.2%	5	9.4%	3
Responsible Investment Leaders Bal	AMP0453AU	0.82%	23/09/2005	$1,100m	5.3%	17	9.2%	4
Fiducian Growth Fund	FPS0004AU	1.29%	01/02/1997	$120m	4.9%	21	8.8%	5
AVERAGE*		0.73%		$545m	3.9%	81	6.3%	68

Source: Rainmaker Information. Data sourced as at February 28, 2019. *Numbers stated here depict averages, other than the Rank column which is the total number of funds in the category. For any queries on these tables, please contact info@rainmaker.com.au.

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

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

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

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

Name	APIR Code	Mngmnt fee %pa	Start Date	Size (m)	1-year return	Rank	5-year return (%pa)	Rank
Macquarie Australian Shares Fund	MAQ0443AU	0.60%	28/11/2005	$117m	6.6%	24	15.7%	1
Bennelong Concentrated Aust. Equities	BFL0002AU	0.85%	30/01/2009	$789m	-1.2%	94	14.6%	2
Macquarie WS Aust. Equities Fund	MAQ0213AU	0.60%	31/01/2001	$165m	5.5%	40	11.7%	3
Australian Unity Platypus Aust Equities	AUS0030AU	0.96%	28/04/2006	$102m	8.7%	4	11.4%	4
Bennelong ex-20 Aust. Equities Fund	BFL0004AU	0.95%	02/11/2009	$2,529m	-1.0%	92	10.7%	5
AVERAGE*		0.77%		$598m	3.7%	102	7.9%	94

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

Name	APIR Code	Mngmnt fee %pa	Start Date	Size (m)	1-year return	Rank	5-year return (%pa)	Rank
Lazard Global Equity Franchise Fund	LAZ0025AU	1.25%	01/10/2013	$109m	13.5%	23	16.7%	1
T. Rowe Price Global Equity Fund	ETL0071AU	1.18%	15/09/2006	$2,655m	11.7%	34	15.8%	2
Fidelity Global Demographics Fund	FID0023AU	1.15%	30/11/2012	$57m	8.9%	65	15.0%	3
Walter Scott Global Equity Fund	MAQ0410AU	1.28%	28/02/2005	$3,372m	18.9%	6	14.7%	4
Arrowstreet Global Equity Fund	MAQ0464AU	1.28%	18/12/2006	$2,359m	10.7%	42	14.5%	5
AVERAGE*		0.94%		$661m	6.7%	164	10.7%	105

Top 5 funds by 1-year performance

Name	APIR Code	Mngmnt fee %pa	Start Date	Size (m)	1-year return	Rank	5-year return (%pa)	Rank
Vanguard Global Infrastructure Index Fund	VAN0023AU	0.49%	30/11/2007	$547m	27.8%	1	12.1%	42
Evans and Partners International Fund	ETL0390AU	1.25%	18/02/2014	$44m	20.0%	2	14.0%	20
Magellan Infrastructure Fund (Unhedged)	MGE0006AU	1.05%	01/07/2013	$786m	19.5%	3	12.5%	33
Walter Scott Global Equity Fund	MAQ0410AU	1.28%	28/02/2005	$3,372m	18.9%	4	14.7%	11
Yarra Australian Real Assets Securities Fund	JBW0030AU	0.85%	31/12/2005	$34m	18.3%	5	8.8%	132
AVERAGE*		0.93%		$559m	4.5%	375	8.8%	284

Bottom 5 funds by 1-year performance

Name	APIR Code	Mngmnt fee %pa	Start Date	Size (m)	1-year return	Rank	5-year return (%pa)	Rank
AIM Global High Conviction Fund	AIT3081AU	1.50%	07/07/2015	$198m	-20.0%	375		
Ironbark Copper Rock Emerging Markets Opps Fund	MGL0019AU	0.90%	19/03/2007	$92m	-13.7%	374	-0.3%	284
UBS Aust. Small Companies SIV Fund	UBS0063AU	0.85%	28/02/2015	$78m	-13.6%	373		
Auscap Long Short Australian Equities	ASX0001AU	1.54%	30/11/2012	$530m	-10.8%	372	9.3%	113
Orbis Global Equity Fund	ETL0463AU	1.00%	30/06/2005	$2,800m	-8.8%	371	10.1%	93
AVERAGE*		0.93%		$559m	4.5%	375	8.8%	284

WHAT THEY MEAN

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

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

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

“A hot tip in the market turned out to be a hot dud”

What was your first job?

I was 15 or 16 and I got a job at Target on the complaints desk. I wasn’t much good because I trusted everyone and my manager had to explain to me that people actually stole things and returned them to me and I was just giving them cash for having stolen something in the store. I remember for weeks being completely shocked that people did this. I also babysat around the neighbourhood most Saturday nights and developed a love of late-night TV and Tim Tams.

What’s the best money advice you’ve received?

When I began my business it was such simple and seemingly obvious advice and my accountant praises me that I’m really good at this one thing. Always have a dedicated account and allocate in a disciplined way for super, tax and GST. Never spend your GST. It isn’t yours! My financial adviser continues to deliver pearls of wisdom and we have great conversations. I wish I had met him when I was 20.

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

I hope it will be a start-up that I have just invested in, but to date it was selling my house at the top of the market in 2010 and buying my house at the bottom of the market in 2011. I was strategic on location and the potential to do simple cosmetic changes for the biggest returns. Apart from my house I’d have to say I have an average track record!

Margie Hartley

Margie is one of Australia’s leading executive coaches and founder of Gram Consulting Group, an independent coaching and facilitation community. Having worked with 11 of the top 20 ASX-listed companies, Margie and her team transform individuals through facilitation and executive coaching. Her podcast *Fast Track: Career Conversations with Margie Hartley* features weekly career insights from top CEOs and business leaders.

What’s the worst investment decision you’ve made?

There have been a couple. I recently didn’t do any due diligence on a hot tip in the market and it turned out to be a hot dud. It’s currently half the value I bought at. I’m a big believer in maximising super and I talk to my clients about getting their “financial house” in order on a regular basis. Investing in concessional super back in the 1980s, however, was a disaster for me. I invested in super only to watch fees gobble up a huge amount. I had the right idea but the execution and advice were not good. That company has recently been investigated by the royal commission.

What is your favourite thing to splurge on?

I like to give to friends or family in need if I can. I also give to my favourite charity or my daughters, who are establishing themselves as young adults. I also buy a box at the Sydney Swans SCG games to cheer on the red and the white. It’s a fabulous indulgence as we sit above the race and cheer very loudly even when we lose.

If you had $10,000 where would you invest it?

Super! “Top that baby up” is my mantra, especially as I creep towards retirement.

What would you do if you had only $50 left in the bank?

I’d do what I have always done and find work, work hard and re-establish myself. Working hard has never scared me, while not having money to live does.

Do you intend to leave an inheritance?

Although I know that this is contentious to the “money advisers” who follow the Warren Buffett rule, I am leaving everything to my three daughters. They are sensible and it will be a help for them.

What advice would you give to someone wanting to launch their own podcast?

Work out what you want to say. Podcasts aren’t just an opportunity to randomly chat like you do with your mates on a Sunday afternoon. The medium is intimate, which makes it even more important to be crystal clear about the challenge you are helping others solve and the ideas you are sharing. Lots of people work with “backyard” producers. This is fine if you just want a limited audience, but really getting the quality right and having a fantastic producer and editor are essential. My experience at PodcastOne has been awesome on both *Superwomen … We Ain’t* with Janine Allis and *Fast Track: Career Conversations with Margie Hartley.*

Finish this sentence: money makes …

… life easier for those with and harder for those without. But remember money doesn’t create a meaningful life.

Money

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