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# Money

OCTOBER 2019 AUS $7.95 NZ $8.95 ISSUE 227
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MARCUS PADLEY
RETIREMENT: WHY $1m WON'T BE ENOUGH

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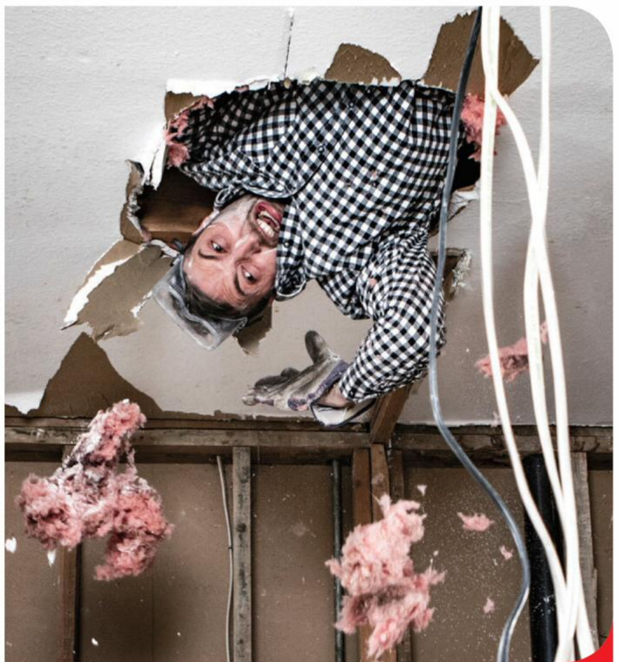




## SAVINGS & GIVEAWAYS

EDITOR'S DESK

# Dust off the cobwebs

Over time we inevitably gather the proverbial cobwebs in our lives. A garage full of electrical items you no longer use. A closet full of clothes you no longer wear. A hobby you no longer pursue.

In this issue, we ask you to dust off those cobwebs, sell or discard those long-forgotten items and revive your long-held dreams.

At the very least, convert your spare time into money.

Research has found that Australians can, on average, earn around $7000 through a job on the side, called a "side hustle" in modern lingo, whether it's in pet grooming, Uber driving or making gourmet pickles. The more unusual your skill set or interest, the more dollars you could earn. Welcome to the gig economy. There's more on this in our cover story (page 36).

If you already have your hands full with existing commitments, we've got a suite of investment articles for your weekend reading. From six stocks to watch (page 72) to bond funds (page 70) and ways to shield your portfolio from a recession (page 66), there's plenty of food for thought in this issue.

And what's a *Money* magazine edition without property? We understand that DIY renovation is something that's on the cards for most, if not all, homeowners. Please read this article (page 60) before you pick up a sledgehammer.

This is the second month of our three-month long #SuperBooster campaign. We decided to get back to basics. If you haven't given your super much thought, our article "Make friends with your super" (page 48) is dedicated to you.

I hope we continue to help you stay on track with your financial goals.

Michelle

**Michelle Baltazar,**
**Editor-in-chief**

# Feedback

## Letter of the month

### Knowledge gained over the years pays off

I'd like to say thank you for the knowledge I've learnt over the years of reading *Money* magazine. Could you also say a big thank you to Paul Clitheroe, and let him know I have read both his books. I took a lot of guidance from these books and read them while in a dump truck out at Cloncurry, as well as buying *Money* magazines regularly.

In 1999 I took the plunge to see a mortgage broker in Cairns, who put me on the right track. After approval I bought my first home for $160,000. I remember the feeling of seeing it being built and moving in with my girlfriend.

I sold it six years later for $325,000 before designing and building my second home. The land and build cost a total of $435,000 in 2005, and it sold in 2012 for $465,000. Then in 2013 I bought a property with my wife for $605,000 and sold it nine months later for $640,000.

In early 2014, my dream block with a 200sqm farm shed was up for sale. My wife and I made an offer, and after talking with our broker we then designed and built our next house. Our combined home loan became $580,000.

Within the next 12 months we will look at an investment property – maybe Bundaberg West, as growth is on the rise and work in the area is on the increase, all with a yield of 5.8%.

All this has come from reading Paul's books and *Money* on a regular basis.

I'm also asking for information regarding entrepreneurs. As my background is welding and fabrication, I draw and build custom-made trailers for customers to suit their needs and wants.

I now have a diary of innovative ideas, some to suit Australia and others for global markets – and I dare say there would be many people in the same shoes.

So would it be possible to do a business story for wannabe entrepreneurs to help with questions such as: the first steps to take, people to talk to and trust (not to take

your idea and run) and people who can help you build models, etc. I'd be after details of the cost to patent products and where to get forms etc, as well as how you bring ideas to development and the wider market.
**Graham**

**Ed's note:** This letter was originally submitted as two separate, handwritten letters. Graham, thank you for your kind words and I'm glad that Paul and *Money* magazine have helped you and your endeavours over the past 20 years. This month our cover story is dedicated to entrepreneurs and while we haven't ticked all of your boxes, you have given us much to think about for a follow-up story.

## Repairs help save money and the planet

I would like to share my latest money-saving idea. Since I was a boy my family has taught me that when something broke it was cheaper to buy a new one than to pay for someone to look at it and see if it was worth repairing.

However, in the past two years we had a vacuum cleaner and a washing machine break down. It turns out vacuum cleaners are easy to repair. The only thing that can really go wrong with them is the motor, and in our case that cost $150 to repair. It is now working better than it used to.

Our washing machine was six years old and out of warranty. We took it into a local service place and it cost $200 to replace the pump. We were given a helpful tip to not use so much detergent in future.

By doing this we have helped keep locals employed in our small country town. We have also kept two easily repairable goods out of landfill. This has been good for our hip pocket and good for the planet.
**David**

### Prize worth winning

Each month we'll award one letter a 12-month subscription to *Money* magazine.
**Write to:**
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# How will you spend your tax refund?

**GREG HOFFMAN**

Greg is an independent financial educator, commentator and investor. He says: "Travel! Our family has big plans for the year ahead, before our son heads to school in 2021. Japan, America, France, Germany and England are all on the cards. It's been a long-term goal and I can hardly wait."

**ALEXANDRA CAIN**

Alexandra is an experienced business journalist and contributing writer for *Money*. Alexandra says: "I put any extra funds straight on the mortgage because that's my major goal at the moment. Once I have done that, anything remaining will go into my super fund so I can also get a tax benefit."

**MARK CHAPMAN**

Mark Chapman is director of tax communications at H&R Block. Mark says: "We've recently done some renovations to our house, paid for on the credit card, so my tax refund will be used to pay that down. I reckon paying down debt is always the best use for your tax refund."

**DARREN SNYDER**

Darren Snyder is the managing editor of *Money*. Darren says: "Any tax refund will either go towards the home loan or be put aside as savings for an overseas trip in 2020 – it could potentially pay for the flights."


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*Money* is published by Rainmaker Information Pty Ltd (ABN 86 096 610 996), Level 7, 55 Clarence Street Sydney NSW 2000.
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Angela
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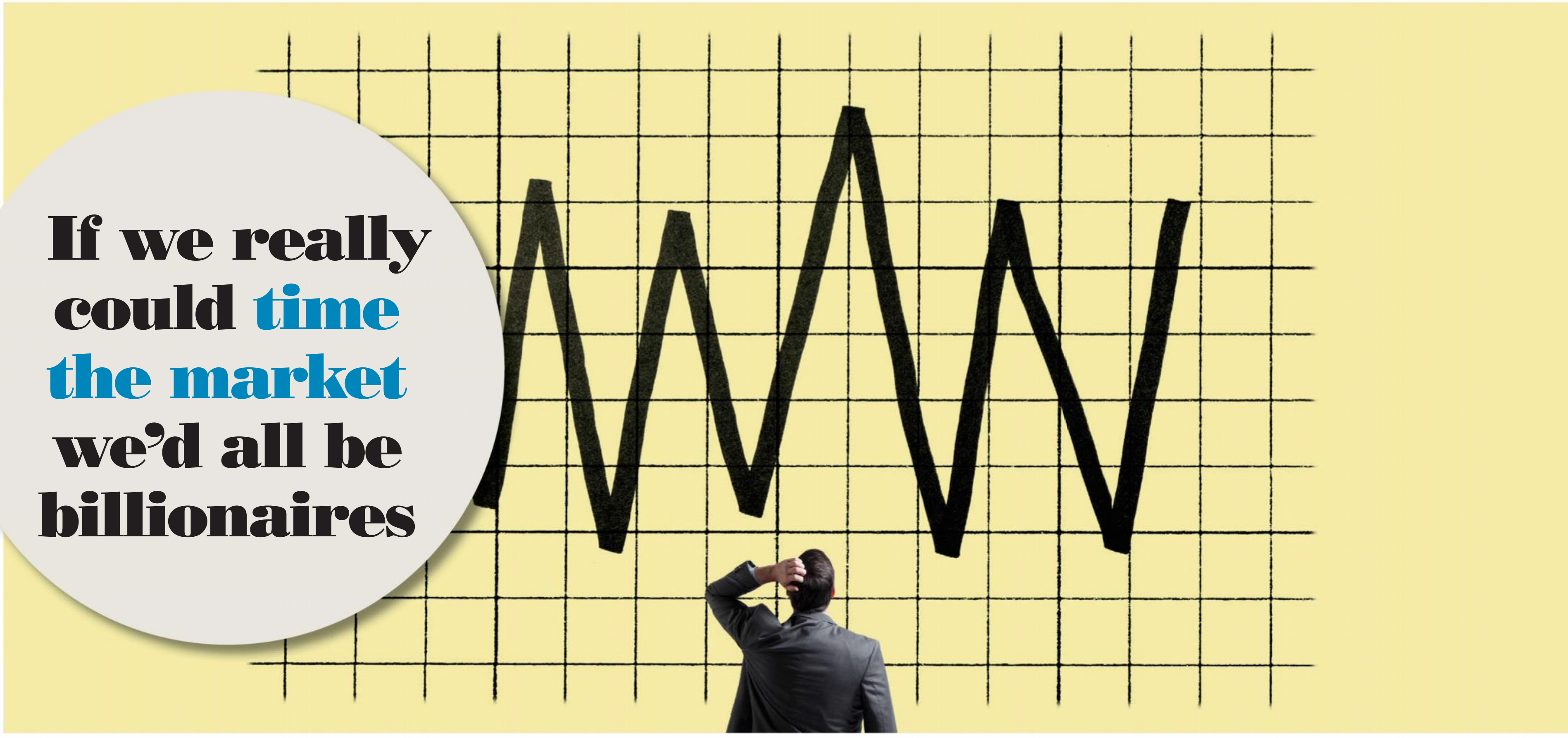
## IN YOUR INTEREST Paul Clitheroe



# If we really could time the market we'd all be billionaires

I was with a few of my great mates from my university college days having a quiet beer and a chat recently. As we are all around 64, the conversation, as it often does, turned to investment.

For nearly four decades this has been a regular area of discussion for me in the media and with individuals. But at our age we are now retired or partly retired, or plan to stop full-time work. So returns on our money are less of an academic subject these days and more about our lifestyle.

At around this stage of the evening, a couple of the guys look pretty amused. This is because they joined the public sector as engineers back in about 1976 and are in the original Commonwealth and state defined benefit super schemes. They can afford to be amused, because a defined benefit scheme delivers pretty much 80% of their final salary, linked to CPI and two-thirds reversionary to their spouse if they die.

We would all love one of these. Regular payments are government guaranteed and market ups and downs are irrelevant. These schemes were stopped for new entrants many years ago, or we would have a really interesting challenge as a society. When they were invented in the early part of the 1900s, blokes, the main beneficiaries, died in their late 50s. So the payments were not a burden on future taxpayers.

But we are living, on average, over 25 years longer. The scheme designers did not contemplate this. Nor did they contemplate the high rate of divorce and remarriage. If a defined benefit recipient marries someone much younger and then dies, a 66% payment goes to the spouse for their life expectancy, possibly many decades.

Anyway, one of our group, who is a canny investor, said he was partly cashed up and waiting for a big market fall to buy in. When would this be? As a so-called "expert" I tend to get dragged in at this stage. My helpful view was that I did not have a clue about when markets would crash or boom, but I could let them know after it happened.

I may not know much, but I do know that market timing is a mug's game. Anyone who gets that vaguely right has to be a billionaire. So my bland response was to get your asset allocation right and stick with it. About the only change to my "mix of assets" is that now I am semi-retired I keep a minimum of three years' lifestyle spending in safe, low-returning cash. Whenever markets drop, I use that for our spending so I do not need to sell good assets at low prices.

About the only market timing I have ever done was to buy Westpac in the late 1980s when the media were screaming it was about to fail over commercial property loans. I think I paid $2.14 a share. Then in the GFC I bought Commonwealth Bank, which had fallen from a bit over $50 to $23 a share. At that price they were yielding 13% fully franked dividends. My view was if CBA went broke, so did everything else, so it was a low-risk decision.

The 1987 sharemarket crash is an example of why we should not time markets. A few smarties tell me they sold in late 1986 or early 1987 and "missed the crash". At the start of 1987, the All Ordinaries was about 1470. It had the most incredible boom up to 2305, about a 58% rise to mid October 1987. On October 19, "Black Monday", the market fell around 25% and scared the daylights out of everyone, who then all piled in to sell. Truly, it is just mad stupidity.

The All Ords bottomed out on November 11, 1987 at 1309, a drop from the peak of some 43%. It then rose to 1472 by year's end. What is truly amusing about this is that if you held a portfolio of shares on January 1, 1987 and went to a distant island for a year, you would have come back on December 31 to find you had received your dividends but nothing had happened during the year.

Anyone who sold in late 1986 "to miss the crash" was behind after the crash. The market, after the fall, was still higher than when they sold. Get my point? Market timing is for mugs.

My view is simple. Hold a mix of assets that suits your risk profile and personal needs. As your income from work drops, hold a bit more cash for lifestyle spending. For those of us relying on investment income to eat and live, diversification is our friend. Market timing is not.

*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

# How Australians could have saved $150m

### Check the numbers before transferring money overseas

A little extra effort to shop around for the best rates and fees when transferring money overseas could save you hundreds of dollars. Instead of relying on your usual bank, it pays to consider other foreign exchange services.

The Australian Competition and Consumer Commission (ACCC) says that in 2018 consumers who used the big four banks to send international money transfers (IMTs) in US dollars and British pounds could have collectively saved about $150 million by using a lower-priced supplier.

The ACCC's latest inquiry found foreign cash is more expensive at airports. For example, when buying $US200 in February 2019, you could have saved up to $A40 by purchasing from the cheapest supplier outside an airport. If a customer of the big four banks used a debit or credit card without international transaction fees instead of a travel money card, they could have saved up to $A13 on a $US200 purchase.

Additionally, consumers and small businesses who used the most expensive bank to transfer $US7000 would have saved more than $A500 if they used the cheapest supplier.

These suppliers, often new entrants to the market, can rely on obtaining services from banks (also competitors) to provide IMTs to customers. However, the ACCC found some non-bank IMT suppliers had been denied access to bank accounts.

"The withdrawal of banking services from non-bank IMT suppliers represents a significant threat to competition that could ultimately result in less choice and higher prices for consumers," says ACCC chairman Rod Sims.

The commission found it is challenging for consumers to shop around and make informed decisions about foreign exchange (FX) services. And it's why they keep using the big four banks.

The ACCC has a guide to help consumers shop around. It explains, for example, how FX services with low or no fees are not always the best value for money. "We have also tried to clear up a few misconceptions, such as the assumption that paying in Australian dollars when shopping overseas is always best, when that is not the case," says Sims.

Government-funded comparison websites for international money transfers include sendmoneypacific.org and saverasia.com. DARREN SNYDER

## CALENDAR OF EVENTS

**Tuesday, October 1**
RBA interest rate decision

**Thursday, October 3**
Balance of trade

**Wednesday, October 9**
NAB business confidence

**Thursday, October 10**
Westpac consumer confidence index

**Thursday, October 17**
Unemployment rate

## ON MY MIND

# Hold your nerve on shares

The sharemarket has been bouncing around a bit lately, so you may want to prepare a few ideas on how to stay the course through the next share slide, no matter when it comes.

The first step is to design a diversified, low-cost portfolio that aligns with your goals, time frame and risk tolerance. Sticking with your plan regardless of financial market weather gives you the best chance for investment success.

Ignore the daily ups and downs because over the long run staying the course leads to significant gains. No one likes to see the value of their super or other investment fall. For that reason, some experts advise that you avoid checking your portfolio's value frequently, whether it is up or down.

Consider saving more because it provides a bigger cushion against a fall. You can't control financial markets, but you can control costs and how much you invest. Start by analysing whether you should salary sacrifice additional funds into your super.

Hiring a financial adviser can help you identify goals and create a plan to achieve them. They can be available to keep you on track when markets go haywire.

**Robin Bowerman**, head of market strategy and communications, Vanguard

## NEWS BITES

**Small Business and Family Enterprise Ombudsman Kate Carnell is urging prospective franchisees to do their homework before investing, after the ACCC found some franchisors were failing to provide adequate information to buyers. The regulator found one in three franchisors in the food services sector had failed to disclose useful contact details of former franchisees to allow prospective buyers to conduct due diligence.**

Australia's newest bank, 86 400, has launched with two account offerings (Pay and Save) with no monthly fees and a 2.5% interest rate, plus a string of smartphone features. Customers don't have to switch bank accounts to use the 86 400 app, with technology allowing users to connect with and view their existing bank accounts, plus credit cards and home loans, all within the app.

**The Real Estate Institute of Queensland is set to deliver fully digitised residential tenancy agreements. They will be executed as a digital smart contract by the end of this year. The program will also establish an unparalleled, real-time collection of rental prices and trends.**

# Investors value ethics, too

In the same way you would avoid a business for its terrible customer service, Australians are prepared to move their money elsewhere when companies disrespect shareholders' values. A KPMG survey of more than 1500 retail investors suggests they are more likely to accept lower financial returns if a company has behaved ethically towards customers, employees and the community.

KPMG chair Alison Kitchen is right in saying retail investors have effectively given companies a green light to pursue more transparency and more values-driven decisions.

But investors, whether institutional or retail, don't want to see the bare minimum – such as a dip in a chief executive's pay or a one-off goodwill donation. They want companies to take responsibility for their environmental and social licences.

It's integral that companies and investors work together because where we invest our future money will fundamentally change the way we live, and returns won't always be the key to financial success.

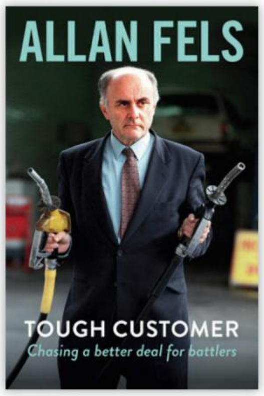
**Darren Snyder**, managing editor, *Money* magazine

**$4.5m**

In the 2017-18 financial year, the median pay for an ASX 100 chief executive rose to $4.5 million (this includes the market value of any CEO equity at the time of vesting). The Australian Council of Superannuation Investors says several leading companies lowered remuneration for incoming CEOs.

NEWS & VIEWS

## BOOK OF THE MONTH




**TOUGH CUSTOMER: CHASING A BETTER DEAL FOR BATTLERS**
**Allan Fels**
**Melbourne University Press, $34.99**

Allan Fels' memoir reflects on his 50 years dedicated to the public service, largely spent advocating for the consumer.

He has gone head to head with the country's largest banks, airlines, supermarkets and telcos to make certain Aussies get a fair deal. Now he details how his long career has impacted the way we live and work.

Throughout the book he explains how he had to manage the balancing act of finding solutions in the public's best interest as well as negotiating the political and business environment. He also considers how things have changed over this time and how past decisions stack up against a different world.

**Five readers can win a copy.** In 25 words or less, tell us about a time you fought for your consumer rights and won. Enter online at moneymag.com.au/win or send entries to Money, Level 7, 55 Clarence Street, Sydney, NSW, 2000. Entries open September 30, 2019 and close October 4, 2019.

## APP OF THE MONTH

**GIFTSTER**
**COST: FREE**
**OS: IOS 10.0 OR LATER, ANDROID 4.0.3 AND UP**


The start of October marks just 12 weekends until Christmas, and savvy shoppers know this means taking action now. Australians collectively spend about $11 billion on Christmas gifts each year, and 86% of us admit the present-buying bonanza puts a strain on our finances.

Yet more than 20 million of these presents are unwanted, often being re-gifted or, worse, ending up in landfill. The Giftster app helps to solve the problem by letting you create a family gift registry for Christmas, birthdays, weddings and christenings.

Invite family members to join your group, and avoid wasting money on unwanted or duplicate gifts. Or use the app to create a secret Santa draw. Gift ideas can be marked as reserved or purchased, and you can connect with other family members while they're out shopping to decide if you want to chip in with a shared purchase. NICOLA FIELD

## TAX TIP

### Compensation could be taxed

Since the recent banking royal commission, there has been a spike in compensation payments paid to investors by financial institutions. But did you know that these payments could be taxable?

The way tax law applies to such payments is complicated because different treatments apply to different types of compensation.

For example, compensation for lost interest will be taxable (on the basis that the interest – if you'd received it – would have been taxable). Compensation for fees paid to advisers who gave dodgy advice would be taxable if you claimed a tax deduction for the original fees.

Compensation for an investment that you have since sold will need to be added to the sale proceeds, which could involve extra capital gains tax and amending a previously lodged tax return.

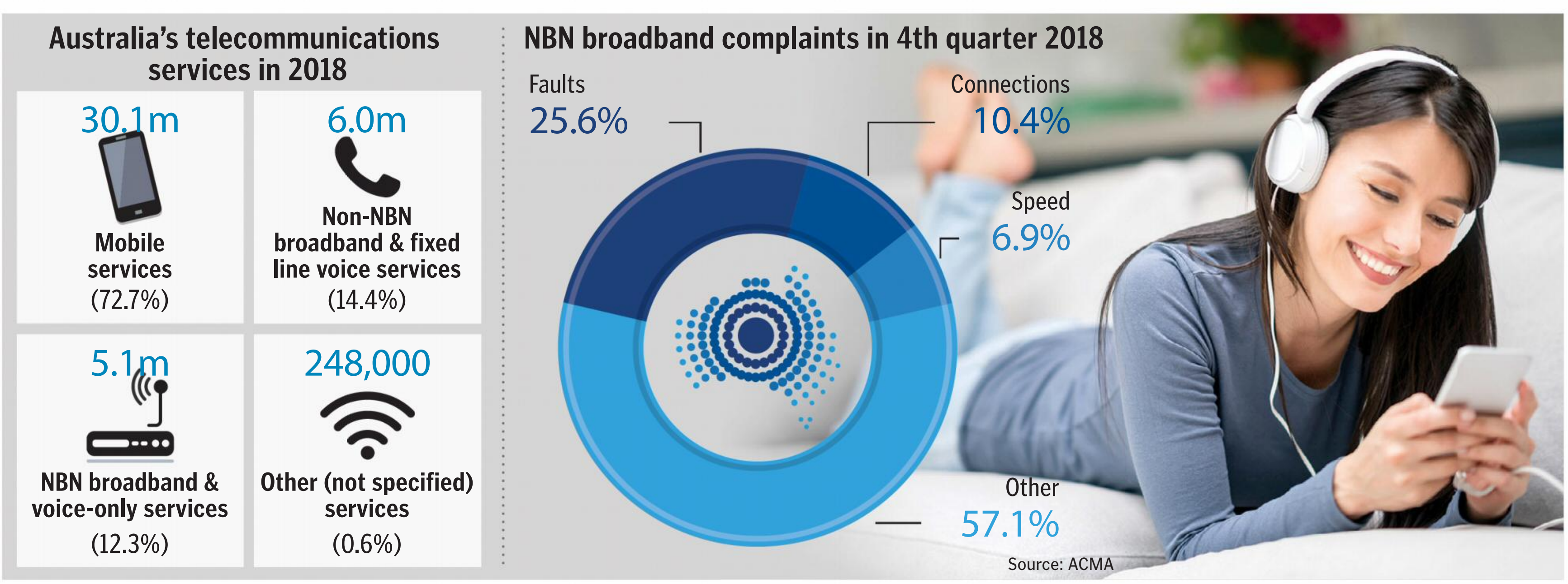
The best guidance is to seek advice. Not only do different tax treatments apply to different payments, many people will also receive compensation for more than one fault. In that case, they need to be able to split out the different elements and work out the different tax treatments.

So talk to a tax adviser and keep detailed paperwork identifying exactly what you are being paid out for.

If the payout is taxable, you may be able to claim a deduction for any fees you incurred in getting it (such as legal fees).

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

## SNAPSHOT How Aussies stay connected

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MY MONEY

▶ MORE MONEY STORIES ON P46-59

TOP TIPS

# Girls just want to have funds

**Molly Benjamin,**
Ladies Finance Club

Sometimes women feel about money the way they feel about the weights room at the gym: intimidated.

At a recent Ladies Finance Club event, a team of speakers came together to make money relatable, approachable and maybe even fun. Here are the top takeaways:

- **Get your head right first.** A big part of financial success is getting in the right mindset, believing that a few small steps can have a big payoff down the track. Like when you take some Panadol before bed after a night on the town, your future self will thank you later ... whether it's in the morning or when you retire.
- **#goals: more than just a hashtag.** How can you get somewhere if you don't know where you're going? We all need specific goals, written down, with dates and specific amounts. Beyonce once said "Put a ring on it"; we say "Put a dollar figure on it!"
- **Reframe what risk means to you.** When you invest, risk can't be avoided completely. In fact, your real risk comes with not investing and missing out on all that future wealth. The key is to identify risk, then diversify to manage it. Nobody wants a wardrobe full of nothing but killer heels – we need some flats to get home with dignity. A diversified portfolio gives you heels, flats, trainers and more.
- **It's not all about the sharemarket.** To achieve real diversification, think beyond equities and consider asset classes that dial down the risk, such as fixed income. Remember, with shares you're an owner and with bonds you're a loaner. So mix it up and bag those interest payments from fixed income, with a dash of capital preservation on the side. Just like the ad says, you're worth it.
- **You don't need to be an expert.** A lot of women get "analysis paralysis" with investing. They don't feel like experts so they do nothing at all. But the great thing about modern life is that if you can't do something there's a robot that can. Robo advice is a great option for ladies who want a helping hand without a hefty price tag.

## Home loan borrowers doubt 'good' deals

Two recent studies from regulator ASIC confirm consumers need to ask the right questions of mortgage brokers and financial advisers to receive greater value. Following more than 300 consumers in the process of taking out a home loan, and surveying another 2000, ASIC found one in five believed they could have got a better interest rate or were not sure whether they had secured a good deal.

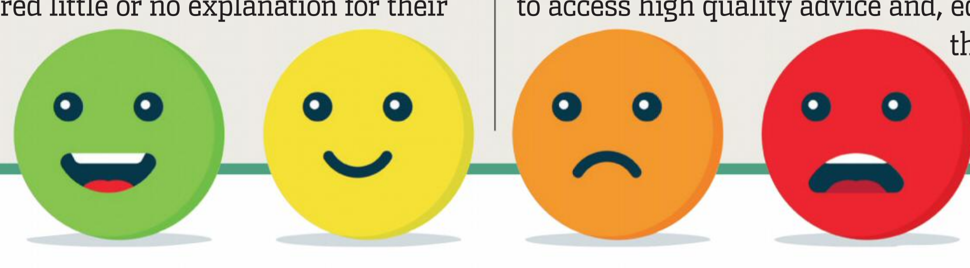
When consumers visit a mortgage broker, they expect to be informed about the "best" home loan, says ASIC. However, brokers were inconsistent in their presentation and sometimes offered little or no explanation for their recommendations.

First home buyers were more likely to go with a mortgage broker, while people going directly through a lender were more likely to be refinancing or had previous experience obtaining a home loan.

ASIC supports the recent federal government announcement to enact a "best interest" duty for mortgage brokers, as with financial advisers.

A separate ASIC study of more than 2500 people found Australians don't seek financial advice because they are put off by factors such as high costs, distrust of the industry and a perception that advice is only for the wealthy.

ASIC Commissioner Danielle Press says consumers who recently received advice had more positive attitudes towards advisers. "Although not all Australians need financial advice, it is imperative that people wanting advice when making critical financial decisions are able to access high quality advice and, equally, feel confident that the advice is in their best interests," she says.

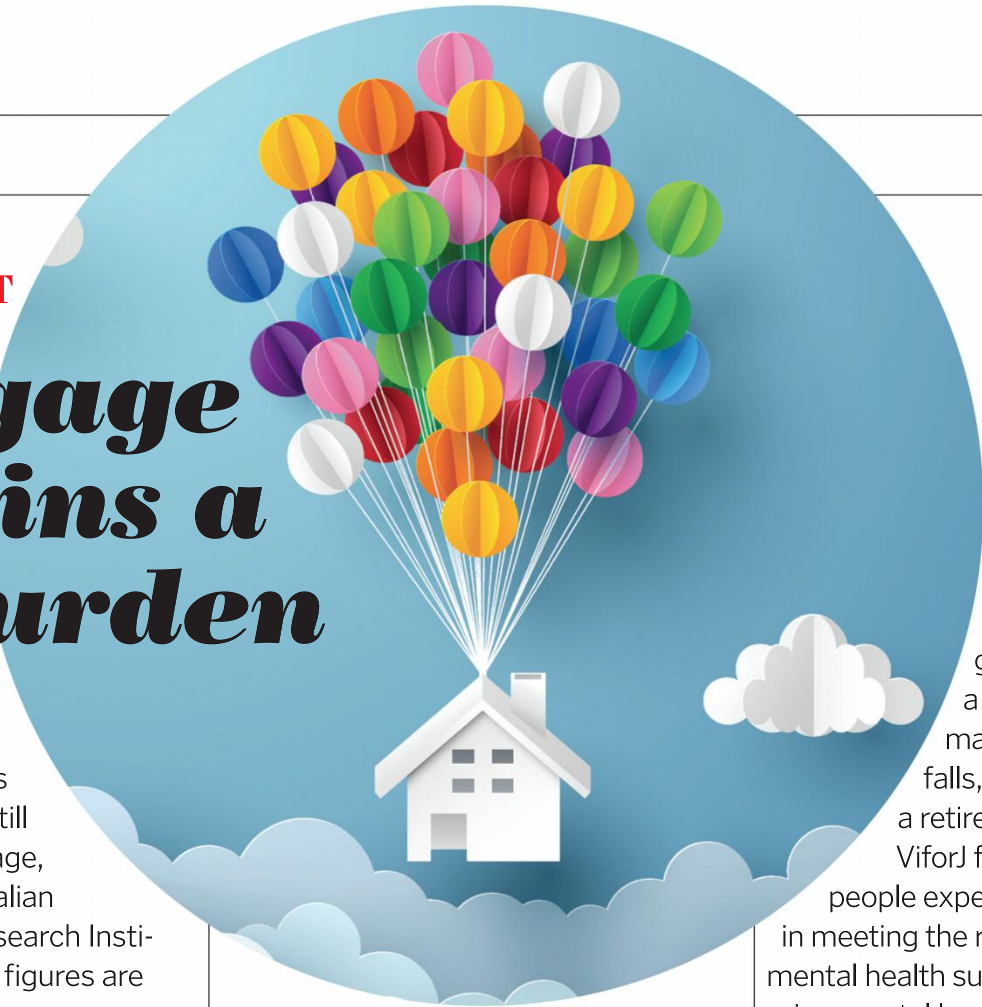


**41%**
of Australians intend to get personal financial advice in the future, but many will not proceed because of perceived barriers.

COMPILED BY DARREN SNYDER

RETIREMENT

# Mortgage remains a big burden



Twenty-eight per cent of Australians aged 55 and over are still paying off their mortgage, according to the Australian Housing and Urban Research Institute (AHURI). Its latest figures are double those for 1987.

The average mortgage to be paid off has shot up too. It sat at $185,000 in 2015, up from $27,000 in 1987.

One of the reasons for the jump in the debt burden for older Australians is the property boom, explains the report's lead author, Rachel ViforJ, economics professor at Curtin University.

It has resulted in much higher average annual mortgage repayments, which have more than tripled from $5000 a year to $17,000 in real terms.

Home ownership has often been dubbed the fourth pillar of the retirement income system, says ViforJ. (The other pillars are the age pension and compulsory and voluntary super.) She adds this pillar may be crumbling due to rising mortgage indebtedness and threats to home ownership status as Australians' preferred choice.

One of the risks of leaving repayments until later in life is unexpected shocks such as unemployment, ill health and marital breakdown.

The report points out that these can plunge older mortgagors with over-optimistic expectations into severe mortgage stress.

Superannuation savings are increasingly being used to pay down the mortgage, particularly in a declining property market as home equity falls, rather than provide a retirement income.

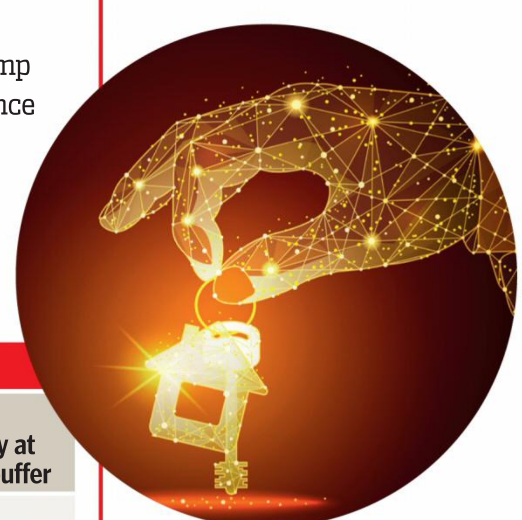
ViforJ found that if older people experience any difficulty in meeting the repayments, their mental health suffers. Surveys measuring mental health on a scale of 0 to 100 reveal that mortgage difficulties reduce mental health scores for older men by around two points and 3.7 points for older women.

More people aged 55 years and over are accessing Commonwealth rent assistance. The AHURI forecasts the number of users of the scheme to rise 60% from 414,000 in 2016 to 664,000 in 2031.

It says there is a need for long-term planning for financial security in retirement. The importance of paying down the mortgage needs to be understood by improving people's financial literacy.

▶ MORE PROPERTY STORIES ON P60-64

# Housing market slow to respond



Efforts by regulator APRA to make investment finance easier to obtain are not delivering an immediate pick-up in the housing market, according to buyers agent Zaki Ameer.

In July, APRA announced it would no longer hold potential borrowers to its previous 7% interest rate floor. It means banks can now review and set their own minimum interest rate to assess a borrower's ability to repay the loan, provided the banks use a revised buffer of at least 2.5% over the loan's interest rate. According to Independent Mortgage Planners, which provides loan advice, APRA's amendment will boost property owner's borrowing capacity by about $100,000 (see table).

While this change is generally welcome and is good for the borrower, Ameer, founder of Dream Design Property, says market reaction has been slow.

"APRA needs to be more responsive than reactive," he says. "APRA currently waits for the market to change and then reacts, versus changing with the market. Once the property market dropped and interest rates were low, it tried to make investment lending easier in order to ramp up the market. Ultimately, we aren't seeing a big difference as of yet."

By letting banks regulate their own residential mortgage serviceability, it is expected there will be an increase in competition among lenders as well as an increase in the value of broking services.

**BIG BOOST TO BORROWING CAPACITY**

| Borrower type (annual income) | Maximum borrowing capacity at old rate of 3.3% | Maximum borrowing capacity at 3.3% + APRA 2.5% buffer |
|---|---|---|
| **Single** $80,000 | $498,000 | $579,000 |
| **Single** $120,000 | $738,000 | $859,000 |
| **Couple** $80,000 each (no children) | $1,004,000 | $1,167,000 |
| **Couple** $120,000 each (two children) | $1,434,000 | $1,667,000 |

Source: Dream Design Property and Independent Mortgage Planners.
Totals assume that borrowers have no major debts and aren't overspending on day-to-day essentials.

COMPILED BY SUSAN HELY & DARREN SNYDER

# INVESTING

▶MORE INVESTING STORIES ON P66-71

**54%**
of online investors are confident domestic equities will continue to play a key role in their portfolio, and see shares as a safer bet than property.

### INVESTORS ON EDGE

## Conflict takes its toll

The US-China trade conflict is top of mind for online investors and concerns over interest rates are no longer at the bottom of the pile.

From a survey of more than 8500 Aussie online investors and traders, researcher Investment Trends says sentiment remains on edge as people attempt to make sense of various developments in global and domestic markets.

"There is growing anxiety among Australian investors as the RBA cash rate edges ever lower and negative-yielding debt in European markets swell in excess of $US15 trillion," says Investment Trends research director Recep Peker.

"While it is unclear if negative interest rates will spread to other major markets, it is evident that Australian investors are increasingly concerned with this potential development.

"Looking forward, low interest rates will increasingly impact the investing decisions and preferences of Australian investors as they seek to preserve and grow their wealth in uncertain market conditions."

The research shows 740,000 active online investors placed one or more trades in equities or exchange traded funds in the 12 months to June 2019, close to the record high of 750,000 in January 2019.

Peker says the online investment community is stabilising. About 140,000 online investors were dormant in the past year, but this was offset by an inflow of first-timers (50,000) and "reactivated" investors (80,000).

Online investors primarily use company reports/websites, search engine results and research by their main online broker when looking to trade.

Bell Direct leads brokers in overall satisfaction with 89% of clients rating it as "good" or "very good" overall. CMC Markets and SelfWealth round out the top three.

## Glimpse of the future spurs the urge to save

Super fund members generally have poor expectations when it comes to their retirement wealth, given there's a tendency to focus on their present lifestyle and there's difficulty in forecasting the future.

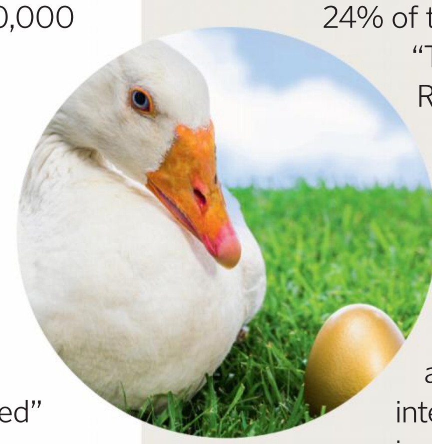
However, a study by the ARC Centre of Excellence in Population Ageing Research (CEPAR) shows members have responded well to super fund campaigns targeting better communication about retirement.

It cites how $50 billion industry fund Cbus started showing retirement projections to about 20,000 of its members in 2013. The project motivated additional super savings, prompted a raise in member investment choices and increased overall engagement with the super fund.

George Smyrnis , a co-author of the CEPAR study, says the presentation of the retirement income estimates (RIE) encouraged higher rates of salary sacrifice saving and higher average amounts of salary sacrifice and voluntary contributions, as well as changes in investment options.

The proportion of members with an RIE tended to make salary sacrifice contributions 33% higher, the research found.

About 35% of the RIE group interacted directly with Cbus, compared with about 24% of those without the RIE.



"The presentation of the RIE also encouraged higher rates of engagement between members and the super fund, particularly for advice, and for admin and processes-related interactions. These results are important evidence that superannuation member disengagement can be partly improved by clearer communication," says Smyrnis.

"The results we found confirm that, for many superannuation members, the retirement income estimate is an important tool for understanding savings adequacy. This motivates super fund members to make adjustments that can substantially change their retirement outcomes."

COMPILED BY DARREN SNYDER

# SHARES

### DIVIDENDS
# Payouts are slow to grow

A slowing world economy and its impact on corporate profits are dampening down the level of dividend payouts, not only in Australia but around the world. While the total dividends paid to shareholders globally set a new record of $US513.8 billion ($765 billion) in the second quarter of 2019, the increase was the slowest for more than two years, held back by the higher US dollar, according to the Janus Henderson global dividend report.

In a seasonally quiet Australia, dividends were pretty stagnant and only jumped 5.7% on the back of Rio Tinto's large special dividend. The rise was also down to QBE Insurance, with rebounding profits that enabled a big increase in its dividend, which is now almost back to levels last seen two years ago. Banking group Westpac held its dividend flat for the eighth consecutive quarter.

But Australia is not the only country to pay good dividends. In fact the countries paying out the fastest growing dividends are Japan, Canada, France and Indonesia. Emerging markets saw the fastest dividend growth, propelled higher by Russia and Colombia. The rest of Asia Pacific and Europe (excluding the UK) underperformed the global average, while the US came in a touch weaker than Janus Henderson anticipated. The sectors that have recorded sharp growth in dividends are financials and energy. In contrast, dividends fell in the technology and consumer basics sectors.

France is comfortably Europe's largest dividend payer, with a 3.1% rise to $US51 billion in the second quarter, a record high. After adjusting for large special dividends from Natixis and Engie, as well as the lower exchange rate, underlying growth in France was 5.1%, comfortably ahead of the European average. Booming profits at luxury group Kering, owner of brands such as Gucci, meant it was the largest contributor to growth. Three-quarters of French companies in the index raised their dividends year on year.

**TOP 10 GLOBAL DIVIDEND PAYERS**

| Rank | 2nd quarter 2019 |
|---|---|
| 1 | Rio Tinto |
| 2 | Nestlé |
| 3 | Sberbank of Russia |
| 4 | Sanofi |
| 5 | Allianz SE |
| 6 | BNP Paribas |
| 7 | HSBC Holdings plc |
| 8 | Daimler AG |
| 9 | Intesa Sanpaolo Spa |
| 10 | Total S.A. |
| Subtotal | $49.1bn |
| % of total | 10% dividends paid globally |

Source: Janus Henderson Global Dividend Index

▶MORE SHARES STORIES ON P72-85

## HOLD Star Entertainment (SGR)
### The Intelligent Investor Graham Witcomb

**RECOMMENDATION**

| BUY | HOLD | SELL |
|---|---|---|
| below $3.00 | up to $6.00 | above $6.00 |

**HOLD** at $3.88

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

Lower spending by VIPs made for a lousy 2019 for Star Entertainment. Nevertheless, results could have been worse. Revenue fell 1% while operating earnings were down 2% to $557 milion, as flagged by management a few months ago.

Domestic revenue, however, rose 3%, which is an improvement on the zero growth recorded in the interim result. Domestic operating earnings rose 5%. VIP revenue was the major letdown, falling 31% and VIP operating earnings fell 36%. Unique VIP customers rose 10% to a new record, though they spent less per visit. Management said general economic conditions and disruption from construction works at The Star Sydney were the main issues.

A bright spot was a reduction in the amount of money that will be required for various improvement projects. Capital expenditure forecasts between now and 2021 fell by $125 million, which will boost free cash flow and potentially support an increased dividend.

Star is highly exposed to tourism and the flow of wealthy Chinese gamblers. Volatile earnings are to be expected, which is why we maintain a medium-high risk rating. It trades on a forward PE ratio of 15 based on consensus estimates for 2020.

*Graham Witcomb is a senior analyst at Intelligent Investor.*
*The Intelligent Investor Equity Growth Fund and the Intelligent Investor Equity Income Fund own shares in Star Entertainment.*

COMPILED BY SUSAN HELY

EAMON GALLAGHER

STORY ALAN DEANS

# Living and learning

Kym Huynh is the founder and owner of WeTeachMe, a booking site for workshops and classes – anything from dressmaking to pottery to baking sourdough. He realises, however, that he's not needed there anymore.

"It came to the point that I would walk into the room filled with ideas," he says. "Then I would find that my staff had implemented them already. My job was done. I have recruited people better than me, and I just needed to step back and get out of their way. They are taking WeTeachMe to the next stage."

He trusts that whatever decisions they make, and whatever projects they want to start and champion, he will support them. He sees his job as being to remove any roadblocks and to cheerlead for them. Otherwise, he steps back and gets out of their way.

"There's a lot of pride knowing that I have done my part," says Huynh. "There is a difference between being an owner and being an employee. That means that I don't need to be working inside the company. Thinking now about where I want to be in 10, 20 or 30 years' time and being an owner aligns more with who I am."

In all likelihood, WeTeachMe will remain a core part of Huynh's life whatever challenges arise. A son of Vietnamese boat people (father Lan and mother Nga), he was told at an early age that, in life, he could lose everything – the clothes on his back, his car, his house, his business. But he could never lose his knowledge and learning.

The entrepreneur recalls that Nga asked him at age five or six what he wanted to be when he grew up. He said a dolphin trainer, so she gave him a smack and told him he would be a lawyer. And sure enough, he graduated from the University of Melbourne with a double degree in commerce and law.

"I enjoyed being a lawyer, the intellectual creativity that it provided. I loved working with my clients. The cases gave me insights into human nature," says Huynh.

But he also had an entrepreneurial calling, a hankering for the business world. As a youngster at primary school, he sold

## Fact file

**Kym Huynh**

A lawyer who turned to business to advance learning in the community. Age 35; lives in Melbourne's Southbank.

*Started his first online business in high school, but had volunteers create the content to free his time; describes self-employment as a no-brainer. Now spends half the year in Australia and the other half in Europe. Sporting interests are tennis and springboard diving; favourite pastime is having long conversations with friends. Money tip is to pay off credit cards every month.*

sheets of paper to classmates so he could buy books and be in the book club. The lunch money he had previously been using to buy books was no longer enough.

At 15 he developed a website – Pinkpt.com – giving tips and guides for fans of the online game Neopets. It quickly became popular, and advertisers started paying for banner ads. Huynh began banking large cheques written in US dollars. But when his parents saw his bank statements, they wanted to know where the money came from. "I think they were concerned that I was doing drugs or something," he says.

A defining moment came when he was in a car that drove off a cliff while he was holidaying in Chile. "Everything slowed down, but my brain was working at high speed. I was sliding from the back towards the windscreen, and all I could think about was my mum, my dad, my little sister, my best friend and how blessed I had been. I survived, of course, but in that moment, I realised how fragile life really is. With that knowledge, I made a very conscious decision to not waste a moment of my life doing something that I'm not incredibly passionate about."

He decided to create a project to honour the value that his parents placed upon learning, and the impact that had on family and close friends.

"I said, 'Let's take it a step further. What if we made it possible for a lot of knowledge to be shared? What impact would that have on the community?' If I develop software that increases the workshops and classes run all over Australia, let's see what good that does."

Huynh was inspired by one of his university law professors, who was popular with students despite the dry nature of his course. "His classes were packed out, every seat, every time. The professor was so passionate that he brought the content alive," recalls Huynh.

WeTeachMe ran about 60,000 classes in Australia last year, and is expanding into New Zealand and beyond. It owns the booking software, and clients teach a wide range of pastimes. That sounds straightforward, but first the business model had to be developed and adapted.

It took many long hours of interviewing potential users to determine their needs. When the chefs, dressmakers, bakers and furniture restorers were not enthused by Huynh's initial ideas for a booking system, he refined the strategy. He was seeking the clients' pain points so that he could develop a sustainable business. Six months of painstaking market research, visiting and interviewing dozens of potential clients, finally paid off.

"Usually, they were therapy sessions. They would say that they were overworked, they didn't like managing. They found things were slipping between the cracks. We developed and took to them a

Just like a duck ... Huynh may be calm on the surface, but deeper down he's "paddling like crazy".

software solution that we thought would reduce 40 hours a week work for them to 15 minutes. Would they like to try it? By that point there was rapport and trust built up, so that's how we signed people up."

What customers now see when they use WeTeachMe is a convenient online booking system. But behind that is a sophisticated platform that makes running classes easier for providers. Clients can reach thousands of potential customers for the classes they conduct through WeTeachMe. They also receive valuable information about them, payment services, ticketing and refunds, along with data that can be uploaded to their accounting software.

"For people who run workshops and classes, WeTeachMe services their entire back office," explains Huynh. Clients pay a transaction fee, but nothing upfront for software. It's a business model that is helping to achieve the initial mission, to increase learning and education at a community level.

"For the first 100 clients, I knew everything about them," he says. "Their kids' names, their graduation dates, anniversaries. We were doing things above and beyond. One time, I picked up dry cleaning for them. One client hosted my 30th birthday party at a convent, which was incredible. But as the company grew bigger and bigger, it became harder to maintain so many close relationships. I must say that I do miss having that close, intimate connection."

This was an important factor in Huynh deciding that he needed to invest time in his own development as a leader.

**"I want to build a life where I have access to people smarter than I am, who I can build relationships with"**

"I realised that if I created a business that was completely reliant upon me, where I'm the bottleneck, and where I need to be there constantly, that would be a failure in my leadership. I needed help," he says.

He joined Entrepreneurs Organisation (EO) and met people with similar experiences. One lesson he learnt was to hire people smarter and better than him so he could step back and let them run it. He says the company is doing better when he's not there.

Where has that led him? He consults other businesses, talking to their management teams about strategy, cash, execution, and people. He says the concepts and principles that he shares are very basic. But he brings them to life with the stories about WeTeachMe.

He is also the state president of EO, which has introduced him to a range of business leaders who impart valuable advice. "I want to build a life where I have access to people smarter than I am, and who I can build relationships with, so when opportunities come, they come there first. That keeps life interesting," says Huynh.

One of his biggest mistakes, he says, relates to burnout. "I was talking about this recently with a friend. She has been doing a lot of research into mental health, especially among entrepreneurs. We concluded there were two main points. One is that an entrepreneur is at the biggest risk of depression after they sell their company because there is a sense of loss of identity. The second one is burnout. They burn out because they overestimate how much capacity they have to give, and underestimate how much time and space is needed to take care of themselves.

"I have never met an entrepreneur who has not suffered a mental health issue. I have never, ever met an entrepreneur that has not had some sort of anxiety. I'm like a duck. I'm very calm on the surface, but underwater, I'm paddling like crazy."

EAMON GALLAGHER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RICHARD WHITFIELD

# How to pay the mortgage and invest at the same time

Even with loan repayments, it's still possible to invest to boost your wealth

**NAME:** Jacqueline Heywood
**STATUS:** Lives with her partner and their two children.
**QUESTIONS:** Can we extend the term of our home loan to 20 years so we can free up $700 a month for investing? How should I invest to create some yield and capital growth to top up our current incomes? I own some shares outside my superannuation fund. Is there an advantage in moving them into my self-managed super fund (SMSF)? Is there a limit on how much I can move across and how do I transfer them into my SMSF?
**ANSWERS:** Don't extend the loan period because the costs and the extra interest aren't worth it. If you want to, borrow to invest in more shares. You could be worse off, in tax terms, moving your shares into your SMSF, but eventually it is a good idea to hold your assets in super by the time you reach 60. You can take advantage of the carry-forward concessional contribution rule to offset the capital gains tax payable on the shares. Hang onto your blue-chip shares and you could expect to receive a return of around 7%-8% a year.

"Am I on track?" is a question you should ask yourself. Knowing what money you've got and where it is going is the core of a financial plan.

And by the time you reach your 40s and retirement is on the distant horizon, keeping your financial life on track is more important to you and your family than ever.

Jacqueline Heywood and her partner, who are in their 40s, are working hard to stay on track by paying down their mortgage and could potentially pay it off in full in the next four years.

But they are interested in extending the loan period to 20 years and reducing their payments and investing the extra money (about $700 a month) for yield and capital growth.

Jacqueline has called Bankwest and visited a mortgage broker, but is waiting to hear back. How common is it to alter the term of the repayments or are they locked in? Should they switch to a new lender and what would that cost? Or should they pay down the mortgage and wait for the extra money from not having to make mortgage repayments?

Both Jacqueline and her partner are boosting their superannuation, with Jacqueline topping up her lower balance with dividend income from shares she bought 10 years ago. This financial year her partner will put an extra $5000 into her super to boost the balance.

Jacqueline's plan is to eventually transfer some of her shares to her SMSF in the most tax-effective way. Can she avoid capital gains tax? What is the best way to move the shares across?

Should she hold or sell any of her shares? She holds BHP, Commonwealth Bank, CSL, Westpac, Wesfarmers and Woodside Petroleum. Also Jacqueline is receiving phone calls from financial services firms, promoting a way to redirect their tax into their mortgage. Should she follow up on this?

COMPILED BY SUSAN HELY

# It's a strong start but borrowing even more could pay off

Jonathan Philpot

*Jonathan is a wealth management partner at HLB Mann Judd in Sydney and has expertise in wealth accumulation strategies and personal tax planning.*

Jacqueline, you and your partner are well on track to putting yourselves into a comfortable financial position. The most difficult financial stage to get through is the home mortgage period. Often we spend most of our working lives repaying the mortgage, which does not leave much time to build wealth outside the home.

You are now at the stage where you can concentrate on building investment wealth. In fact, given you already have a large share portfolio, you're off to a good start.

I would not extend the home loan. However, if you're looking to be more aggressive with building investment wealth and with interest rates at a record low, you could consider using the equity in the home to borrow and purchase more shares. I would do this in both names, as it's not going to be a negatively geared investment with Australian shares, where the dividend income will most likely be higher than the interest costs on the loan. This is an aggressive strategy and one that must be implemented for a minimum of 10 years.

The interest-only investment loan should not be a drain on the family budget as the dividend income is likely to exceed the interest costs. Therefore, the current repayments on the home mortgage should be maintained to pay off this loan over the next few years.

Regarding the need to build super, there is some argument that it will result in a worse tax position transferring shares into the SMSF, given your current income levels are still under the tax-free threshold. However, by the age of 60, you should have most of your investment wealth within super.

With the flexibility of carry-forward concessional contributions (tax deductible) for up to five years if the super balance is under $500,000, you can wait a few years to hopefully build up the taxable income and unrealised capital gains from the share portfolio. The tax deduction of up to $125,000 for the super contribution would certainly offset a large portion of the capital gains of transferring the shares from your name into your SMSF.

This is one of the benefits of an SMSF: making personal contributions via transferring personal shares into it. While setting up an SMSF with less than $500,000 isn't generally recommended, given that the fund is already in place, this is certainly a benefit.

Finally, your partner should be salary sacrificing or making personal super contributions to reduce his taxable income to at least $90,000, which provides a personal tax benefit at 39% (including Medicare); the super fund pays tax on the contribution at 15%, for a net tax benefit of 24%, or $2400 on a $10,000 super contribution.

# Hold onto shares

Nathan Bell

*Nathan has 20 years' investment experience and is head of research and portfolio management at Intelligent Investor.*

Jacqueline's group of blue-chip stocks is the backbone of most Australian portfolios. They're mostly high-dividend-paying stocks and as a group should grow earnings slowly over time. There are some short-term headwinds, though. Iron ore stocks are paying large dividends currently, but the iron ore price is currently falling and likely to settle at a lower price in a year or two. Bank profit margins are also under pressure from low interest rates, which are expected to fall further, and valuations for each stock are at or near the highest they've ever been. That means you can't expect them to keep performing as well as they have done over the past decade, as capital gains will be more limited.

My guess is that this group will produce an average return of around 7%-8% a year over the next decade, with a large help from dividends and possibly franking credits, although the path of those returns could be bumpy given Australia's record debt levels. If that's a sufficient return for your portfolio, considering the risks of investing in stocks, then it might be worth holding on rather than selling and maybe paying a large amount of tax, particularly as timing the market is next to impossible to do consistently.

# Count the costs

Caroline Jean Baptiste

*Caroline is a mortgage broker with Mortgage Choice in Fortitude Valley in Queensland as well as the author of* Buy That House – How Kickass Women Make it Happen.

To extend the loan term, a full assessment is required, providing all information and supporting documentation: income evidence, liabilities, signed applications, documents issued and returned along with a fee of around $250, which will take up to four weeks to finalise.

Changing lenders will attract a discharge fee of $340 plus registration and release-of-mortgage fees and any loan costs to the new lender, often between $250 and $900. In Jacqueline's situation, the cost would outweigh the benefits.

With only a small amount owing on the mortgage she's almost debt free and putting the $700 a month extra toward the home loan would clear the debt in less than five years. At a rate of 3.70%pa, the total interest paid would be about $3900.

Extending the loan to 20 years, at 3.70%pa the interest charged would be close to $18,700. Over a 10-year term it would be about $8900.

Another solution would be to access funds for investment through an additional, interest-only (IO) loan. Jacqueline wouldn't have to wait until the mortgage is paid off before she can start investing more. Leveraging equity will provide access to funds sooner and still allow the home loan to be paid off quicker.

An IO loan would require interest payments only on the amount drawn down. For example, applying for $50,000, then taking $20,000 to invest in shares, would require interest payments of about $70 a month. Taking out the full $50,000 to invest in shares would require around $175pm in interest payments.

Once the mortgage is paid out, the investment loan can receive the additional repayments.

Consult your accountant on the tax benefits of using borrowed funds to invest over investing with your own cash.

# Q&A

Paul needs a safe, tax-effective plan to ...

# Make the most of a $500k inheritance from his dad

**Q I am a 48-year-old relief teacher who works only one or two days a week, and I'm on Centrelink benefits. I own my own home outright and have only about $85,000 super in a growth fund and little in savings. My father recently passed away and I estimate he has left each of his four children (including me) about $500,000.**

**I am thinking about investing yearly in my super in a tax-effective way, and investing the rest in a managed investment fund on a growth setting to help supplement my income.**

**My short-term money goals are renovating the house to the tune of $25,000, doing a bit of travel and maybe making a bit of a career change. Otherwise, it's just keeping my head down and saving for retirement, when I might trade in the house for a country property.**

**I would welcome your thoughts on how to manage my money to suit my goals in a safe and tax-effective way.**

Sorry to hear about your dad, but he would be very pleased you will be using your inheritance sensibly, Paul.

You mention investing in a safe and tax-effective way, and I reckon super is your best friend here. A growth fund has a high exposure to assets like shares, but with a long way to retirement this strategy makes sense to me.

With your super at a pretty modest level, you can put up to $100,000 a year of your own money into your fund and you can even "bring forward" three years, meaning you can contribute up to $300,000. You don't get any deductions on this, but I really think you should discuss this with your fund or an adviser.

You can't access the money until you reach retirement age, but super offers you low fees and a diversified investment strategy and over time the returns have been excellent. Of course, you could just build a diversified investment portfolio outside super, but a low-cost super fund is well worth considering.

There are lots of things to take into account here, your tax rate being just one of them, so you will need to seek advice before considering this strategy.

## NEED PAUL'S HELP?

**Send 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*.

Ian needs a long-term plan to build the family's wealth so …

# ETFs are a good 'home' for savings

**Q Paul, I am seeking your thoughts as my partner and I are at a crossroads, financially. We are both in our mid-30s with a one-year-old son. We own our house outright and have saved about $100,000, which is sitting in an at-call savings account earning 2.3%. We both salary sacrifice a percentage of our salary into super, which we've been doing for years, and we have no other investments or debts.**

**As my partner has now returned to work part time, I have also decided to work part time to spend more time with our son. This situation will remain for the foreseeable future. After paying all the bills and enjoying life, by my estimates we should be able to save $24,000 a year, which needs to find a home. My partner and I have no interest in residential property as an investment, so should we just buy a range of domestic and international exchange traded funds and maybe some good-quality businesses? Do we keep doing this for the next 20 years?**

I love questions like yours, Ian. You have thought about your money, set out your situation factually and drawn an excellent conclusion. With a paid-off property, a healthy super balance, cash to invest and extra saving capacity, you are going really well.

So, yes, I support your conclusion. Making regular investments into a range of local and international ETFs with a 20-year outlook is a really solid idea.

Bernie's super is on track but other investments can …

# Add cream to the asset cake

**Q Hi Paul, I'm 48 and I have $100,000 in superannuation. I don't own a house; I have no assets and am wondering if it is too late to have a comfortable retirement? I work full time, and other than adding to my super what else can I do?**

Bernie, the good news is you do have assets – $100,000 in super is a nice start. Then you have two other advantages. You are 48 and have plenty of time in front of you. Also, you have a full-time job. This means your super is growing through employer contributions and also investment returns.

Yes, you could just concentrate on building super and as you got into your mid-60s I am sure you would have a very nice balance. Add a bit of aged pension to this and I do see you with a comfortable retirement.

But I am interested in what else you can do. I am sure you have done this, but controlling your cash flow is the key. It may well be the case that you can top up super while building savings outside super. I would like to see you do this because, in a perfect world, building a deposit and buying an apartment or home to live in would be great.

But just getting to retirement with a healthy super balance is a powerful plan. A bit outside super and a potential option to buy pre-retirement would be cream on the cake.


With $2000 to invest, Jeff's young grandson is ready for an …

# Early lesson in buying shares

**Q My 14-year-old grandson Alec has for some time shown an interest in money matters. I dabble in shares with just a few thousand dollars and Alec has developed an interest also. My wife and I put aside some money each fortnight for all our grandchildren. After some discussion, Alec has opted to have 50% in the bank and 50% in shares. That gives him $2000 to invest. Could you suggest a plan until he is aged 18 to early 20s?**

Excellent news, Jeff! Fourteen is a great age to start getting involved in investing, as he is clearly old enough to be interested. Technically, it makes sense for him to invest his $2000 into a globally diversified ETF or indexed fund such as one run by Vanguard or BlackRock.

But in terms of learning, which is the most important issue, he could set up an online account with help from you and consider buying three or four shares in different sectors. He may find this more stimulating and it would certainly be more of a learning experience.



Q&A

Robert is getting divorced but …

# Pension is tricky for Thai move


**Q I am in the process of divorcing my wife and have moved to Thailand while my wife plans to remain in Australia. At age 70, optimising pension payments is critical for me. We have about $400,000 each in superannuation and the sale of our house should net me about $300,000. My wife plans to remain in Australia, buy another family home, and use this to keep her assets below the level where they will affect her pension.**

**My situation is more complex as I will be living in Thailand permanently. After the divorce my assets, including an SMSF, will be about $700,000 – well above the level to get a part pension. If I buy a condo in Bangkok, Centrelink will not regard it as my family home and the cost will be included in its asset test. If I were to leave the $300,000 in Australia and get, say, 2.5% interest ($7500) I would need to pay non-resident withholding tax, which I do not believe I can claim back.**

**It may be better to transfer the $300,000 to a Thai bank, although I may pay interest there as well. My rent and living expenses in Bangkok are around $30,000 a year, which I am unable to lower further without living in a shack. Bangkok is one of the most expensive cities in Asia. Living outside Bangkok, where living is cheaper, has no appeal to me.**

Goodness, Robert, I am so far out my depth here, even flippers and a snorkel will not help me. I'll need diving gear.

It seems to me that you simply forget the aged pension for the time being and invest as well as you can, while living in Bangkok, or you consider returning home and buying a home here in future years and qualifying for a part pension.

I think an expat-type adviser would be valuable here. There are a lot of variables. It may be you could make an undeducted contribution to super with the $300,000 from your home. At age 70 there are various restrictions around this that you would need to understand, but super, which is obviously money you can access, may be a great way to get good returns from a large, low-cost manager.

Rent and living expenses of around $30,000 are of no concern to me. In my overly simplistic example, if you had $700,000 in super, or other investments, an annual draw of 5% would give you $35,000 a year. There are no guarantees, but with low inflation and historic earning rates on super, as a 64-year-old I am certainly happy to draw over 5% a year from my super for lifestyle spending.

Even though Joe has $60,000 in savings, there are …

# Reasons not to pay off mortgage

**Q Hi, Paul. My wife and I are 44 and 45, both working full time with a combined income of about $220,000pa. We have a mortgage with an offset account, which is incurring 0% interest as our savings of about $60,000 are equal to the outstanding mortgage – so if we put all of our money into the loan we would be mortgage free but also savings free.**

**We have no other debts and between the two of us we currently have about $300,000 in super. What is the best thing for us to do for, say, the next two years: pay out the mortgage now; save more first; or leave things as they are and invest in an indexed fund?**

With interest rates so low, Joe, I would think you are better off investing. The rule is simple: you must earn more on your investment than the interest you pay on your mortgage. There are no guarantees with even a well-diversified indexed fund in the short or medium term. But history shows that over the longer term growth investments such as shares outperform cash returns or the interest rate on a mortgage.

I would not pay out your mortgage in case you buy another home and want to keep your current home as an investment property. But I do think that investing in an indexed fund with some of your current money in the offset account, or at least adding your savings to it, makes solid long-term sense.


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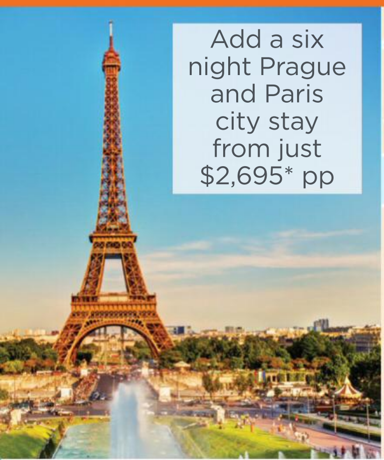



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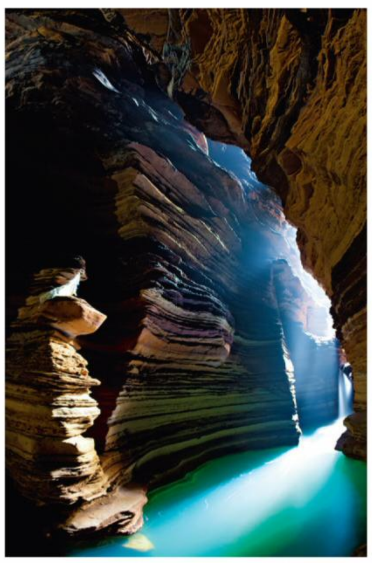
# Destination Pokhara, Nepal



High and mighty ... clockwise, from above, Ghandruk village provides stunning views of Annapurna; boats on Phewa Lake; statue of Buddha on the World Peace Pagoda; sacred Gupteshwor Shiva cave near Davi's Falls.

## Five things to do

**1. Admire:** Surrounded by magnificent views of the Himalayas, this city of lakes has long been a popular tourism destination in Nepal. The Seti Gandaki (White River), flows through and under the city, along gorges and canyons. One of the main attractions is Davi's Falls, which forms an underground tunnel. The shores and restaurants around Phewa Lake, in the heart of the city, are the perfect spot to relax. On a small island in Phewa Lake is the Tal Barahi temple, considered sacred by Hindus. The World Peace Pagoda (Shanti Stupa), one of the largest stupas (Buddhist structures), represents the heart and soul of Pokhara – peace and serenity.

**2. Visit:** A day's trek away is the heritage village of Ghandruk. It provides breathtaking views of the Machapuchare and Himchuli mountains. Mahendra Gufa and Chameri (Bat) Gufa are among the largest limestone caves in Nepal.

**3. Seek:** For adventurers there are paragliding, zip flying, sky diving, mountain flights and bungee jumping. You can escape the hectic streets and hire private boats on Phewa, Begnas and Rupa lakes. Beautiful by day, Pokhara is buzzing by night, with pubs, bars and restaurants to enjoy.

**4. Buy:** The diverse souvenirs offered in Pokhara include pashmina and cashmere clothing made from the hair of mountain goats, stone and bead jewellery, trekking gear, handicrafts and thangka paintings (traditional scroll painting).

**5. Capture:** The scenic trails of Annapurna and Machapuchare and the picturesque views of Ghandruk highlight the region's natural beauty. Along with Phewa Lake and Davi's Falls, these breathtaking scenes provide extraordinary photo opportunities. PREETY PRADHANANG

## DRIVING PASSION

# Baby-friendly wheels are big on safety


Welcoming a new member to your family is a cause for celebration, but reality can bite early when you realise your current car just isn't going to cut it any longer. The good news is you don't have to pay extra for an SUV to find a safe and spacious option.

The key to choosing a good baby-friendly car is to go for the newest car you can afford. Newer cars will have a higher degree of standard safety equipment and better crash protection, which should be the primary consideration, than older models.

You then want a car that's easy for children to get in and out of and has enough space between the front and rear seats to help mum or dad strap junior in. A sizeable boot is also a must, given the need to house a pram and bags of baby gear.

There are cars that suit without breaking the bank, including the Honda Jazz, Honda Civic, Kia Cerato, Subaru Impreza, Toyota Camry and Holden Commodore.

DAVID BONNICI, WHICHCAR.COM.AU

## $14,990-$22,990

### Honda Jazz

Compact cars typically aren't the most suitable choice when it comes to family cars. However, the Jazz is a crucial exception. Its fuel tank is located under the front seats (the safest place). This leaves heaps of space for its back seat, which comfortably seats three children, and a capacious 345-litre boot.

**Pros:** Roomy and versatile interior; entry-level price.

**Cons:** Bland handling; busy styling.

**honda.com.au/cars/hatchback/jazz**

## $22,690-$29,740

### Subaru Impreza

The Impreza has roomy back seats that allow up to three baby seats while still leaving enough room for a parent to comfortably lean in and strap them in. For safety, it features all-wheel grip, with autonomous emergency braking standard in all but the entry-level Si variant. The sedan has a big 460-litre boot and the hatch holds 345 litres.

**Pros:** All-wheel-drive; active safety; space.

**Cons:** Sluggish turbo engine.

**subaru.com.au/impreza**

## $27,790-$44,090

### Toyota Camry

The family sedan has largely given way to SUVs, but cars like the Camry provide plenty of metal for your money, plus those baby-friendly virtues of a big back seat area and sizeable boot (524 litres of cargo capacity in most Camrys). All Camrys are equipped with autonomous emergency braking, and there's an efficient hybrid option.

**Pros:** Space; safety; handling; value.

**Cons:** Sluggish V6 engine.

**toyota.com.au/camry**

## WINE SPOTLIGHT

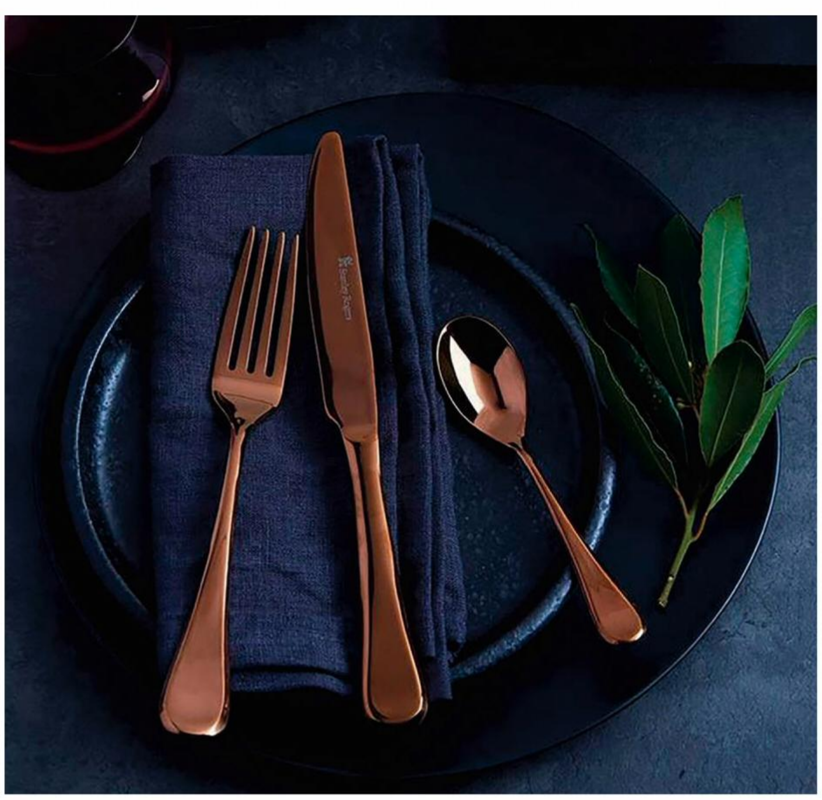
### 2018 Chain of Ponds 'Novello' Shiraz $16


This delicious Adelaide Hills winery Chain of Ponds shiraz is made to be consumed while it's young. In 2018, it's fresh, bright and uncomplicated with lively intensity; gentle plummy aromas, supple, fleshy texture with blackberry, black cherry pastille and mulberry flavours, finishing with the softest tannins. Juicy.

## SPLURGE

### 2016 Blue Pyrenees 'Richardson' Cabernet Sauvignon $60

Only produced by Blue Pyrenees in the best vintages, and named after one of the industry's great characters, Colin Richardson, this is an outstanding varietal. It has brambly, briary aromatics, plush blackcurrant flavours and velvety flavours. The 'Richardson' is rich, concentrated and deep, yet fine: power with a touch of restraint. It does need time. PETER FORRESTAL



## EXTRAVAGANCE

# Fine dining

The elegant Chelsea copper 56-piece cutlery set is edged in copper titanium with a high-quality mirror finish. Show it off at a formal dinner party for eight or revel in its beauty every day.

*How much: RRP $799*

*Where to buy: petersofkensington.com.au*

SMART SPENDING

## SMART TECH

# Consoles go to the next level

We're slowly drawing to the close of the current console generation, defined foremost by the contest between Sony's PlayStation 4 and Microsoft's Xbox One. Believe it or not, these machines represent the eighth discrete generation of video game consoles since the emergence of first-generation and primitive Pong-era machines (the first major successful arcade video games) in the mid-1970s.

Today's powerhouse consoles bear little relation to their simplistic forebears, but they're about to evolve again. Both the PS5 and the next Xbox (codenamed Project Scarlett for now) are tipped to be released next year, and both are expected to offer hugely powerful upgrades to the already considerable systems they'll replace.

In the meantime, there's a bunch of other gaming options out now (or soon) that offer different ways to play. Today's console market is strong enough to encompass lots of alternatives to the Sony/Microsoft scene: Nintendo has just released a new portable Switch; new retro consoles keep hitting the shelves; and weird indie gaming is as vibrant as ever.

PETER DOCKRILL


**What is it?** Nintendo Switch Lite
**How much?** $329.95
**Pros:** The original Switch is still a fairly recent console and was already designed to support portable use, but the Lite is slightly smaller and is designed exclusively for handheld play. Basically, it's a shrunk-down, cheaper spin-off of the parent console, and the controllers no longer detach from the main unit.
**Cons:** Only supports games that play in handheld mode, and no longer offers TV-out. Still, not bad compromises for a $140 discount.
**nintendo.com.au**

**What is it?** Sega Mega Drive Mini
**How much?** $139.95
**Pros:** Ever since the Nintendo Classic Mini in 2016, manufacturers have been falling over themselves to repackage their consoles of yesteryear. The iconic Mega Drive, first sold here in 1990, is now getting its first official re-release by Sega, and comes with two wired controllers and 42 pre-loaded games.
**Cons:** No way to get additional games, but the included titles offer a well-selected mix from one of nostalgia's greatest gaming catalogues.
**megadrivemini.sega.com**

**What is it?** Playdate
**How much?** $US149
**Pros:** The Playdate is weird. Really weird. It looks like somebody decided to re-release the original GameBoy, but with a completely monochrome e-ink screen like the one you'd find on a Kindle. Plus, in addition to a D-pad and two buttons, it has a bizarre, turnable crank on one side, designed to be used in games.
**Cons:** We won't know more about Playdate, made by Panic, until its release early next year, but this wacky indie console is definitely worth keeping an eye on.
**play.date**

## GIVE IT UP

# Pink Ribbon Breakfast

**What is it?** October is an opportunity to bring friends, family or colleagues together to share a healthy brekkie and raise funds for game-changing breast cancer research.
**Where your money goes:** Each day 53 Australians are diagnosed with breast cancer. Eight women die from breast cancer every day, and more than 3000 people lose their life to breast cancer each year.

Metastatic breast cancer (breast cancer that spreads) is the leading cause of breast cancer deaths – and it's the biggest research problem to solve. Money raised by Pink Ribbon Breakfast hosts will help fund research into secondary

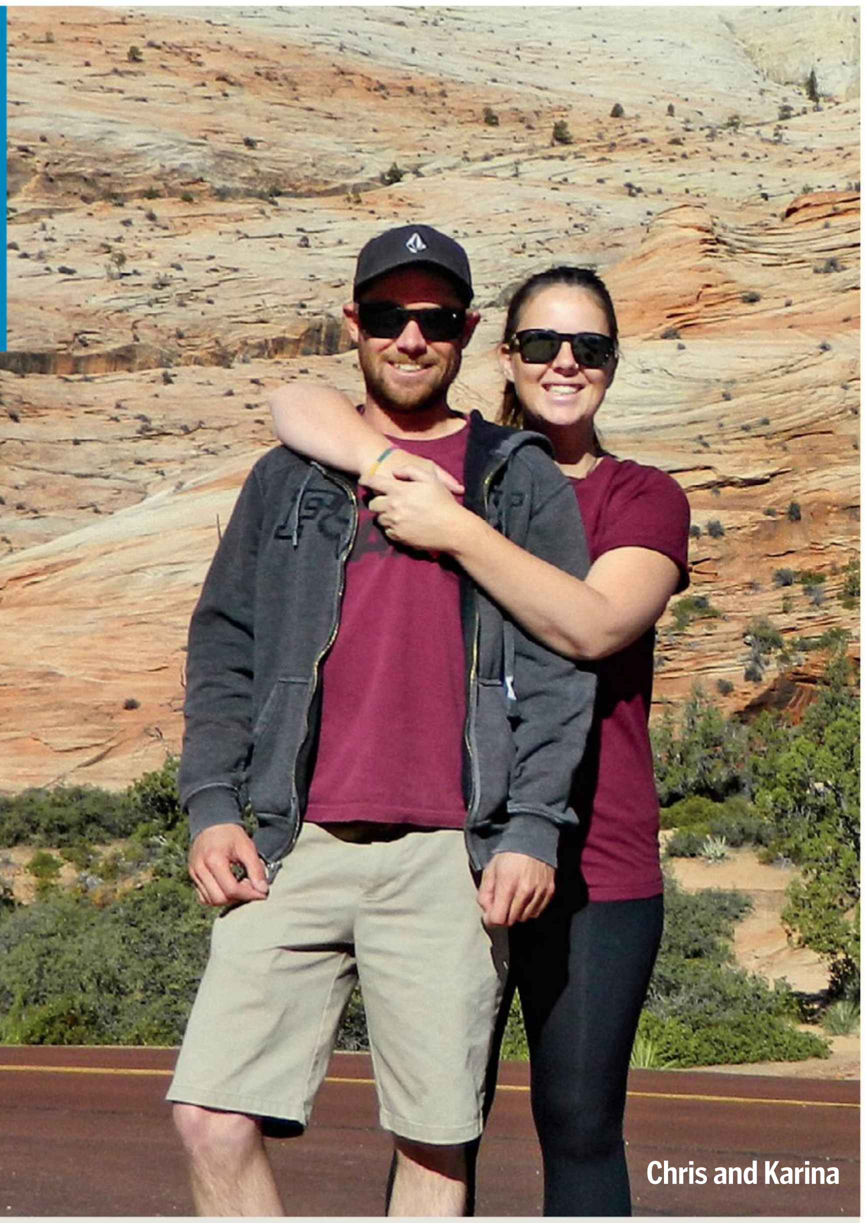

breast cancer. The National Breast Cancer Foundation, which is behind the Pink Ribbon Breakfast, receives no government funding.
**How to donate**: Register to host a breakfast at fundraise.nbcf.org.au/event/pink-ribbon-breakfast (or just Google pink ribbon breakfast), set a date (any day in October) and find a venue, then start selling tickets or donate prizes. The breakfast can be an intimate gathering at home, an office morning tea or large community event. NICOLA FIELD

## WEBFIND

### OHCRAP.COM.AU

**Even the most adorable pooch can be a source of embarrassment when it chooses to leave its calling card on a public footpath. Oh Crap dog poop bags let you maintain your personal and civic pride with 100% compostable cornstarch bags to clean up the mess without leaving a lasting blot on the environment. Go fetch!** NICOLA FIELD

CASE STUDY



Chris and Karina

# Should we buy a business or house?

My husband and I (in our early 30s) have recently moved from the NSW central west to the mid north coast after deciding that we did not want to purchase a house and commit to living in Dubbo for the long term.

We currently have $50,000 in the bank, $5000 in shares and six months of prepaid rent ($10,000). I have taken a considerable pay cut, from $83,000 to $60,000 a year, and my husband is employed casually.

I am keen to purchase a business for $280,000 via seller financing. It is turning a profit in excess of $100,000 a year after a $70,000 director's fee. My intention is to work there full time (the owner works part time).

I have a large amount of experience in the particular industry. However, I am worried that at this point in our lives we should concentrate on purchasing a house instead and putting my personal ambitions on the backburner for a few years.

We don't have any debt and are good savers at this point in our lives. We spent much of our 20s travelling and enjoying life and achieved our savings in 12 months.

What are your thoughts? How late is too late to get into the property market?

***Karina***

Interesting question, Karina. There is a fair bit of complexity that we can mull over. Right up front let me say that from what you have told me the house goes on the backburner. People buying into small business generally terrifies me. For most people this is the great unknown. They get presented with a usually dodgy set of numbers and even if the numbers are legitimate the vendor's effort and personal skills may be integral to the business.

You say you have a large amount of experience in the industry, but I would ask you to be confident that it reflects the experience of an owner, not an employee. They are quite different things.

I also am a bit concerned about the financials. A profit in excess of $100,000 a year, plus a director's fee of $70,000, means that you would get your purchase price of $280,000 back in about 18 months. This is a quick return of funds. Please do your due diligence to ensure the numbers are robust.

A protective factor is always to see if the owner will stay with the business for six months or a year on a part-time basis. It is worth asking if he would accept, say, 70% payment upfront and the final payment in six months or a year, with a bonus if the business achieves or exceeds its budget.

It may well involve very long hours, but a return on $280,000 of vendor finance of over $170,000 a year sounds great to me. Presumably, the vendor finance is secured against the business only? This is also a good sign. If I was a vendor relying on you to pay me back from business profits, there is not much point selling you a pup.

This business could set you up for life. It sounds as if you have had a great period of fun and travel and a period of wealth creation makes a lot of sense.

Now to your question on the timing of a property purchase. It is never too late, providing you are creating wealth elsewhere. One thing is for sure: a $280,000 home on the north coast is not going to give you the $170,000-plus-a-year potential that the business offers. So here we should go with the numbers, not emotion.

**Paul's verdict: Property is not the cornerstone of wealth. Business is.**

I have little concern about you buying property in Dubbo or on the north coast. If your business performs as anticipated, you will quickly pay out your vendor finance and be able to buy a nice home.

I have to tell you, though, that I am biased. I started my business ipac with my three partners back in 1983. The returns from this decision vastly exceed those from any property I have owned.

Property is not the cornerstone of wealth. Business is. Business employs people. People take their pay and dividends and buy property to live in. A business may buy premises. But property is a secondary asset to a business.

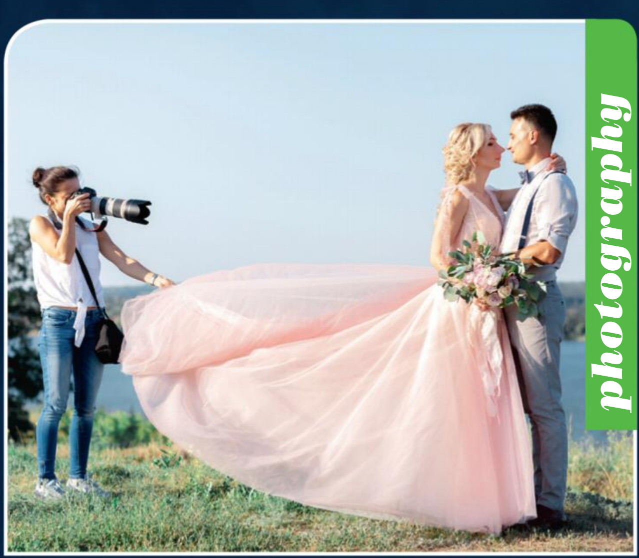
So my view is that as long as you have done your due diligence on the business and you truly understand the challenges, in your shoes I'd be doing the business first and property second.

### Ask your question

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

# EARN AN EXTRA $7k P.A.

## Ramp up your income with a side hustle



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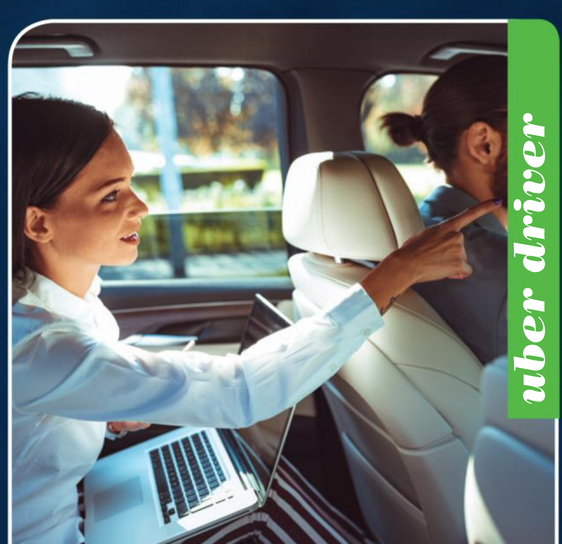


uber driver

Whether you need to top up your household budget or you're saving for a big holiday, a part-time or casual job could be the answer. And for budding entrepreneurs it can be the pathway to an exciting new career or business. Here we explain how to make it happen, and our case studies share the secrets of their success.

**STORY NICOLA FIELD**

Having just one job is so yesterday. More than two million Australians have multiple jobs; one in four of us runs a small business on the side – and it's putting valuable extra cash in our pockets.

How much extra? Research by Finder shows that side hustlers are earning an average of $7300 a year from their side income.

According to Finder, putting your car to work with a ride-sharing service like Uber can see you earn $10,490 a year. Renting out a spare room on online platforms such as Airbnb could put an average of $8140 in your pockets. Have a go at both and it can be possible to earn an extra $20,000 in 12 months.

Andrew Morris, director of specialist recruitment firm Robert Half, says new technology and collaboration tools are having "a huge impact on how people expect to work", and are allowing people from all industries and walks of life to supplement the income from their main job with a secondary gig.

"With the rise of collaborative economy platforms like Fiverr or Airtasker, it has never been easier for individuals to monetise their skills and services according to their schedule," adds Morris.

Some extra income never goes astray. But running a side gig often means growing and managing your own small business, and this calls for plenty of planning.

From getting started to juggling your day job with a side hustle, we look at what's involved – backed by the experience of a number of successful hustlers.

## What's in it for you?

According to Morris, there is a whole range of reasons why we're embracing side hustles. He points to stagnating salary growth coupled with cost-of-living increases. "It is understandable that workers are looking for innovative or alternative means to add to their standard income to simply cover day-to-day expenses, put money towards a home or travel plans, or generally build their savings."

However, it's not always about a fatter pay cheque.

A report by the NBN found 80% of us are looking for fulfilment outside work, and this is a key driver for launching a side hustle. Plenty of us see a side gig as a chance to learn new skills, work on a passion project or experience the flexibility of being our own boss (see panel, page 36). The extra coin is just the icing on the cake.

A side hustle can also be a way change careers. "A secondary job can be an effective bridge into a new industry," says Morris. "It lets people develop experience in a role, build new skills and familiarise themselves with a market before committing to a full-time career change."

## Top choices

When it comes to side gigs, the world really is your oyster. You may be only a Google search away from hitting the next big thing. After all, Steve Jobs developed Apple computers from his home garage while working at Atari. Author E.L. James pocketed a tidy $US95 million ($138 million) from her side hustle writing the *Fifty Shades of Grey* novels, something she started just for the love of it.

If you're searching for ideas, side hustles tend to be concentrated in a handful of industries (see page 40). Photography (21%) and food or drink (20%) are among the most popular choices. The big surprise is that reviewing products or services is the No. 1 industry for side gigs. This can involve anything from blog writing through to reviewing products for a market research company. With firms like Paidfocusgroups.com.au, for instance, you can earn more than $100 just for sharing your opinion.

## No skills, no problem

The beauty of a side hustle is that opportunities are available across the skills spectrum. It's all about knowing how to get started.

## Why we look for a side hustle

**76%** Learn new skill

**65%** Be your own boss

**71%** Pursue a passion project

**69%** Have more meaning and purpose in life

**56%** Sick of work routine

**46%** No longer challenged in current job

Source: NBN's Guide to Fulfilment on the Side (Hustle)

One way to dip your toes in the waters of a side hustle, or to earn extra bucks in a hurry, is to sign up to sites, such as Airtasker, that connect people looking for work (taskers) with those who need a job done.

According to Airtasker, the top 50 taskers can earn up to $5000 a month. Even better, while some of the tasks posted call for specific skills, others require no skills at all. Recent gigs up for grabs included $400 to design a label, $190 to clean a two-bedroom home and $80 an hour, once a week, tutoring high school maths. Even washing a dog could have scored you $60.

If a lack of skills is holding you back from a side hustle, you're not alone. The NBN study found one in three of us would like to kickstart a side venture but don't have the skills to get started. The solution can be as easy as completing a short course of study and it doesn't have to interfere with your day job.

According to Susie George, chief delivery officer at TAFE NSW, people are turning to TAFE to get additional skills to run a side business. "More than 50% of current Skills for Business students have told TAFE NSW that they are a start-up, and 17% have said they are studying with a view to starting their own business.

Some of TAFE NSW's most popular short courses focus on computing or graphic design skills. However, George points out that the NSW government has partnered with TAFE to deliver the Skills for Business initiative. This means you may be able to access fully subsidised training in the areas of digital literacy, financial literacy and general business management.

Brian Olson is taking advantage of TAFE's flexible course to brush up his skills. A full-time PR professional, Olson has an interest in the wine industry. He plans to start a side business to earn extra income, and so is completing a Certificate IV in New Small Business at TAFE NSW. "I know a lot about wine and how to promote it, but I needed to learn skills such as business planning and how to build my own website so that I can manage my own business effectively," he says.

Olson's course allows him to study online after work or on weekends. "It means that even the planning stages of my side hustle won't impact my primary employment."

### *Build your market*

Once you've decided on your side hustle, think about how you will market your product or service. Personal contacts and social media all help. Sometimes, though, it comes down to wearing out some shoe leather.

That was the case for building industry consultant Cheryl Wiseman, who's been cooking up extra cash for the past five years making gourmet pickles.

Wiseman's gig began when a backyard choko vine ran riot, producing almost 100 kilograms of chokos annually. Rather than waste the veggies, Cheryl turned them into pickles. When friends and family raved about the flavour, she saw an opportunity to turn her relish into revenue.

As Wiseman discovered, selling food commercially involves following strict rules. "Secondhand containers aren't an option if you're selling to the public – they have to be brand new." So her first step was to track down a supplier of glass jars.

Next came logo design and labelling. "By law food sold commercially needs to have nutritional information listed on labels. The Department of Fair Trading website has helpful information on this. I came up with a brand, Princess Cheryl's Choko Pickles, and to save money I print my own labels at home."

With a young family, Cheryl wasn't keen on spending weekends selling her pickles at local markets. Instead, she set about finding stockists willing to take on the product. Her solution was simple. "I drove around the district leaving free sample jars at food stores like delis and butcher shops. It was very effective – within days orders were coming in."

These days Wiseman has expanded her range based on seasonal produce, and by investing in some commercial equipment she has cut down preparation time. Nonetheless, she still allocates one evening each week to preparing ingredients, and is up early the next morning to cook and bottle her products.

Despite the additional work hours, Wiseman's pickles have made a valuable contribution to the household budget. "The extra income has definitely come in handy. It's allowed us to enjoy special luxuries like overseas holidays."

It's not always an easy earn, though. "It's easy to underestimate how much planning and time goes into making money from a hobby," says Wiseman. "You have to treat it like a business, and when you're also working a day job good time management is critical."

## Protect yourself

Time isn't the only thing to plan for. It also pays to understand the rules that apply to running a small business – everything from refund policies to providing a safe product. The Department of Fair Trading in your state or territory is a key source of information here.

It also makes sense to consider insurance. Running a side gig through an existing provider may mean you're automatically covered. Airtasker, for instance, deducts a 10%-20% service fee from payments to taskers, but part of this fee goes towards insurance. Taskers are covered for third-party personal injury or property damage.

If you run an independent side hustle, public liability insurance can be a must. Even something seemingly harmless such as blogging can bring risks of legal action. Copyright infringement, failing to declare an affiliate relationship and defamation are just some of the possible pitfalls.

According to online insurer BizCover, small business owners pay an average of around $80 a month for public liability insurance, though the exact amount will depend on the nature of the side gig. As a guide, a blog writer looking for $10 million in professional indemnity insurance can pay an annual premium of $1200. Yes, it's a big cost, but it provides financial protection and brings peace of mind.

## Aim to be unique

Your side hustle is likely to work best if you have a unique product or service to offer. This calls for a blend of creative thinking, research and business savvy.

Sydney-based Jacques Chevrant has combined his 9-to-5 job in architecture with a thriving side hustle designing high-tech art. "I start with photographs then morph, blend, mash-up and re-build the imagery pushing software like Photoshop to its limits," he says.

The end result is vibrant, energetic artworks that bear no resemblance to the original image. And they're proving a big hit. The pieces sell for between $500 and $1000.

Although he is self-taught, Chevrant saw the opportunity for a side hustle when his work was selected for an exhibition in Sydney two years ago. He was determined to deliver a high-quality product. His works are printed onto cotton and are archival quality, and achieving this meant shopping around extensively to find a suitable print specialist.

Chevrant says cultivating a healthy working relationship with a local print specialist was a critical business step. "I have to have total faith that my print specialist can match what's created on screen with what's printed. I also need someone who can work flexibly with me given the time constraints around my main job."

When it came to building a client base, Chevrant admits that working in architecture gave him a head start: "It gave me links to other creative industries such as interior design." Networking matters too. "In the art world your personality is important – you can't be a blank face. It's still very much about who you know."

## Top three categories for side hustles

**22%** Reviewing services or products

**21%** Photography

**20%** Food & beverage related

Source: NBN's Guide to Fulfilment on the Side (Hustle)

He also promotes his art using social media, especially Instagram, and developed a website to market his works.

While Chevrant has built a healthy side hustle, he admits that holding down a full-time job as well is not easy. "Architecture is a demanding industry," he says. "On the art side, it calls for hard work to consistently deliver a high-quality product. It can be challenging coming home from work in the evening, and then work on a new piece or deal with clients. But when orders come in they have to be filled."

Chevrant's tip for anyone hoping to build a side hustle in the creative arts is to find what you're good at. "Make sure what you're doing is unique and that you'll be able to maintain that level of uniqueness."

### Set up the finance

Getting your side hustle up and running can require funds to pay for equipment. Unless you have savings, securing finance can be a challenge.

Research by the Australian Banking Association (ABA) shows that while millions of us dream of starting a business, 60% say access to money is the sticking point. "Small business loan applications have declined by 33% since the 2014 calendar year," says Anna Bligh, the ABA's CEO. And that's despite interest rates being at record lows.

A study by online lender OnDeck finds part of the problem is that mainstream banks are often not really interested in lending to small enterprises.

One in four small businesses that has applied for bank finance has been knocked back, forcing many business owners to turn to family and friends for funding or resort to a credit card.

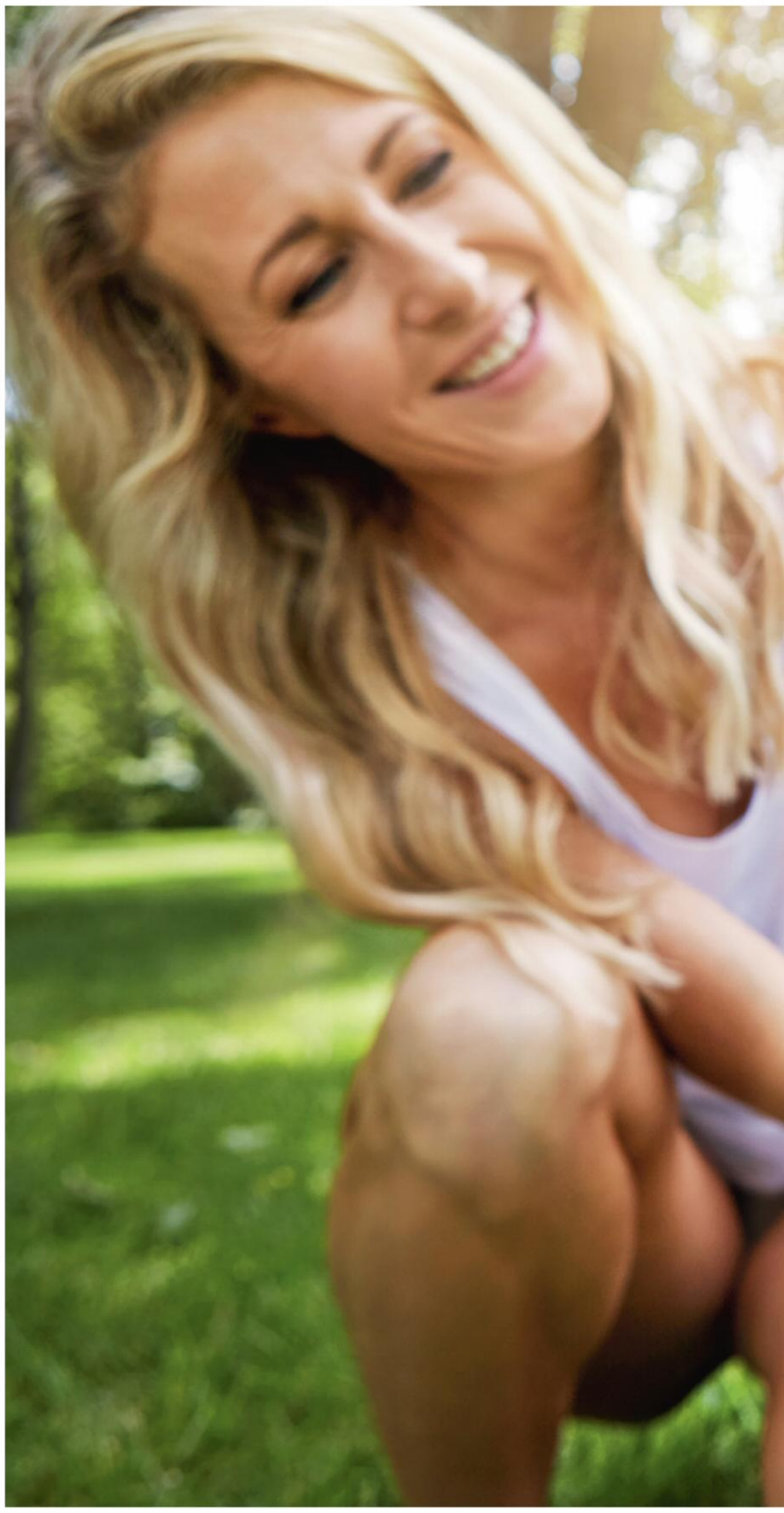
A high rejection rate isn't the only hurdle. "Our research shows that organising bank finance can be a slow process that involves jumping through plenty of hoops," says Cameron Poolman, CEO of OnDeck, which caters to small business. "One third of small business owners say the time taken trying to get a bank loan has negatively impacted the business."

While lenders like OnDeck can fast-track the process by working solely online, the reality is that start-ups and businesses with a turnover below $100,000 still struggle to get finance.

"All lenders want some reassurance that the business is viable. If you're kicking off a side business, it makes sense to start out small. Think about how you will fund working capital needs. Perhaps a personal loan is the best method early on. Then test the market and build the venture gradually. It can seem a slow process, but persevere – even Woolworths started out as a corner store."

A new industry-funded website, financing your smallbusiness.com.au, offers tips on applying for small business finance.

If your side gig has the potential to benefit the broader community, you could be eligible for a grant of up to $100,000 through the AMP Tomorrow Fund. Applications have closed for 2019, but to find out more visit ampstomorrowfund.com.au.

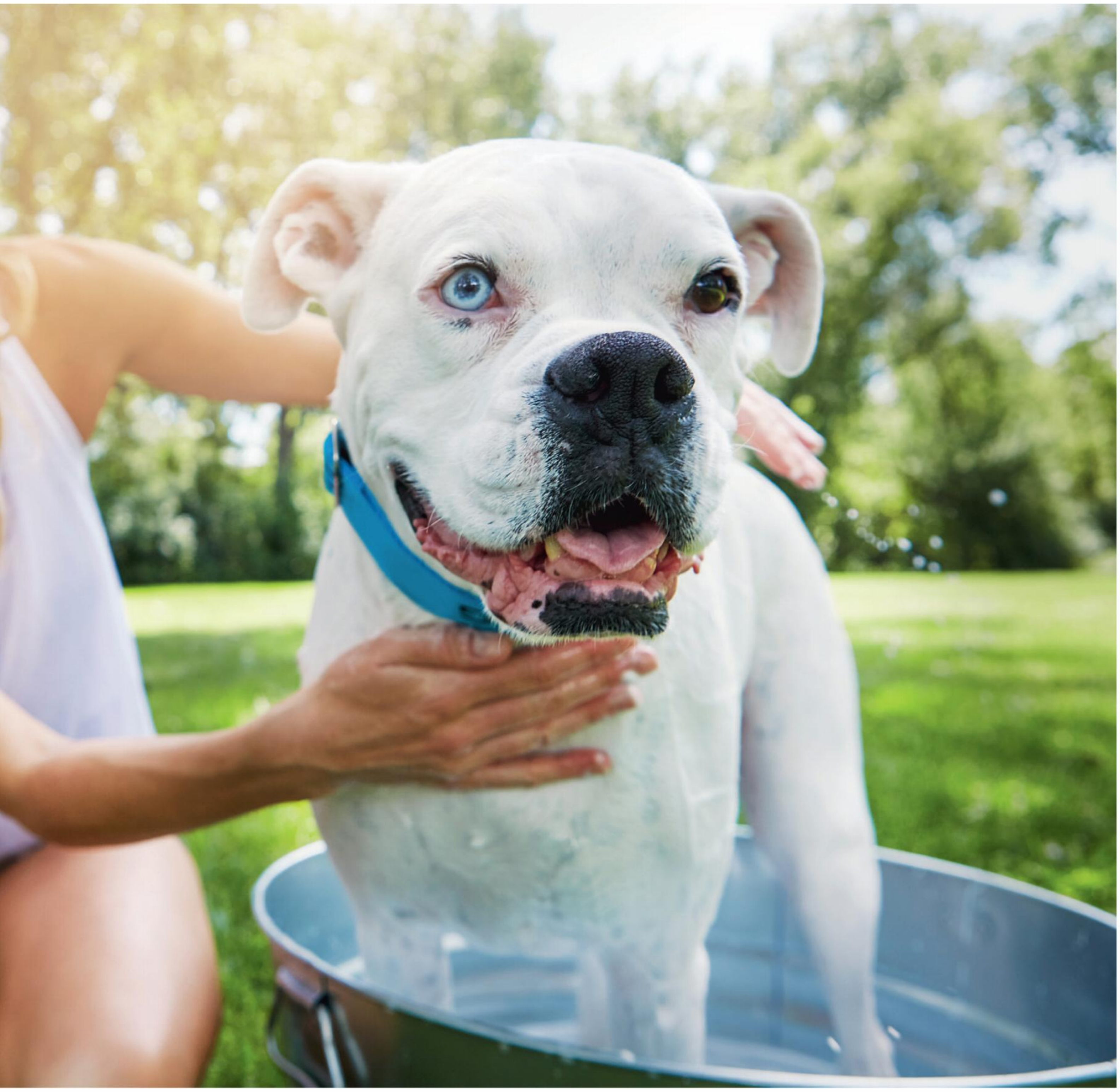


time is money

### Do the numbers add up?

The extra time at the coal face makes it critical for a side hustle to be worth your efforts. Do the sums to be sure that you'll be in front financially, especially after allowing for tax.

Every extra dollar you earn is likely to be taxed. Your primary job entitles you to a tax-free threshold of $18,200. But this only applies once. Any extra income earned on the side won't have the protection of the tax-free threshold. This holds if you choose a part-time PAYG gig or run your own business. The upshot is that you could lose a big chunk of your extra income to the tax office.



> If your product turns out to be a winner, it's easy to find yourself thinly stretched

If your side hustle sees you working for yourself, you need the discipline to set aside funds for tax – or face a bill at the end of each financial year.

For Chris Willcox, this was the tipping point that saw him bail out of his side hustle. A retail manager by day, he signed up to be an Uber Eats driver by night. He'd just bought a new car and planned to use the extra income to pay off the loan. But after a few months he crunched the numbers and decided his side hustle wasn't stacking up financially.

He says he typically earned around $10 per delivery. However, there was a lot of down time. Uber Eats works on a GPS tracking system, so drivers need to be in an area with plenty of restaurants for a decent amount of deliveries to come up. Sitting at home waiting for a gig won't work unless you're surrounded by cafes. As Willcox lives in a suburban area, he had to first drive to a suitable eating strip and then "cruise around waiting for a delivery".

"When a job does come through, it can be hard getting a parking spot near the restaurant," says Willcox. "And there were plenty of times when I'd arrive at the restaurant and the food was still being prepared, so I had to wait until the order was ready to go. This is all time that you're not being paid for."

Ultimately, Willcox realised the gig wasn't making a significant addition to his income. "It wasn't just about the cost of fuel and extra wear and tear on the car. The real deal breaker was that after allowing for tax I really wasn't that much in front."

## Deciding what to do

**35%** would like to pursue a hustle but don't think they have the skills

**51%** of Aussies say they would have no idea what they would do

Source: NBN's Guide to Fulfilment on the Side (Hustle)

## When to tell the boss

Like many side hustlers, Jacques Chevrant is careful to keep his two roles separate. "My art is always parallel to my role in architecture – you have to maintain distance between the two," he says. "For me that's not hard because the two roles call for quite distinct frames of mind."

However, Robert Half's Andrew Morris says honesty pays. "An employee should be honest with their employer about undertaking a second role, especially if the content of the role even slightly overlaps with the primary job."

He highlights the need to be certain about any contractual obligations and make sure there are no conflicts of interest with your current employer: "You don't want to jeopardise your current income with an accidental breach of contract".

Even if your employer is comfortable with your side gig, resist the urge to run the business from your main workplace. A 2018 Fair Work Commission case involved an employee who was dismissed on the grounds of conflict of interest. She was found to be running an online business even during office hours with her primary employer. Highlighting how taxing it can be to juggle two roles, the employee was caught out when a customer complained about a wrong order, and at that point other employees

*case study*

## From side hustle to main gig

The NBN study found that many people start a side hustle to live the dream of one day running their own business full time. And it can be done. NSW-based Jade Thompson has turned her skill with a camera into a thriving full-time business.

"I always felt I lacked something in life," she says. "I'd been a bit of a floater, and my job as a retail assistant was exactly that – just a job. After getting some positive feedback about photos I took for friends at an equestrian event, I decided to take the leap and start offering my photography on weekends."

Sensibly, Thompson started out small. She initially offered free portrait sessions for friends to gain experience. What followed was a big learning curve. "I meet so many people that are nervous or are afraid of being awkward in front of the camera" she says. "I soon realised it's my responsibility to make them feel at ease."

Thompson posted her early pictures on social media and, assisted by word-of-mouth referrals, her side gig thrived.

Within two years Thompson's side hustle saw her spending three out of four weekends each month on shoots. Between the demands of her nine-to-five retail job and her photography work, something had to give. "I spent two years building clientele and in January 2019 I decided to quit my day job and focus solely on my photography business." says Jade.

complained that she was constantly on the phone running her side gig.

Even if your employer raises no objections, the risk of burning the candle at both ends is very real. "Think carefully about how much time you can devote to your side business," advises pickle maker Cheryl Wiseman. "If your product turns out to be a winner, it's easy to find yourself thinly stretched."

Morris agrees that some soul searching is in order around how well you can realistically juggle your main job with a side hustle. "Just like a primary job, having a second job takes time, energy, and dedication," he says. "It's important to evaluate what you are capable of giving to your side job and how it will impact your primary job.

"If you work a nine-to-five role, look for shift work or freelance opportunities that won't demand your attention during normal working hours or require very late nights. Overextending yourself can lead to your primary employment suffering."

If you're running a side gig solely for extra income, Morris says it's worth having a conversation with the boss about your current remuneration package. He says this can address an increase in salary or non-remuneration benefits such as discounted gym memberships or travel stipends.

## State of the nation

Seventy-one per cent of Western Australians want a side hustle to become their own boss; 50% of Northern Territory residents know exactly what their side hustle would be; around 66% of South Australians want a side hustle to pursue their passion; 88% of Canberrans want fulfilment outside work; and 38% of Queenslanders would like to start a side hustle because they've noticed a gap in the market.

She hasn't looked back. These days Thompson is booked out for sessions almost every weekend and has expanded into wedding photography.

While photography is one of the most popular side gigs, Thompson is quick to point out that there is more to making a success of it than pointing a camera in the right direction. "There's a great quote by respected photographer Peter Adams that 'a camera doesn't make a great picture any more than a typewriter writes a great novel'," says Thompson "And it's very true – it's not what you see but how you see it."

It also helps to have a commercial outlook. In a competitive market, Thompson spent time researching fees to be sure she was competitive. She charges what she believes is a realistic fee of $850 to $1100 for her collections. "Affordability is a high priority of mine."

Thompson also dipped into her savings to invest in the right equipment, experimenting with different lenses. "I did my research and purchased my first professional lens, which cost $2200, though I strongly believe you don't need to have the most expensive equipment to be competitive". Additional costs included editing software and setting up a website so that her clients can receive their images promptly once their galleries are finalised.

Thompson has never had to spend big on advertising. "Photographs speak for themselves," she says. And social media is still proving to be a great marketing medium.

For anyone hoping to build a side hustle into a rewarding career, Thompson has some simple advice: "Live without fear, take all the opportunities you can! I've finally found what I'm meant to be doing and I cannot wait to see where my photography journey takes me." *M*

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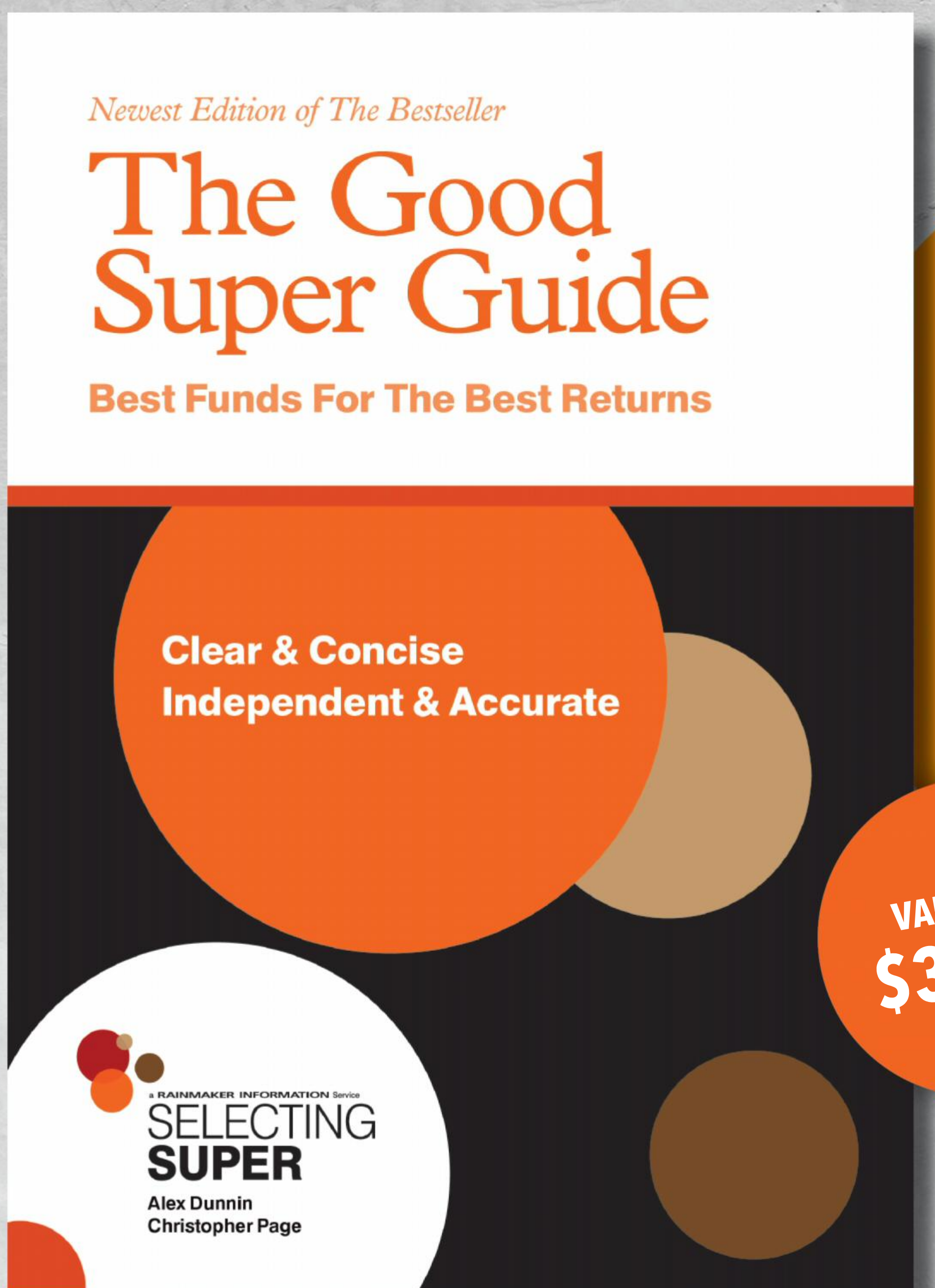


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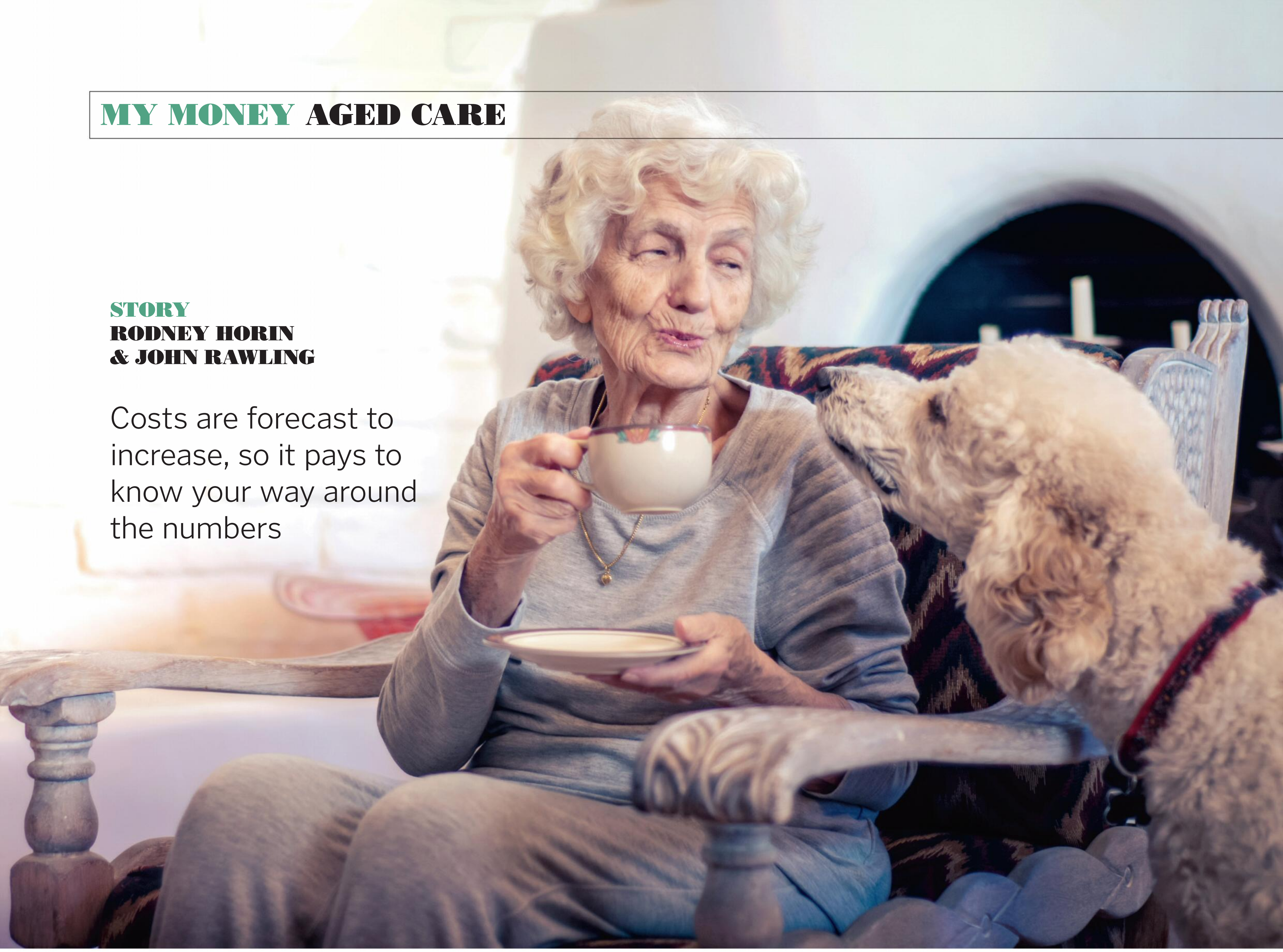

STORY
RODNEY HORIN
& JOHN RAWLING

Costs are forecast to increase, so it pays to know your way around the numbers

# In a more caring world

Over the past year, the royal commission into aged care has conducted hearings in Adelaide, Sydney, Broome, Perth, Darwin, Cairns, Mildura and Brisbane. Commissioners Richard Tracey and Lynelle Briggs are required to provide an interim report by the end of October and a final report by April 30 next year.

One thing is almost certain: the cost of aged care will go up. The commissioners will likely highlight inadequate carer-to-resident ratios and underqualified staff in many places. The costs to rectify these will be considerable, as well as the inevitable increase in compliance costs. The federal government will not want to pay out much more to fund aged care, so most of these increases in costs will be passed on to consumers.

Aged care remains labour intensive, land is expensive to buy and buildings are expensive to build and maintain. The owners of such facilities expect to make a return on their investment. One other thing is certain: there will be no slowing down in the ageing of Australia's population, so demand for aged care beds will outstrip supply and refundable accommodation deposits (RADs, formerly known as bonds) will increase.

As Australians live longer, more and more will end up in aged care. The number of people in permanent aged care is expected to nearly triple in the next 30 years, from 250,000 today to 700,000 in 2050. The industry is complicated and many decisions must be made, often involving large sums of money.

Here are the 10 most common questions that we hear at Joseph Palmer & Sons, and our answers.

**Will I need to sell the family home to pay the refundable accommodation deposit?**

This is the most common question we get and the short answer is, not necessarily. The family home is often a couple's most valuable asset and many advisers wrongly assume that it needs to be sold to provide funds for RADs. The key driver is to make sure that the home, like any valuable asset, generates a financial return. This return takes the form of rental income and capital growth (which RADs certainly don't provide). The home is treated on a concessional basis for the age pension and aged care fees. For age pension purposes, if you move into care the former home's value will be excluded from the age pension assets test for two years, although any rental income will be assessable under the income test. The value of the home is capped at $168,351 for aged care means testing and any rental income is assessable.

**Is the RAD negotiable?**

Yes. RADs can be as high as $2 million to secure a bed in an aged care facility. In many cases these RADs are negotiable, and at times can be as much as halved. Willingness to negotiate on RADs depends very much on the demand for, and the supply of, beds in a particular aged care facility.

**What alternatives are there for paying the RAD?**

Many facilities prefer the RAD be paid upfront as a lump sum. However, it is possible to choose to pay interest only or with a combination of lump sum and interest. A bank guarantee is not an alternative. The interest rates you pay are set under the Aged Care Act – currently 5.54%.

**Will my family get all of the RAD back?**

In a government-accredited aged care facility, the accommodation deposit is fully government guaranteed. Before July 2014, the accommodation bond repaid to the family would be reduced by retention amounts deducted by the aged care facility. Since July 2014, any lump sum paid as a RAD is now fully refundable and generally repaid 14 days after a person leaves the facility or, where the resident has died, to their estate when probate has been granted.

**What is the means-tested fee?**

This fee is set by the government and collected by the aged care facility based on an individual assessment for each resident. It is an attempt by the government to ask residents with the financial capacity to contribute to the cost of care. This fee can range from nothing to a maximum of $248 a day, capped at $27,532 a year or $66,078 over a lifetime (just over two years of payments).

**Why does the government charge different means-tested fees?**

While all residents pay the same standard daily care fee ($51.21 a day or 85% of the full age pension), the means-tested fee varies from person to person depending on their assets.

**Why is the means-tested fee so high and how do I reduce it?**

The fee is based on the income and assets of the aged care resident, so it increases as the resident's assessable assets and income increase. For example, a resident on a part age pension with assets totalling $200,000 and deemed to be earning $28,825 a year will pay $1.17 a day ($428 a year) in aged care, while a resident with assets totalling $1.2 million and deemed to be earning $34,964 a year will pay $60.70 a day ($22,156 a year). One option to reduce the means-tested fee is to buy an aged care annuity, if appropriate. We recommend getting financial advice in relation to this product.

**What is the extra services fee and should I pay it?**

The fee, which can be as much as $120 a day, is supposed to give the resident extra services, including more activities and access to people such as podiatrists, hairdressers, etc. If your facility is charging an extra services fee, you should ask what services are being delivered and assess whether or not you are receiving value for money. This fee, too, may be negotiated.

**Paying daily fees will impact my cash flow. What strategies are there for dealing with this?**

It is possible to negotiate to pay some or all of the daily fees from the RAD to minimise the impact on your cash flow. This means, of course, that less of the RAD will be returned at the end of the care period.

**What implications are there for my social security or pension?**

The RAD is an excluded asset for social security purposes. Therefore, in some cases, where existing cash is used to pay for a RAD, it can result in a new or increased pension entitlement. More often, a family home is sold to fund the RAD. In this case, while the home is excluded, the proceeds from its sale are counted as an asset. As a result, the cash remaining after paying the RAD can often result in a pension being reduced or lost entirely. However, there are ways to maintain, or even increase, one's current entitlements. ***M***

*Rodney Horin and John Rawling are aged care consultants at Joseph Palmer & Sons, investment managers and aged care specialists.*

STORY ANNETTE SAMPSON

# Make friends with your fund

Digital technology means it's easier than ever to know whether you're on track with your retirement savings

When it comes to relationships, there's probably one we all neglect. It's not hard to take super for granted. It's locked away and we don't really need to get up close and personal with it until we're thinking about retirement. But a little TLC now can make a big difference when that time comes.

"People think they're a long way from retirement – the money is taken out of their salary and it will just be there later," says Steve Mickenbecker, group executive for financial services at Canstar.

"But there is a whole bunch of people who won't have enough, and because they haven't taken notice of it they haven't made a plan to add to their savings."

Starting a conversation with your fund is surprisingly easy. With fund statements for 2018-19 starting to emerge, it's an ideal time to sit down, read the document (see page 50) and work out where you are.

But Mickenbecker says digital technology has proven a ground-breaker in getting members to better engage with their super. The development of apps and mobile-optimised websites has made it much easier to go online at any time, find out what's happening and take control.

## Are you on track?

A recent report by the ARC Centre of Excellence in Population Ageing Research (yes, there is such a thing) found there's nothing quite like seeing your projected retirement income to focus your mind on your super.

The researchers analysed data from a trial in 2013 when industry fund Cbus sent 20,000 members an estimate of their likely retirement income, along with their current account balance. Researcher George Smyrnis says seeing the estimate motivated members to make changes that can substantially change their retirement outcomes.

"We've found the best way to promote engagement is to create a picture of their future self and what their life will be like in retirement," says Steven Travis, executive for member growth and marketing at Sunsuper.

He says funds like Sunsuper have online tools that can show you your estimated retirement income and options to improve it, such as making extra contributions or switching to a different investment option.

Mickenbecker says most funds have online tools based on the Association of Superannuation Funds of Australia's retirement standard (which measures the cost of a comfortable or modest retirement income) so that members can see whether they're likely to have enough and, if there is a gap,

what something like contributing an extra $20 a week could make.

### Is your fund the best one?

This is the best place to start as a dud fund can leave you substantially worse off when you retire. Chances are your fund was originally chosen by your current or previous employer and you may not have given it much thought.

Your fund's website will set out what the fund is about – who it's targeted at, what it's trying to achieve and how it works.

Retail funds are run by companies such as banks and insurers while industry funds are run by a board representing employers and unions. In both cases the legal structure is the same – your money is held in trust for you and managed by a board of trustees.

If you are in an industry fund, it may be targeted at a particular industry – such as retail, building or hospitality – or it may operate across all industries.

There are no rules saying you have to be in your industry's fund. With most people now changing careers several times, Travis says you can take your fund with you when you change jobs or switch to a different one. He says specific industry funds are tailored to workers in that industry, so it's worth checking whether it still suits your needs.

Beyond that, says Mickenbecker, choosing the right fund is pretty simple. You want one with reliable and competitive investment returns, reasonable fees, cost-effective insurance if you need it and good service. He says comparison sites can show how your fund stacks up against others.

### Are you in the right investments?

Most members are in the default option of their super fund – usually a balanced or growth option with a bias towards assets like shares and property. However, you can choose a different option.

Travis says many funds now have online tools that test your appetite for risk to work out what investment mix is best for you.

Mickenbecker says some retail funds offer hundreds of options, largely suited to more sophisticated investors. However, most industry funds offer a more limited menu of five or so diversified funds with different risk levels, plus possibly the ability to include direct investments such as term deposits and shares. Some have indexed investments that track particular markets at a lower cost. Some funds also offer age-based or "lifecycle" options where your risk is gradually reduced as you get older.

Increasingly, members are also looking at the ethics of their investments.

Travis says most major funds are now run

under ESG (environmental, social, and governance) guidelines, which consider the sustainability and ethical impact of their investments. This should be on the fund's website. Many funds also have ethical investment options, and these details should also be online.

## Take control of your account

Mickenbecker says about half the funds it surveys have apps to help you manage your super and more than 90% have mobile-friendly websites.

Commonly these allow you to join online, consolidate your super into one account, check your account balance and contributions, access historical statements, check your investment returns and fund manager reports, and switch investment options.

Making a personal contribution is usually as easy as doing a transfer from your bank. You should also be able to update your insurance beneficiaries and set up payment of your super when you retire.

He says some funds also send out automatic notifications whenever money is contributed to your account so you don't need to log on to check whether your employer has put in your money. This is also a handy reminder to think about your super.

Travis says funds such as Sunsuper use analytics to predict where members are in their lifecycle and prompt them to take action such as checking their insurance or reviewing their investment options. Sunsuper also does educational podcasts and has both online and physical seminars for members. He says some funds are even looking to run their annual general meeting online to keep members informed and allow them more input.

## Free advice

Most major funds now offer free limited advice to members. You won't get a full financial plan, but Travis says your fund can help with questions such as whether you're in the right investment option, whether you're putting enough away, the best way to make extra contributions and whether you have enough insurance. This can be done over the phone or online.

If you need a full financial plan, most major funds have financial planners, or you can seek help elsewhere.

## Insurance and other benefits

If you need insurance, buying it through your super fund can be cost effective as it is tax-deductible to the fund, which generally gets discounted group rates from the insurer. But you don't want to pay for insurance you don't need and it pays to check the terms and conditions.

Mickenbecker says you can check your insurance in your annual statement or online and change it if needed. You should also look at who will receive your money if you die, as super is not part of your will. Bear in mind that your dependants will not be taxed on the payout but if you nominate someone who isn't a dependant they will be.

It's also worth checking what other benefits your fund offers. There are funds, for example, that have programs where members get discounts on such things as whitegoods and concert tickets. *M*

## Decode your annual statement

Your annual super statement has arrived. These are the things to check

- **Contributions**
Have your personal contributions been credited to your account? Has your employer paid the correct contributions (the super guarantee is 9.5% of your salary)? Employers are required to transfer the money quarterly, though many do it more regularly. If you are concerned your employer's payments are not correct, contact them or visit the section on unpaid super on the tax office's website. It has information and useful tools to help estimate what your employer should be paying and to report unpaid super.

- **Personal details.**
Are they still current?

- **The broad numbers**
The statement will set out what you started with, the contributions and investment earnings added to your account, and the tax and expenses deducted. If something doesn't look right, contact your fund to ask why.

- **Returns and fees**
ASIC's moneysmart.gov.au suggests visiting a comparison website to see how your fund measures up against others with similar investment objectives. Broadly, the average balanced growth fund, a common default fund, returned about 7% last year, but MoneySmart says it is more important to compare longer-term returns (such as five to 10 years). It says members pay an average of around 0.8% in fees.

- **Insurance**
How much cover do you have through your super fund? Is that appropriate and are you happy with the cost? How many statements did you receive? If you received more than one, you may be able to save on insurance (and fees) by consolidating into one fund.


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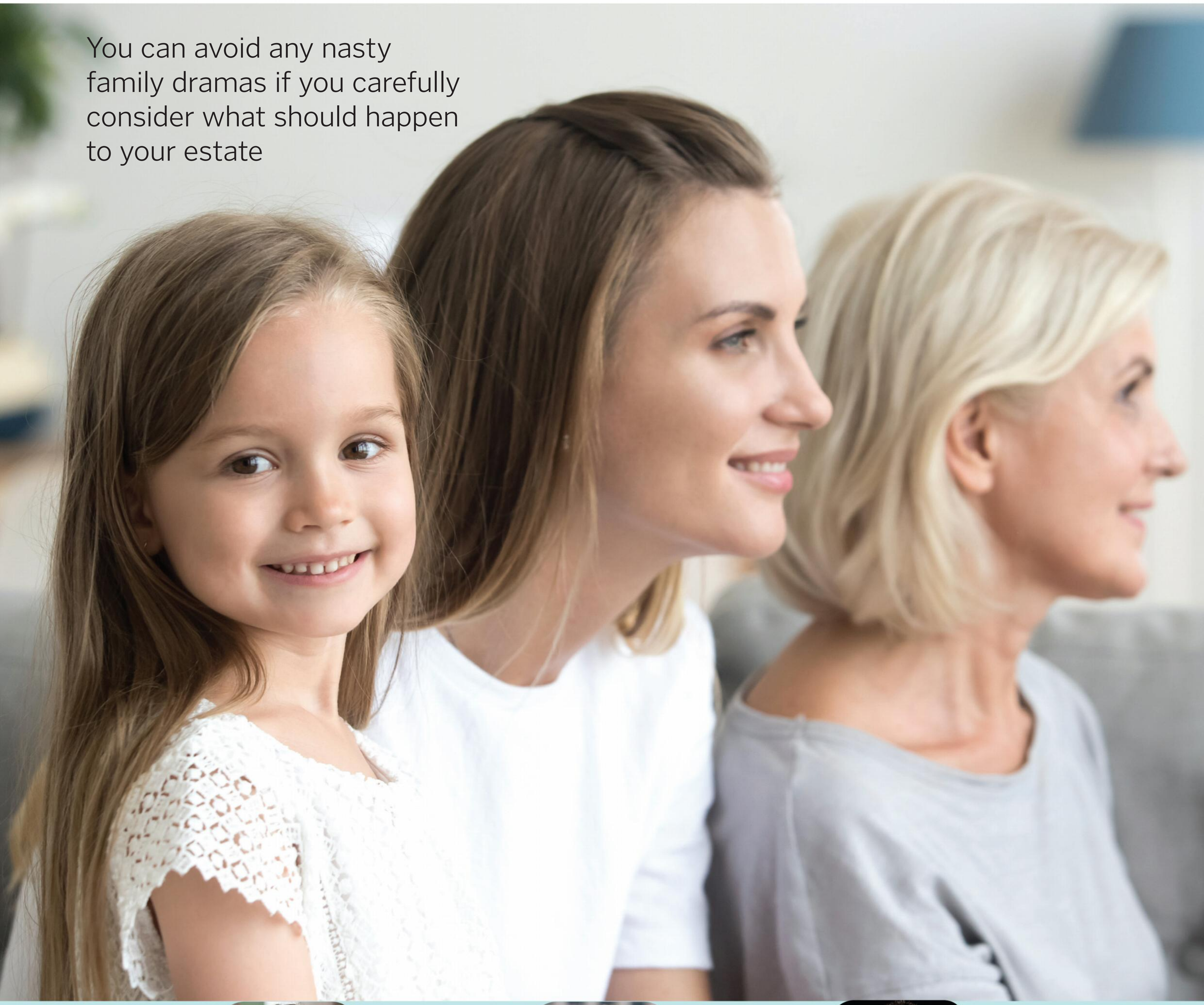
# Plan for the best



You can avoid any nasty family dramas if you carefully consider what should happen to your estate

## THE EXPERTS

**Anna Hacker**
national manager estate planning, Australian Unity Trustees

**Tony Davison**
chief executive, Pride Advice & Accounting

**Brian Hor**
special counsel, superannuation and estate planning, Townsends Business & Corporate Lawyers

## 10 MOST-ASKED QUESTIONS

### Q At the very minimum, what should an estate plan include?

It requires a solicitor who has expertise in estate planning. The reason you need an expert is demonstrated in some of these estate issues I've encountered:

- Individuals seeking to cut children out of wills following a falling-out over a new life partner they've met;
- Clients who've discovered their parent's new partner has cut them out of the will;
- People who've told me about family members kicked out of their lifelong home due to the estate claims from the children of their (now deceased) second wife – it's frightening (and completely avoidable);
- Expensive legal fights among families following the death of a beloved; and
- Coming into a large sum of money.

A basic estate plan should include a will, enduring power of attorney, power of guardianship and death nominations for your super. More structured estate plans will include consideration for testamentary trusts.

Your state's local law society can assist you to identify a suitable legal expert in the area.

**TONY DAVISON**

### Q At what age should people start thinking about an estate plan?

I'd suggest the focus should be when a person starts to accumulate wealth and/or has as a spouse and/or children. This can be as soon as they enter full-time employment, at which time they will become entitled to receive compulsory superannuation, often with a significant life insurance benefit attached. It's here that all four core elements of an estate plan become relevant: a professionally prepared will; an enduring power of attorney; appointment of an enduring guardian; and a binding death nomination.

**BRIAN HOR**

### Q How often should my estate plan be reviewed?

Generally an estate plan should be reviewed every three to four years. If there is a lapsing binding death benefit nomination, we may remind clients to consider their estate plan a little earlier to ensure they do not let their nominations lapse. That will generally be every two years and nine months. While documentation may not need to be updated every time the estate plan is reviewed, it is useful to ensure that what is in place meets objectives and is in line with your wishes.

There may be changed circumstances you have not considered and they may not even relate directly to you (for example, a new relationship for a beneficiary may make you consider different options for that beneficiary to inherit and be protected). This does not need to be a comprehensive review; it need only be turning your mind to whether any objectives or assets have changed. If they have, that is when you may require more specialised advice.

**ANNA HACKER**

### Q How should people treat superannuation in estate planning?

Superannuation is not an estate asset. Within super, a document called a binding death nomination directs your super to nominated parties or your estate – make sure you have this in place (just contact your super fund, and it will tell you if it's in place).

With good planning, superannuation is unsurpassed as a vehicle to transfer wealth within your family, or to the next generation.

If your kids are adults over 18, some planning actions can reduce potential taxes on your super death benefit received by your kids. With specific advice, for individuals retired and under 65, a series of withdrawals and contributions to super can reduce taxes on your super death benefit in what can amount to a material tax saving for your family. This is complex and requires expert advice.

Similarly, if you hold life insurance within your super, in the event that you pass away and your kids (aged over 18) inherit the life insurance payout from your super, they will probably also be heavily taxed. Some simple planning can eliminate this potential impact.

**TONY DAVISON**

### Q What is the difference between a power of attorney and a guardian?

An enduring power of attorney nominates one or more persons to look after your financial affairs in your best interests, whereas an appointment of enduring guardian nominates one or more persons to make personal and lifestyle decisions on your behalf, as well as consenting or refusing consent to certain medical treatments.

Often people choose the same persons to be both their enduring power of attorney and their enduring guardian, but just as often people choose different persons. For instance, would you want the person whom you absolutely trust to make hard-nosed financial decisions about running your business to be the same person deciding whether or not to consent to your having a potentially life saving but expensive medical treatment?

**BRIAN HOR**

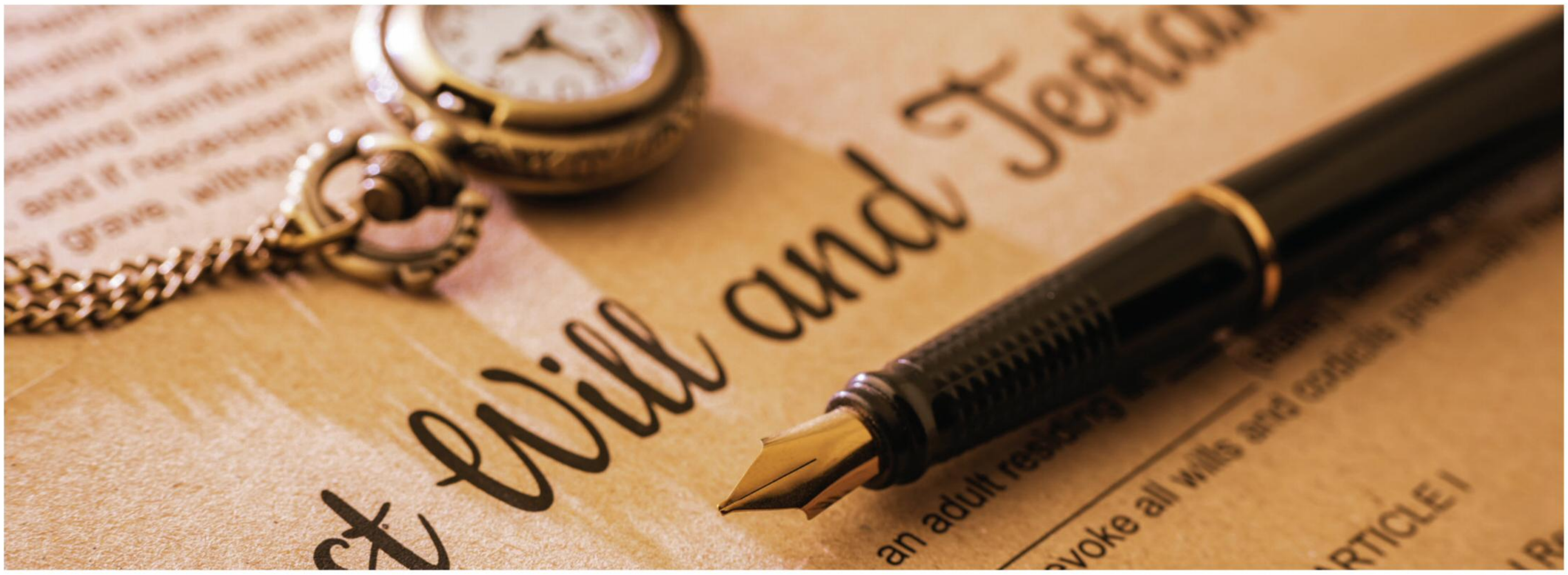
### Q What should I do if my estate has a high risk of challenge?

The only way to prevent a challenge (in every other state than NSW) is to not own or have control of any assets at the date of your death. While that is not practical for most people, it is the only way to ensure there is nothing for prospective litigants to challenge. In most cases, the most important advice is to get advice.

There is no magical way to prevent a challenge, such as leaving a token amount or stating that if a person challenges they will be required to bear all costs. I do not recommend including reasons for excluding a particular beneficiary in the will itself as those reasons may change over time or may not be ultimately accurate.

Inclusion of reasons in a will can often be like a red flag to a bull, inciting some disgruntled beneficiaries to challenge. Instead, I recommend preparation of a more detailed affidavit which includes comprehensive reasons for why the will was drafted in the way it was, which should stick to the facts and not be filled with emotional history. This can then be used if there is a challenge or remain in the possession of the executor if calm waters prevail.

**ANNA HACKER**




### Q What if there's conflict between the executors of my will?

It's usually best to try to anticipate and thereby avoid potential conflicts between your executors by appointing persons who get along with each other. It's also a good idea to talk with your proposed executors about your intentions to see how they feel and whether or not they are willing to take on the role.

Depending on the circumstances and the relationship between your executors and the beneficiaries of your will, you might incorporate into your will some dispute resolution procedures such as requiring your executors to refer unresolved disputes to a third party to act as an arbitrator, or require certain decisions to be made by a particular majority rule.

Where conflicts do arise after you have died and they cannot be resolved between your executors, they can approach the court for advice or directions on a matter. If an executor is acting wilfully or carelessly causes loss or damage to estate assets, the court can hold them personally liable to compensate the estate, and where appropriate the court can even remove an executor and appoint a replacement.

**BRIAN HOR**

### Q How do I know if someone is taking advantage of my estate planning?

In an age where people's bodies are outliving their mental faculties, it is unfortunately an increasingly common phenomenon that elderly people are being taken advantage of (sadly, very often by their own children or other close family members). This is often reflected in the perpetrator exercising undue influence over their victim in terms of changes to their will being made in favour of the perpetrator, or the perpetrator being appointed to an important role such as executor or enduring power of attorney and then abusing that role by (for example) transferring assets to themselves while their victim is still alive, or spending less on their care so as to increase the estate that will be inherited by the perpetrator after their victim dies.

Often the victim is unable to do anything about the abuse (or even unwilling, especially where the perpetrator is their own child), so it may fall upon other persons who are close to the victim (such as other family members, or even a trusted adviser) to recognise and try to do something about the abuse. This could involve going to the relevant Civil and Administrative Tribunal for an order to remove and replace an appointed enduring attorney or guardian.

**BRIAN HOR**

### Q What age should children/grandchildren inherit?

This can be a personal decision as it is you who knows the maturity of your children and grandchildren. It is common for people to include a control age of 25 years. This seems to be the "sweet spot" where beneficiaries have a bit of life experience, whether this be via education or work, and can make more sensible fiscal decisions, or at least know they should get advice about it.

**ANNA HACKER**

### Q What are the most common mistakes people make in their estate plan?

There are three common issues.

The first is assuming a will is a will. Poorly drafted, corner shop, online or newsagent wills are insufficient for the purpose and are open to contest. Seek out your local law society to help identify a legal expert in the estate planning area to assist you.

The second is to think an estate plan is just a will. A will directs everyone else when you're dead. But substantial benefit can be gained by you when you're alive by appointing an enduring power of attorney or enduring power of guardianship. It's incredible the impact that a lack of direction can have on families when someone is incapacitated and the family has to decide collectively what's next for someone who's unwell. Where powers are not in place, often the family has to apply to a court to take control of someone's affairs – an inconvenience at a time when they're least able to contend with it.

Lastly is to engage others in the estate planning process. Include your accountant, financial adviser and your family and ensure they know what you want. If conflict between family is likely after you die, do as much as you can to lance the issues when you're around to call the shots.

**TONY DAVISON**

# When the support runs out

## Divorced women in particular can struggle with their kids' living costs

Antonia, a single mother with twins, was dreading the day they turned 18. That was when child support from her ex husband, Peter, stopped. Her twins were still at school so she had to apply for assistance from Peter until the boys finished school. But on the day they left school, Peter stopped paying any support and she had to shoulder all the living costs for them.

Child support cuts out when kids turn 18 and if you want your ex-partner to help fund them while they go on to study at a tertiary institution you have to negotiate. About three-quarters (74%) of 18-year-olds and 43% of 20- to 24-year-olds live at home, according to the 2016 census.

The government helps out if they go to university or vocational education with student (HELP) loans to cover tertiary education fees. Your kids could also be eligible for some government income in the form of the youth allowance. For example, if they become an apprentice or live away from home, they can qualify. To see if they are eligible check humanservices.gov.au.

With 97% of divorced households in Australia headed by divorced mothers, it is often women who are covering some or all of the costs of their 18-year-olds living at home. Costs such as food, utilities, medical bills, clothing, health insurance, internet and mobile phones all add up. Going to university includes textbooks, technology, travel and, if they are living away from home, university accommodation or rent.

The average cost of a child aged between 18 and 24 is estimated at $717 a week, according to the National Centre for Social and Economic Modelling (NATSEM), but it depends on the family income. A low-income family spends around $500 a week while a high-income family more than

> **Failure to contribute to higher education can have long-term consequences**

$1000. The higher the number of kids living at home, the lower the individual cost. Divorced families, particularly women, tend to have fewer assets, including super and property, than those in a couple.

While some divorced parents happily contribute to their kids' living and study costs when they reach 18, many don't. The cost of a second family or animosity between the parent and the children are often cited as reasons to cut off financial support. If the parent they live with earns a good salary, the other parent may use that as a reason not to help out.

But not contributing to your kids' higher education and training can have long-term consequences. NATSEM found that the effect of divorce on children's long-term educational outcomes is significant, with young adults from separated or divorced families being 50% less likely to get a university qualification than those with married parents. In the US, kids typically receive child support until they are 19 with some states extending the legal obligation until 20-21.

Antonia has been encouraging her kids to find part-time work from the age of 14, but with a full school year it hasn't been easy to find jobs that fit in with their other commitments. She is hoping that they may land a part-time job to cover some of their expenses, but finding a flexible job that pays award wages is not easy, particularly because they have no previous experience. Youth unemployment is hovering around 12% and in certain areas it is much higher.

Antonia also opened bank accounts for her kids – one for savings and another for transactions – at a young age. She has talked to them about budgeting in the hope that they will be financially responsible with their money. She has helped them set up a tax file number (with the help of the school) and a superannuation fund so they are ready to work.

NATSEM says that men and women at the crossroads of divorce should evaluate their financial situation carefully. Planning ahead for the financial challenges of divorce is important to reduce its harmful effects, particularly for the financial well-being of separated and newly divorced mothers. Planning for your kids after they finish school needs to be high on the list of future contingencies.

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



# Make it easy for young savers

Convenience can be just as important as interest rates and penalties

We received a complaint last month from a regular reader for taking them down the merry road of recommending kids' savings accounts that turned out to be inappropriate for them. The reader did their additional homework, calling three of the financial institutions that made it to the top of the league tables in our 2019 Best of the Best Awards for best kids' savings accounts. The main issue was this: said financial institutions had limited branches and all of them required a prospective account holder to apply in person.

I can see why our reader was frustrated.

There are several factors that go into choosing which kids' savings accounts go into the Best of the Best shortlist. They include the range of options from the financial institution, penalty rates when withdrawing funds, interest rate for a given sum and added incentives for regular deposits. All these go into the equation.

What the reader's letter told us, though, is that perhaps convenience trumps everything else. Simple things we take for granted, such as the ability to walk into a branch or open an account online, may be a prerequisite, on top of providing the best interest rates, the least penalties and the most incentives.

This is where banks and non-banks can improve their savings accounts for children. How can they make it easier for the parents to open an account?

## Top 10 children's savings accounts for balances less than $1000

| INSTITUTION | PRODUCT | RATE | MAXIMUM RATE | BONUS |
|---|---|---|---|---|
| Credit Union SA | Children's Savings Account | 0.05% | 2.65% | 2.60% |
| First Option Bank | Kids Bonus Saver | 0.15% | 2.75% | 2.60% |
| Newcastle Permanent Building Society | Smart Saver Account (under 25s) | 0.00% | 2.55% | 2.55% |
| Auswide Bank | Ziggy Kids Saver Account | 0.01% | 2.50% | 2.49% |
| IMB | Zoo Account | 0.10% | 2.10% | 2.00% |
| Commonwealth Bank | Youthsaver Account | 0.15% | 2.10% | 1.95% |
| Police Bank | Dynamo Kids Savings Account | 0.25% | 2.00% | 1.75% |
| Police Bank | Flex Account | 0.25% | 2.00% | 1.75% |
| Teachers Mutual Bank | Mighty Saver | 0.55% | 2.20% | 1.65% |
| UniBank | Mighty Saver | 0.55% | 2.20% | 1.65% |

Source: InfoChoice, September 2019

### How to choose an account

Jason Bryce, researcher at InfoChoice, says you need to decide what kind of lessons you want your child to learn. "Some kids' savers have a generous base rate and a reasonable bonus rate. Others have a great bonus rate but the base rate is almost zero," he says.

"Maybe you would prefer your child to get an account that incentivises growing the balance each month, rather than just counting the withdrawals. Or an account that pays interest even when no monthly deposit has been made."

Beware of the withdrawal fees. Some institutions charge up to $20 for over-the-counter withdrawals, he warns.

In an ideal world, finance institutions should all have the same rates, incentives and conditions so that parents can focus on what's important: helping their child develop a savings habit as early as possible.

In the meantime, choosing the right product is not going to be easy. InfoChoice has provided us with a list of banks as a starting point, but if convenience is far more important to you it's best to research your local banks first.

*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.*



# The true horror of Halloween

## The fun hides what we should really be worried about: the fear of saving

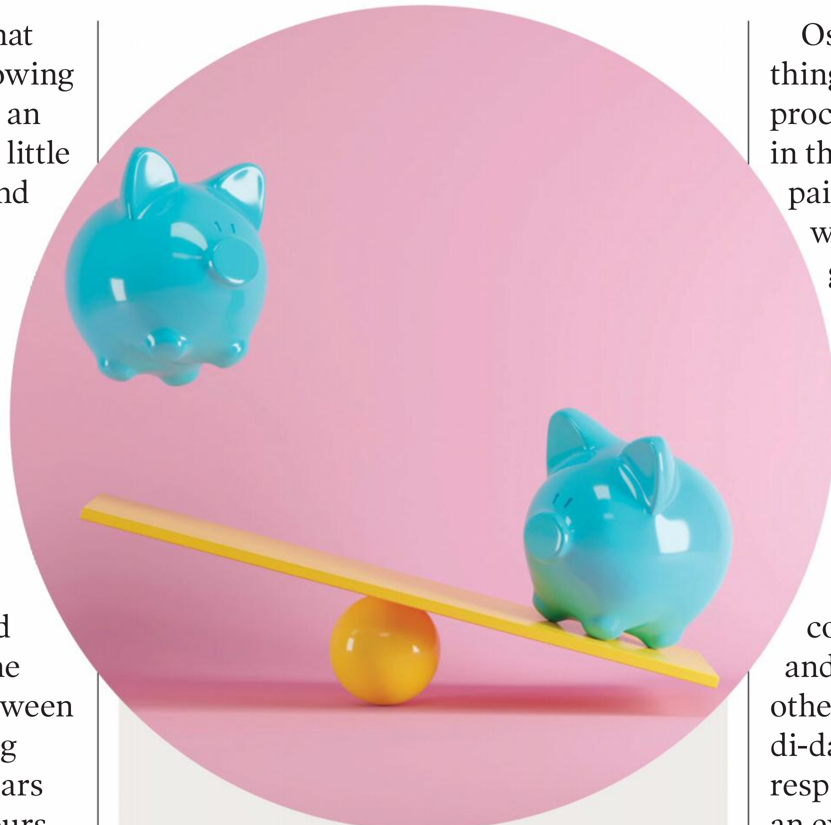
Halloween was not something that meant a lot to me as a child growing up in Australia – it was seen as an American tradition. It always seemed a little odd to me that people celebrated fear and horror for fun. My mother would scoff at any mention of Halloween, claiming it was just another marketing ploy by companies designed to make them more money. She would call days like Valentine's Day and Halloween "spendi-days", because there was "nothing holy about these holi-days".

So it seemed ironic when I discovered October 31 is also World Savings Day, which has been celebrated around the world since 1924. Ironic because the very fears that are celebrated on Halloween and psychologically drive our spending behaviours on this day are the same fears that work against good saving behaviours.

The genius around the marketing for Halloween is that it targets social perceptions of parents, children and neighbours. As different traditions gain traction, new "normal" things you do on Halloween emerge to entice us to spend in new ways. It could be said that World Savings Day has been hijacked by an international spending day!

Halloween, of course, simply plays a small part in the poor spending patterns across the year. Finding a pay cycle where you're not having to spend money on a birthday, wedding, engagement, Mother's Day, Father's Day, anniversary, Valentine's Day or graduation is almost impossible. Spending on social events has become as regular and predictable as any utility bill.

Psychologically, giving to each other and building social connectedness is important for our mental health – it gives meaning and value to our lives. However, it is important in the lead-up to World Savings Day that we call out two of the fear-based drivers that often promote irrational spending behaviour: fear of being ostracised and fear of missing out (FOMO).



### Three ways to celebrate World Savings Day

**1.** Open an account titled "presents and gifts" and put a small percentage of your income into this account each week or fortnight. This simple method creates an easy way to guardrail the amount you spend on each event. The trick then becomes staying within these guardrails.

**2.** Keep a yearly event diary. Planning ahead often means we buy more thoughtful and meaningful gifts and make fewer reactive decisions and purchase fewer reactive gifts. Science shows that when we are in a more reactive state (like searching for a present at the last minute), we are more likely to justify a larger expense for a less meaningful gift.

**3.** Start considering time and effort as valuable commodities and think about cost- effective and meaningful ways to spend them. Strength of connection and creating good memories are the goals.

Ostracism is one of the most painful things humans can experience. Our brains process the experience of being ostracised in the same way as experiencing physical pain. Our survival mechanism is hardwired to avoid being rejected by the group. Therefore, we spend money to be accepted, often driving ourselves into debt. Spendi-days play on this fear by trying to set group norms, expectations or rules that usually involve spending money to be accepted. We spend to avoid pain – something that is also true for FOMO.

FOMO is a problem of choice. It is a combination of loss aversion, ostracism and "the grass is always greener on the other side". FOMO rears its head on spendi-days when we think of the extra love, respect or attention we might get if we buy an extra present, a better costume or have a more lavish party. It's the FOMO on these things that drives behaviour.

On October 31 let's celebrate World Savings Day by committing to take control of our emotions and spending. Let's celebrate the fact that for thousands of years we have built strong relationships and vibrant communities without having to spend lots of money doing it. Let us celebrate a day that doesn't encourage us to spend lots of hard-earned dollars. Happy World Savings Day everyone!

**i** Suncorp's recent Cost of Living report (survey of 1500 Australians) found nine in 10 of us prefer to receive gifts of sentimental value over cost value.

*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.*

# For the love of fashion

Join the fun by renting out your designer outfit for a special occasion

The share economy is booming, with one in 10 Australians earning about $1100 every month, according to the researcher YouGov, in a study commissioned by The Sharing Hub.

This extra income is generated by sharing anything from caravans and cars to hammers and unused space. Now fashionistas can make some additional dollars by way of The Volte, a clothing rental marketplace.

Founded in 2017, The Volte allows users to borrow cocktail dresses, jumpsuits, skirts, jackets and much more. The platform has a retail value of more than $10 million with lenders located all over Australia.

Moreover, in a recent media release The Volte claimed to have grown at 400% in 2018 and now has more than 100,000 monthly active users.

### How does it work?

Fashionistas list their garments on the website and accept bookings directly from borrowers. About 15,000 garments from across Australia were available for rent on the site in late August, and the platform allows owners full discretion about when they lend their clothes and to whom.

It is free to list all your designer items with the Volte. Once you accept a booking request, the platform clips you with a 16.5% service fee. This charge seems relatively high when many other sharing platforms appear to charge fees below 10%.

In a nutshell, The Volte exists to allow users to make money from their designer clothing. Therefore, most designer dresses, outerwear, handbags, accessories and hats are accepted, provided they are valued at above $100 and are in first-rate condition. Casual wear can't be listed, while you can forget listing garments with visible stains, pulls or tears. Also, the website prohibits designer fakes and will remove these listings if required.

Sadly, fellas, there's no room on the site for your Armani, Ralph Lauren or Zegna suits – so it's still the Vinnies bins for your second-hand bag of fruit!

### How much can you earn?

The Volte is helping women save and make hundreds or thousands of dollars by renting out their designer clothes and accessories from anywhere between $20 to $2000 per hire. But it's not just individuals reaping the benefits. Smaller, local rental boutiques are joining the platform.

The charge for your skirts, jackets, hats and knits is up to you. The Volte suggests lenders consider the condition and age of the garment or accessory when determining the rental fee. It is usually a sensible approach to search comparable garments to get a feel for the market price. Generally, if an item is in "nearly new" condition, the hire price is about 25% of the recommended retail price. Also, the price you list must cover the cost of dry-cleaning and a return postal satchel with tracking to send to your borrower.

All lenders are paid 48 hours into the agreed hire period. This timeline ensures the item arrives on time and in good condition before you receive a payment. If the garment arrives in poor condition, the extended payment period also benefits the borrower.

### What protections are there?

A review system is provided by the fashion platform. This system lets borrowers and lenders review each other in terms of the quality of the item and service. It is a star rating system that also allows both parties to leave comments.

The Volte claims to investigate borrowers and lenders who receive a poor review. It has a 24/7 customer service team to assist both parties and help mediate in a dispute.

Lenders can purchase low-cost insurance for loss of items for up to $500 or half the recommended retail price (whichever is lower). To access the insurance, lenders must list the garment with an accurate and verifiable recommended retail price and comply with the terms of service.

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

### AT A GLANCE

- Australians spent a total of $20.4 billion on clothes in 2016, according to ASIC's MoneySmart.
- The share economy in Australia is estimated to be worth over $15.1 billion.
- Investment pieces listed for rent on The Volte range in price from $20 to $2000 per hire
- The Volte has 100,000 active users per month and close to 15,000 listings.
- Competitors include GlamCorner (glamcorner.com.au) while Rent the Runway (renttherunway.com) is a significant platform in the US.

# Avoid another DIY disaster

STORY DARREN SNYDER

Planning your reno properly will add value long term

Whether your home renovation is two, six or 18 months away, the lead-up can be more nerve-racking than the build. But it doesn't have to be this way – there's an abundance of renovation experts, self-help books and online guides to help you plan and manage any project.

Done properly, renovations will be challenging but can provide homeowners and property investors with higher yields and more growth and profit potential, which in the longer term means increased wealth, says author and buyer advocate Andrew Crossley in his recent book *Commercial Property and Residential Development Made Simple*.

"The first message is to dig deep. Get real about your goals," says Crossley. "Ask yourself what you are trying to achieve in doing the reno in the first instance."

Online property design and research platform Houzz says its 2019 survey of more than 8800 Aussie homeowners shows the top reason for renovating is to stay in the current home or area, outranking those seeking a return on investment.

Staying in the current home is the biggest decision driver for baby boomers and generation X (ages 40-54), whereas millennials (25-39) choose to stay and renovate because it is more affordable than moving.

"If you were to sell your home and buy elsewhere, the buying and selling costs alone can equate to $100,000," says Crossley. "So redirecting and and putting this money into your current place of residence, or the house you have just purchased, can be very worthwhile."

He adds that if you plan to stay in your home for the long term (at least seven to 10 years post reno) then you will most likely see a return on your financial investment.

## Where to begin

Your budget is critical, yet most people begin planning a renovation without a proper budget – or they significantly underplay their budget and are soon exceeding it.

Tony Been, managing director at Houzz Australia, says the group's survey shows generation X and millennials point to budgeting as the biggest renovation challenge outside the funding of their projects.

In their recent book, *Nail Your Renovation Without Getting Screwed*, experts Steve and Suzanne Burke write that many people "simply have no clue how much a home renovation project would or should cost".

It's why the couple believes the first step in planning a renovation is to hire a designer. Then you should work with a builder who specialises in renovations to provide a fixed cost for the entire project.

"A well-planned building project should be fully costed in advance," say the Burkes. "The true cost of each project may include items that are not apparent at the outset. This can include items such as renting (living somewhere else during the reno), storage, painting, landscaping, air-conditioning, carpet and security."

Ninety per cent of homeowners hired a professional in 2018, with electricians, plumbers and carpenters in greatest demand, according to the Houzz study.

## What does it cost?

Houzz's Been says historically homeowners have mostly relied on cash and savings to fund their renovations and it's pleasing because they're at least waiting until they have the financial means to begin (see fact file). Millennials have the highest reliance on credit cards, but cash remains their core funding source for renovations, he adds.

What's interesting, though, is that it appears renovators haven't flooded to the new financing options available, such as peer-to-peer lending. Been says it indicates renovators have a more conservative risk profile, but there is definitely an opportunity for financial services providers to educate homeowners more broadly.

The median spend on a renovation in 2018 was $20,000 with gen X spending slightly more at about $23,000, according to Houzz. Spending in the top 10% reached $180,000. Kitchens were the most popular project last year, also with a median spend of $20,000, closely followed by

### FACT FILE

Aussie renovators predominantly used cash/savings for their renovations in 2018 (76%), followed by credit card (19%), mortgage refinance (13%), cash from a previous sale (10%) and gift/ inheritance (6%).

Source: Houzz & Home survey, August 2019

CASE STUDY

### Hard work pays off in a 'barnyard blitz'

***The Barn*** *(Heathcote, Victoria)*

In 2016, Jacob and Brad travelled from their St Kilda East rental to see a 2.5-hectare property with nothing but a barn on it. They were looking for a place with potential rental income and within a couple of hours' drive from Melbourne.

The barn had four walls and a roof, and its floor was a patch of dirt. It had a mezzanine in place, but it was untouched; and there was exposed insulation. It was generally unfit for human habitation. The asking price was $220,000.

Jacob and Brad had some funds, but even if they managed to get a hold of the place, more money would be needed for a "barnyard blitz".

Getting a loan was always going to be a challenge. Jacob owned a cafe in North Melbourne. Self-employment was a first strike on his application, even though his income was steady. Brad had a stable role as a designer in the fashion industry.

They consulted Jacob's mum, who agreed to go guarantor. But they hit a roadblock four days out from settlement. At the time, some banks were tightening their lending for suburbs identified as risky. Unsurprisingly, a block with an uninhabitable barn didn't fill the folks at the bank with calm confidence.

An approved loan would be limited to 70% of the property's value, meaning the couple needed a 30% deposit even though their parents had offered to go guarantor.

With the help of family they found the funds, but it came down to the wire. After doing the sums, they would be in a position to pay back their parents within five years while also managing the mortgage.

Jacob and Brad secured the barn in November 2016, and then the renovation planning started.

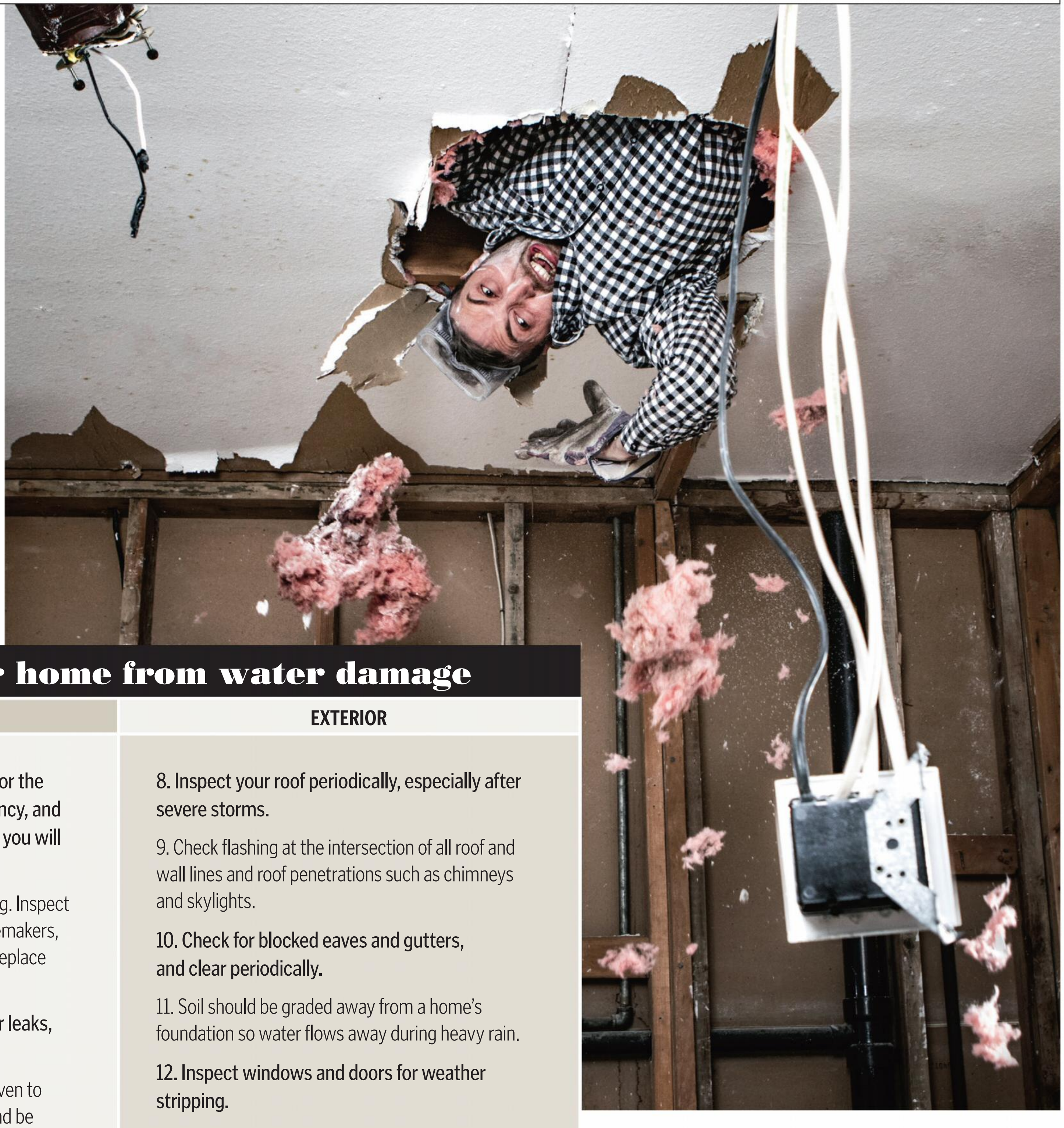
Thankfully, Jacob had a builder brother who was generous with advice. He recalls that painting the place took four days and a hard-working spray gun. He had to go to Bendigo three times to buy more paint.

The couple spent a bit under $50,000 on the renovation. For a total of $270,000 they had refitted a barn that sleeps four on a rural property ripe for rental.

All that spending meant a listing on Airbnb was a necessity – to at least recover some of the costs. Bookings came often and soon the couple became Airbnb "superhosts". Now they have plans for a container studio at the back near the budding orchard. In another spot they plan to build a two-bedroom A-frame home. A cedar sauna, landscaped garden and outdoor entertaining area are also planned.

Their biggest tip is to make sure you can fund mortgage repayments before starting to generate cash flow for renovation.

Source: *Smashed Avocado: How I Cracked the Property Market and You Can Too by Nicole Haddow*



**Australian homeowners have paid $10.5 billion to cover building defects in the past decade**

## Protect your home from water damage

| INTERIOR | EXTERIOR |
|---|---|
| **1. Know where your shut-off valves are for the main water supply in case of an emergency, and consider shutting off the water supply if you will be away from home for a week or more.** | **8. Inspect your roof periodically, especially after severe storms.** |
| 2. Flexi hoses pose a serious risk of bursting. Inspect appliances that use flexi hoses, such as icemakers, washing machines and dishwashers, and replace the flexi hose every 10 years. | 9. Check flashing at the intersection of all roof and wall lines and roof penetrations such as chimneys and skylights. |
| **3. Inspect your water and waste lines for leaks, damage or corrosion.** | **10. Check for blocked eaves and gutters, and clear periodically.** |
| 4. Hot water systems have a lifespan of seven to 10 years, so keep an eye out for puddles and be ready to replace the system. | 11. Soil should be graded away from a home's foundation so water flows away during heavy rain. |
| **5. Check air-conditioning units and keep drip trays clean and drain lines unobstructed.** | **12. Inspect windows and doors for weather stripping.** |
| 6. Ensure the watertight seal in baths and shower recesses is maintained. | 13. Check exterior paint for peeling and cracking. |
| **7. Periodically check your home's foundation walls and floors for cracks that might allow water seepage, and check for poor soil drainage.** | **14. Inspect balconies and terraces to ensure drains are free of debris and there are no signs of water leakage into the home.** |
| | 15. Regularly remove leaves and other debris from exterior drains to prevent water backing up and coming into the home. |

Source: Chubb Insurance

living rooms and then bedrooms, bathrooms and laundries.

Tim Gauci, commercial director at Design +Diplomacy in Melbourne, tells Nicole Haddow in her book *Smashed Avocado: How Cracked the Property Market and You Can Too* that fixing any waterproofing and replacing the shower and vanity shouldn't cost much more than $1500-$2000. A new toilet will set you back $450.

In the kitchen, ideally you'll only need to replace the cabinet doors and benchtops. He replaces old bulbs with downlights, and if that's not an option he'll seek out feature pendant lights. "If we're lucky and the house is on a slab, we'll do polished concrete floors," says Gauci.

For painting interiors, keep it simple. He says an antique white is best. For the property's facade, select something that's contemporary and isn't polarising. You might choose a bold front door, but only if you're in a suburb where that's appealing. Finally, make sure the garden is tidy.

### Where it can go wrong

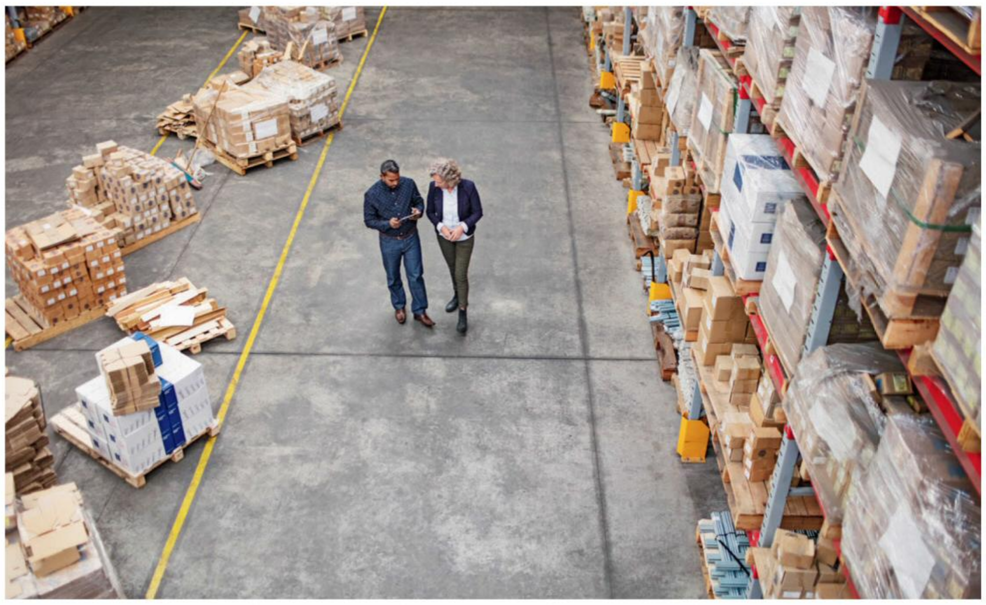
Mozo research tells us that Australian homeowners have paid $10.5 billion to cover building defects in the past decade. We paid $6434 for the average apartment defect and $5839 if something went wrong in your house.

Internal water leaks, cracking to internal or external structures, water penetration from the outside, guttering faults, tiling problems and defective plumbing were the most common problems among homeowners, the 2019 Mozo study says. Repairs for these issues can take months as well as create a budget blowout, so it's important to take preventative steps (see table) and hire professionals.

A separate report from Chubb Insurance confirms that reports of internal water leaks are on the rise and are potentially costing Aussie homeowners thousands. The insurer estimates the average claim from water damage has increased 72% in the past five years – from $17,627 in 2014 to $30,361 in 2018. **M**

# New 'sheds' deliver the goods

## Online shopping a windfall for investors in industrial assets such as warehouses



Industrial property is hot, providing a bonanza for some investors in the sector. It's not traditional sheds that's driving the sector, but huge, sleek and super-efficient logistic centres and warehouses.

We may no longer manufacture much in this country, but we have embraced online shopping with enthusiasm, sparking demand for facilities such as Amazon's 43,000sqm centre at Moorebank, Sydney.

"The industrial market is booming – it is arguably the best-performing property sector currently," says the winter 2019 Australian Industrial Report from m3property Insight.

"Nationally over the past year prime net face rents [before any incentives] increased 3.8%, land values rose by a whopping 21.6% and prime yields firmed by 26 basis points to a new record low."

Industrial property returned a total of 13% in the year to June 2019, topping the sector table, according to research from MSCI, which provides indexes, and the Australian Property Council. Healthcare came second, with a total return of 12.8%, and the office sector came in third at 11.6%. The retail sector bombed with a total return of only 3.7%.

With most modern industrial assets well out of the reach of individual investors, the easiest way to share in the industrial property boom is to buy units in an Australian real estate investment trust (A-REITs) that invests in industrial assets.

Goodman Group (ASX: GMG), one of the biggest owners of industrial warehouse and logistics assets in the world, was the second best performing A-REIT on the ASX last financial year, chalking up a total return of 59.9%.

Charter Hall Group (CHC), which has a lot of industrial assets as well as office and retail, topped the table with a total return of 72.4% for the 2018-19 year.

Goodman has total assets of $46.2 billion under management in 17 countries including Australia, the US, the UK, Japan and China. It is one of the largest landlords around the world for Amazon, which is its biggest customer by net income. In Australia, Amazon leases its huge Moorebank facility from Goodman.

The logistics giant predicts the good times will continue to roll, with chief executive Greg Goodman forecasting a rise in earnings of about 10.4% for 2019-20, following an 11.4% rise in 2019.

"Customer demand is outstripping supply for urban logistics globally as our customers continue to invest in the efficiency of their supply chains," he says. "This is leading to consistently high occupancy, steady growth in rents and an increase in development work in progress."

The rise of the industrial sector, in particular logistics, is also pushing other A-REITs, including GPT, Dexus, Stockland and Mirvac, to increase their weightings to this sector.

Another listed option is the Centuria Industrial REIT (CIP), which labels itself as Australia's largest domestic pure play industrial REIT.

It aims to deliver income and capital growth to investors from a $1.2 billion portfolio of quality Australian industrial assets.

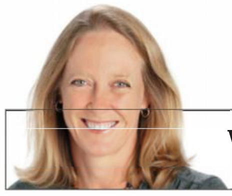
Investors in Centuria enjoyed a 12-month total return of 27% in the 2018-19 compared with 19.4% from the S&P/ASX 300 A-REIT Accumulation Index. The distribution yield was 5.5% and is forecast to be about 6% next year.

The APN Industria REIT (ADI) owns interests in industrial (52% of portfolio) and office (48%) assets that provide functional and affordable workspaces for businesses. Industria's $739 million portfolio of 28 properties located across the major cities aims to provide sustainable income and capital growth for unit holders over the long term. Funds from operations increased in 2018-19 by 5% to $31.6 million though net profit fell due to non-cash value adjustments. The REIT paid distributions of 17 cents a security, up 3% from last year. It has forecast a 3% lift in its distributions in the coming year, underpinned by fixed annual rent increases across most of its portfolio.

Apart from investing through the ASX, retail investors can choose an unlisted fund such as the Charter Hall Direct Industrial Fund No.4, which holds quality industrial properties in Australian industrial precincts, with an emphasis on those positioned near major transport infrastructure. With a portfolio valued at $375 million, it has returned 11% a year since inception in 2016 and pays an income yield of 6.2%. The minimum investment is $20,000.

Details of any new unlisted industrial funds can generally be found on the Core Property Research website (coreprop.com.au). Core also provides an analyst report of new funds to help investors make informed choices.

*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.*



WHAT IF? Annette Sampson

# Our property market takes off again

The economic experts would like to see us spend more on consumer items, not houses

### HAPPY DAYS (FOR OWNERS)

There are already signs of a recovery. House prices rose nationally by 0.8% in August, according to the researcher CoreLogic. In Sydney, Melbourne and Hobart it was the third successive month of price increases, and the second month in Brisbane. Nationally, prices rose by 0.6% over the quarter with Sydney leading the charge with an increase of 1.9%.

Of course, these are baby steps and there is still some way to go before prices get back to their previous highs. Over the 12 months to August, CoreLogic says prices are still down by 5.2% nationally and more than 6% in Sydney and Melbourne.

But with auction clearance rates up, albeit on low volumes over winter, many are predicting the bad times are over.

### LOW INTEREST RATES

At least part of the turnaround is being attributed to the latest Reserve Bank cuts, which have taken the official interest rate to a record low of 1%. This has translated into variable mortgage rates of 3%-4% which, coupled with lower house prices, has boosted home affordability. Some fixed rates have fallen even lower.

Most economists are still predicting further rate cuts, with the Reserve Bank governor, Philip Lowe, saying it is possible rates could even hit zero – though he did add that is unlikely. However, many are expecting another cut as early as October or November.

The re-election of the Coalition government, which nixed Labor's proposed new limits on negative gearing, has also helped boost confidence in housing investment.

However, as Lowe has pointed out, cutting interest rates and pushing up asset prices risks creating problems further down the track. Put simply, the Reserve Bank would prefer that we went out and spent the money saved by interest rate cuts on consumables, which would stimulate the economy, rather than rushing into another housing boom.

### THE ECONOMY IS KEY

Any way you measure it, Australia's economy is looking sluggish and vulnerable to international events. The Reserve Bank is sufficiently concerned to have indicated it is prepared to use unconventional measures such as quantitative easing (basically pumping new money into the economy) if it needs to resort to such measures to prevent a recession.

But it doesn't want to trigger a bubble in asset prices that will eventually burst and cause even bigger problems.

Interest rate cuts, so far, have done little to encourage consumers to spend more or businesses to invest more. But they have forced investors to look beyond interest-based investments for better returns in riskier assets like shares and property and given homebuyers new reason to get into the market.

At this stage, the rebound in property prices is not a concern. Rises have been modest and bank lending standards are still tighter than they were in the boom. Talk of a weak economy is also likely to curb excessive enthusiasm.

Shane Oliver, chief economist with AMP Capital, says if the economy slows enough to trigger rising unemployment, it could also put a brake on property prices or even force them back down. He says the RBA wants unemployment to fall to 4.5% or less, which suggests further rate cuts will happen regardless of the lift in property prices. He predicts moves in November and February to bring the official rate to 0.5%.

On the back of that, he expects Sydney and Melbourne prices to rise by around 5% next year, giving us a constrained recovery.

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

### DID YOU KNOW?

Darwin recorded the biggest falls from its peak with prices still down 30.7% in August, according to CoreLogic. It was followed by Perth (down 20.6%), Sydney (down 13.3%) and Melbourne (down 9.5%). Nationally, prices had fallen 7.6% with the smallest falls in Hobart and Canberra, which were both down less than 1%.

### BEST-CASE SCENARIO

Australia avoids a recession and economic growth strengthens. In the long run that's the most sustainable road to higher house prices.

### WORST-CASE SCENARIO

The risks are twofold. We want to avoid an economic slowdown that leads to job losses, forced sales and lower property prices. But we don't want prices – and debt – to get out of control, triggering a bust when interest rates eventually rise.

### THE WILD CARD

Can Australia avoid a recession? So much depends on international developments such as the US-China trade war and the fallout from Brexit.

# Survive the wild ride

STORY SUSAN HELY

In a slowing economy, low-volatility shares can appeal to the risk-averse investor

If you believe the best way to outperform the sharemarket is picking risky shares, then think again. There is a strong challenge to this approach. It is known as low-volatility or minimum-volatility investing. The idea is to target shares with the lowest up and down movements.

Often these are the more "boring" or dependable stocks. Typically, private stockbrokers or fund managers don't talk about them because they don't have a captivating blue-sky story.

Low-volatility shares are found among the defensive sectors of the sharemarket: real estate, healthcare, consumer staples, utilities and telecommunications, says Bruce Apted, head of portfolio management at State Street Global Advisors' Australian Active Quantitative Equities division. These stocks tend to be under-priced compared with glamour equities.

With the cash rate lagging inflation, investors are moving out of bonds and term deposits to more risky, volatile investments. But when the sharemarket crashes they need nerves of steel to avoid panicking and selling out. Low-volatility investments will fall less in a down market while still giving exposure to equities. The flipside is that they will rise less when the sharemarket is going up. The smaller drops and smaller rises go hand in hand.

"Companies that have historically had less price volatility are typically more stable businesses with more earnings certainty and have also tended to outperform during more volatile market conditions," says Apted.

If you believe we are facing a softer economy that could be leading to a recession and ultimately weak sharemarkets, low-volatility investments could be the right investment to soften the blows. They are particularly effective when the market falls. For investors who sell when the market goes down, the smaller falls could stop them from getting out at the wrong time.

However, low-volatility funds still do fall in plunging markets, so if you find the losses too stressful and can't stand to see any fall in value at all, they are not for you.

There are examples that low-volatility investments do what they promise. For example, when the sharemarket fell by 8% in December last year, Vanguard's Global Minimum Volatility Active exchange traded fund (ETF) fell by 5.3%. But when shares shot up by 7% in January, the ETF rebounded only 5.3%.

## Beware the "lottery effect"

Alla Kolganova, who heads Vanguard's quantitative equity group in Australia, says the fund aims to reduce volatility by 20% to 25%, but in the 12 months to August it managed a volatility discount of 36%.

Globally low-volatility companies perform better, according to evidence going back five decades to the 1970s. Less-volatile shares have posted higher returns across different time horizons, regions and market segments, according to Hamish Preston, associate director, global research and design, at S&P Dow Jones Indices.

"Investors overpay for glamorous companies that have unproven huge potential"

"As we have shown again and again, low-volatility indices have offered upside participation and downside protection, historically," says Preston.

From 1972 to 1990, the S&P 500 Low Volatility Index outperformed the US equity benchmark by around 0.8%. Since 1990, when the market has been largely going up, it has been ahead by 0.58%.

Low-volatility shares are typically unloved, says Apted. This is because investors typically favour shares with potentially high payoffs but with a low probability of returns, described by behavioural psychologists as the "lottery effect" because it is akin to winning the lottery – a very low chance of a windfall. "Investors over-pay for glamorous companies that have unproven huge potential," says Apted.

## Prices can be pushed up

But are low-volatility investments overpriced? Not surprisingly, when sharemarkets plunge dramatically, such as in the GFC and at the end of last year when the market dived 8%, investors ditched the "sexier" stocks and headed for the low-volatility ones.

This has seen the valuations of low-volatility strategies become more expensive, borne out by the higher price earnings of companies in the MSCI World Minimum Volatility Index. Apted says they have been pushed higher because stocks are viewed as bond proxies and are keenly sought by investors.

"The 30-plus-year decline in global interest rates has likely been a contributing factor in the outperformance of less-volatile stocks as they tend to have more bond-like characteristics with more certain cash flows, like the coupon on a bond, and may outperform when rates decline," he says.

As low-volatility shares become more expensive, they become more risky for investors.

While the lower-rate environment supports strategies that tilt towards low-volatility companies, conversely if rates were to increase then low-volatility securities could face headwinds, says Apted.

Then there is always the chance of an event that triggers low-volatility stocks to behave in a volatile manner, he adds.

For example, US healthcare stocks became much more volatile due to fears that the political landscape would change if the Democrats got into power and successfully got through the Medicare-for-all bill. "Potential policy changes caused heightened volatility," says Apted.

In Australia the banking sector has traditionally had lower volatility, but in the past 12 to 18 months bank stocks have increased in volatility because of the findings from the royal commission. Apted says the resources sector is usually regarded as more volatile, but in the past 12 months we have observed that some of the high-quality larger resource companies actually exhibit a decline in volatility. This is linked to the strong demand for commodities.

Apted says that if risk scares you, there are other strategies that can help. He likes to incorporate three other factors in the State Street Australian Equity Fund to minimise risk: value, which considers both cheap and expensive companies; the quality of their profitability and stability; and whether they have an improving outlook.

"Be thoughtful about how investments that reduce the risk have equity exposure. I would recommend a broader approach as much more robust."

While low-volatility funds suit investors who dislike instability, just how much money you should place in them depends on your overall asset allocation, says Kolganova. She says investing globally allows you to access a deeper market compared with just investing in Australia's low-volatility companies. "The Australian market isn't too diversified," she points out.

Low-volatility investing isn't new – it has been around for over 20 years. But the rollout of low-volatility funds is more recent, with offerings from Macquarie, AllianceBernstein Managed Volatility Equity Fund (minimum investment $50,000) and several exchange traded funds.

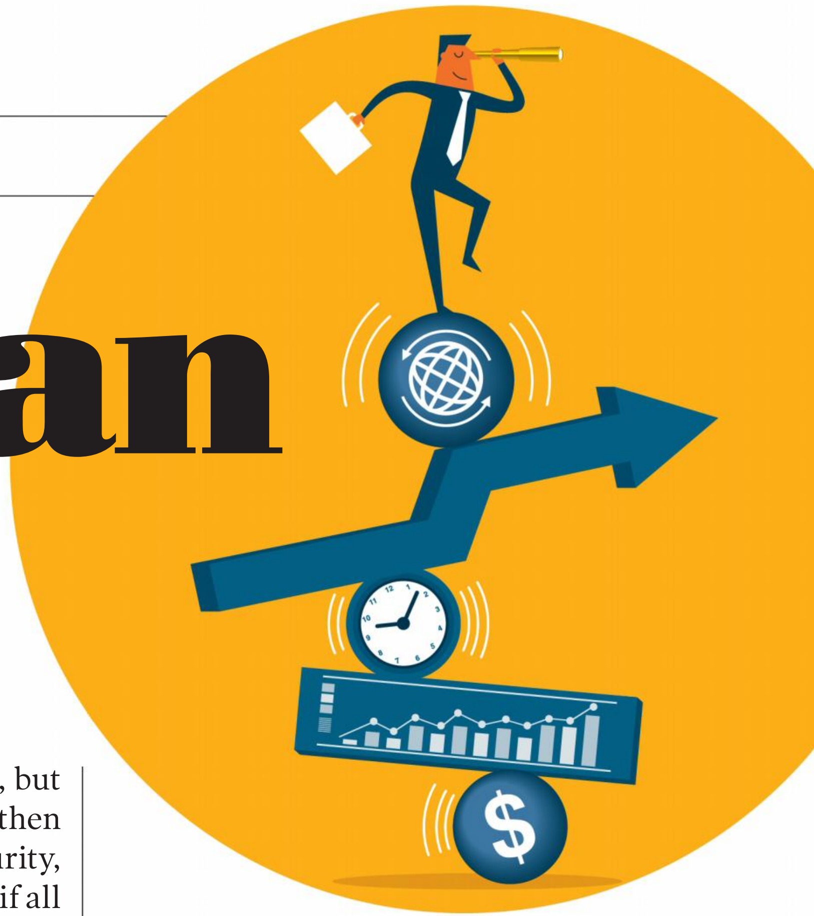
Rather than describe the funds as low volatility, they prefer the term minimum volatility, saying they aim to reduce volatility throughout the whole portfolio by not only picking low-volatility shares, but by also adding lower-correlation strategies with other shares. *M*

## ETFs to consider

- iShares Edge MSCI Australia Minimum Volatility exchange traded fund holds 115 companies that have lower volatility characteristics than the broader Australian equity market. It tracks the MSCI Australia IMI Select Minimum Volatility (AUD) Index with about 28% of the portfolio in financial companies, 13% each in real estate and materials, 11% in industrials, 8% in consumer discretionary, 7% in consumer staples and 6% each in healthcare and utilities.

- iShares Edge MSCI World Minimum Volatility ETF holds 489 stocks spread across financials (15.5%), consumer staples (13%), information technology (11%), materials (10%) and utilities and real estate (8% each). It tracks the MSCI World Minimum Volatility (AUD) Index and holds stocks in the US (58%), Japan (9%), Canada and Australia (7% each) and Switzerland and Hong Kong (3% each).

- Vanguard Global Minimum Volatility Active ETF (Managed Fund), which tracks the FTSE Global All Cap Index, holds around 200 international equities spread widely across major and emerging markets. It holds about 30% in financial companies, 15% in consumer services, 12% in industrials, 10% in consumer goods and 7% each in both utilities and healthcare. The top 10 countries are the US (51%), UK (9.5%), Canada (6%), Japan and Australia (around 4.5% each).



# Better than the bank

STORY PAM WALKLEY

Bond funds listed on the ASX can provide attractive returns with lower risk

Retirees and others living off their investments are having a tough time of it right now in our historically low interest rate world.

Most term deposits pay less than 2%, barely keeping pace with inflation, while many savings accounts now pay virtually no interest.

Much better returns are available from equities, but investors have to be prepared to live with volatility if they invest in this asset class.

And there's always a risk the sharemarket will fall off the cliff – not many retirees can afford to see 25%-30% of their capital wiped out, especially those with limited opportunities to rebuild it.

Regardless of your risk appetite, some of your assets should be in fixed income. And the good news is you can invest in this sector through the ASX, enjoying the convenience without taking equity risk.

These products – including exchange traded funds (ETFs), listed investment companies (LICs) and mFunds – may not produce the same level of income as some equities, but on the other hand they're more likely to let you sleep at night.

There's a variety of bond funds, some investing only in low-risk but low-return government bonds, some only in corporate bonds and others in a combination of the two. The best returns come from global bond funds, but these are more risky.

"When assessing the performance of bond funds, don't make the rookie error of just reviewing the running yield," says fixed income specialist Elizabeth Moran. (Running yield is the annual income divided by the current market value.)

"Many running yields are attractive, but if you are investing for the longer term then you will need to look at the yield to maturity, which is likely lower. This is the return if all the bonds are held until their maturity dates."

Here is a rundown of some ETFs to consider:

Cash ETFs investing in short-term bank accounts are among the least risky options, but the returns are far from exciting and may not even beat term deposits.

For example, the biggest cash ETF, **BetaShares Australian High Interest** (ASX: AAA), which pays monthly income, returned only 1.92% in the year to July 2019 and 2.28%pa over five years.

**iShares Enhanced Cash (ISEC)** had the best one-year return of 2.07% to July 2019. The advantage of these funds over term deposits is that they present less hassle – you don't have to roll over regularly and there is no minimum investment. But you do have to take into account brokerage fees.

Government bond fund ETFs invest in state and federal government bonds and generally provide income returns above those paid by term deposits.

The **Vanguard Australian Government Bond Index fund** (VGB) invests in high-quality, income-generating securities – predominantly those rated AA or higher – issued by Australian governments and treasury corporations.

It pays dividends quarterly and returned 10.99% over the year to July 2019 (distribution return 2.24%) and 5.17%pa for five years (2.66% distribution returns). The running yield is 3.3%, but the yield to maturity is a more modest 1.17%.

Corporate bond funds invest in bonds issued by major companies. The **BetaShares Investment Grade Corporate Bond ETF** (CRED) provides monthly income from senior fixed-rate, investment-grade securities issued by companies listed on the ASX or other eligible entities.

It holds up to 35 bonds and has produced a one-year return of 14.98% to August 2019, including a 3.6% distribution yield. It has a running yield of 3.65% and a yield to maturity of 2.41%.

Another ETF giving investors access to a portfolio of Australian corporate bonds paying quarterly distributions is **VanEck Vectors Australian Corporate Bond Plus** (PLUS).

Holding mainly the highest-yielding Australian investment grade corporate bonds, it returned 10.77% in the year to July 2019, including 3.73% income. Ironically, its biggest investment is in bank-issued bonds, at 31.5%, but its returns are superior to putting your money in bank term deposits. The running yield is 3.65% and yield to maturity 1.94%.

Global fixed income bonds provide the highest income returns, but they are also the riskiest.

The **iShares Global High Yield Bond ETF** (IHHY) holds a portfolio of fixed-rate, high-yield corporate bonds (hedged to Australian dollars) across global developed markets.

It pays dividends three times a year and returned a total of 6.21% in the year to July, including an income yield of 4.77%. It has a running yield of 5.14% and a yield to maturity of 4.74%.

There are a number of LICs to consider, including the **Perpetual Credit Income Trust** (PCI), launched this year, which aims to hold 50 to 100 issues with an overall target return of the Reserve Bank cash rate plus 3.25% after fees.

The **Metric Credit Partners MCP Master Income Trust** (MXT) holds a portfolio of directly originated corporate loans with a target return of the RBA cash rate plus 3.25%. Paying monthly dividends, it distributed a total of 5.92% in the year to July.

The **Gryphon Capital Income Trust** (GCI) invests in Australian-issued, asset-backed securities and targets the RBA cash rate plus 3.5%. It also pays monthly dividends – 5.10% in the year to July 2019. M

# Should the whole family be included in an SMSF?

## YES

**STEPHEN BOURKE**
principal,
supersplitting.com.au

The main advantage to including your children in a self-managed superannuation fund (SMSF) is that it can be a focal point for planning.

Your SMSF is, of course, subject to the limitation that there be fewer than five members. The transition of intergenerational wealth needs to be carefully planned.

Involving your children in your SMSF will give them an understanding of trusteeship and fiduciary responsibilities.

As you age your children may well become your financial managers and the earlier they are involved in the SMSF the stronger the family relationships and the better the understanding they have of financial matters.

The other advantage is that your children gain important skills in financial goal setting for themselves. It involves them in a meaningful way in the financial side of family life and they gain important financial skills.

But like all good things, there are the risks to manage, being the four "D's": death, disability, deceit and divorce.

- Death, the second of the two certainties in life, requires that the SMSF be an integral part of your estate plan. You won't be there to manage it, but your children will.
- Disability, including the onset of loss of cognition, requires a financial manager and the earlier your children are involved the better.
- Deceit can be problematic. There are unfortunate examples of children wanting to access the inheritance early. But involving them in the SMSF forges stronger family relationships and minimises this risk.
- Divorce can be, but doesn't have to be, messy. It is important to recognise that the division of investment property in an SMSF following divorce is a trustee decision.

The best insurance against things going awry in any family is the strength of the relationships. Involving your children in the self-managed fund shows you trust them and provides the opportunity for them to become involved in the financial side of family life.

## NO

**ANDREW YEE**
director, superannuation,
HLB Mann Judd

The most common membership of an SMSF is two people, generally mum and dad. Increasingly they want their children to become members too. But is this the best outcome for all parties?

Parents and their children are at different stages in life and therefore have different investment horizons and different requirements from super. Mum and dad could be retired or planning for retirement, whereas their children may be just entering the workforce or still studying. Therefore their investment risk profiles would generally be different. They will need separate strategies and this would complicate the administration and type of investments.

Further, what if mum and dad are in pension phase and drawing on their benefits, yet the children are in accumulation phase and still contributing? The fund's income would then be partly tax free. Not only will this complicate the administration, but the older members will "lose" the tax benefits of refundable imputation credits, as these credits would be applied to the tax payable of the younger members.

All members are responsible for administration and compliance. Do young people have the time, or want the responsibility of being a trustee of a fund in which their parents will have the bulk of the benefits?

Young people have a propensity to travel and live overseas for extended periods and this may cause problems, as the central management and control of the trustees is not mainly based in Australia. A worst-case scenario is that the SMSF will be deemed non-complying and lose half of its assets in penalties.

Then there's risk of relationship breakdown and divorce. In this situation, the assets of the family SMSF will exposed to the Family Court. It's not a palatable situation for everybody.

Many mums and dads have a romantic notion of looking after their kids by having them in their SMSF. However, the downsides need to be considered, as they may cause a negative outcome for the SMSF in the long term.

### WHAT YOU NEED TO KNOW

You can have up to four members in a self-managed super fund (SMSF). At June 30, 2018 there were around 600,000 SMSFs in Australia with 1.1 million members. The average balance was $1.2 million.

STORY ALEXANDRA CAIN

# Six stocks to watch

Investors who do their research can be rewarded by identifying underappreciated companies in a volatile market

Global economic uncertainty as a result of the trade war between the US and China, as well as the slowdown in Chinese economic growth, is weighing on ASX shares, especially those with exposure to international markets.

Investors, however, continue to reward stocks with the potential to deliver growth, although signs of fatigue are emerging.

High-yielding stocks still look attractive in an extended period of low rates, subdued inflation and diminished returns. But investors should be conscious of the potential for dividend disappointment in the current market.

Here we feature six shares that could be considered undervalued in the present climate.

## Amcor (ASX: AMC): acquisition not fully appreciated

Home-grown packaging business Amcor recently acquired US plastic packaging company Bemis. As part of that transaction, Amcor moved its primary listing to the US.

"The Bemis acquisition will strengthen Amcor's business as the combined company has better reach, technology and penetration into the US packaging market," says ST Wong, chief investment officer of high-conviction investment manager Prime Value Asset Management.

Wong notes Amcor is already starting to enjoy synergies from the acquisition. "Amcor's management issued a statement in August that its FY20 earnings per share would grow by 5%-10%, alongside a $US500 million [$733 million] share buyback. As a result, this year we believe Amcor's underlying business should grow 3%-4%. Adding in the expected synergies from the Bemis acquisition, a dividend yield of approximately 4% and Amcor's share buyback, it's not unreasonable to expect a return of 10%-15%. We believe it's an attractive return profile for a well-managed company with sustainable earnings."

According to Wong, the recent underperformance of Amcor's share price could be due to the transition of its listing to the US market and investor scepticism towards the Bemis acquisition.

"We believe these concerns will fade over time. We view management as disciplined and extremely competent. As evidence of the benefits from the Bemis acquisition surface, we expect Amcor's share price to react positively."

## Bigtincan (BTH): an underperformer in a strong sub-sector

The Australian small cap technology sector has produced some solid returns for investors with favourites such as Altium, Nearmap,

Pro Medicus and WiseTech now trading on large enterprise value to sales multiples.

Andy Gracey, Australian Ethical Investment portfolio manager, says Bigtincan is one undervalued stock in this sector. The cloud-based software-as-a service company sells sales-enablement software.

"Sales enablement is a new class of software which arms salespeople in large enterprises with the most up-to-date and relevant sales and learning content while scientifically recording interactions between sales reps and sales prospects," explains Gracey.

"We like how Bigtincan has largely built its $23.4 million annualised recurring revenue business organically in the growing $5 billion US sales-enablement market and how it's positioned as a genuine productivity tool."

Bigtincan is targeting 30%-40% organic growth in 2020.

## Champion Iron (CIA): attractive even at a lower iron ore price

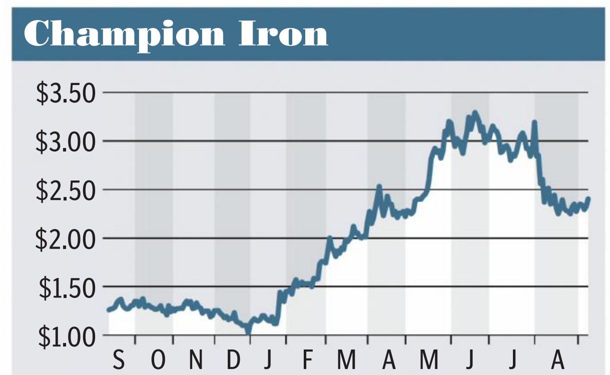
Champion is a budding producer of high-grade iron ore with deposits in Quebec, Canada. In the short term, the share price could suffer from the drop in iron ore prices, post the Vale mining supply shock. Vale is the world's largest iron ore producer. Earlier this year one of its tailings dams collapsed in Brazil, killing almost 250 people.

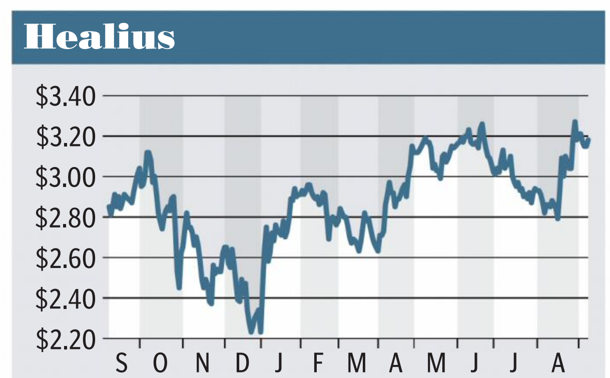
But, says Eleanor Creagh, Australia market strategist with Saxo Capital Markets, the company has good long-term growth and expansion potential and its share price may be considered undervalued even at a much lower iron ore spot price.

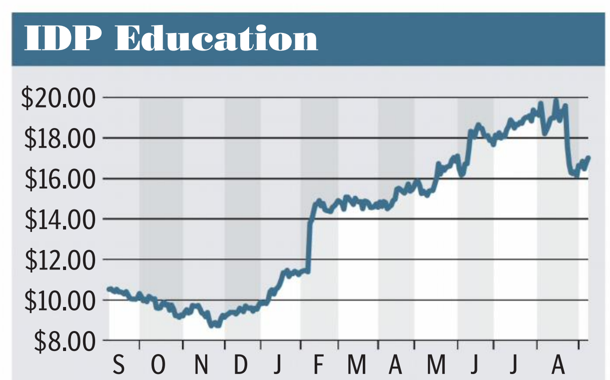
"High-grade iron ores will continue to attract price premiums due to structural changes in the industry," she says. "With Champion on track to double production at Bloom Lake, and given it is under quality operational management with return on capital above the industry average, it should not be long before there is upwards momentum in Champion's share price."

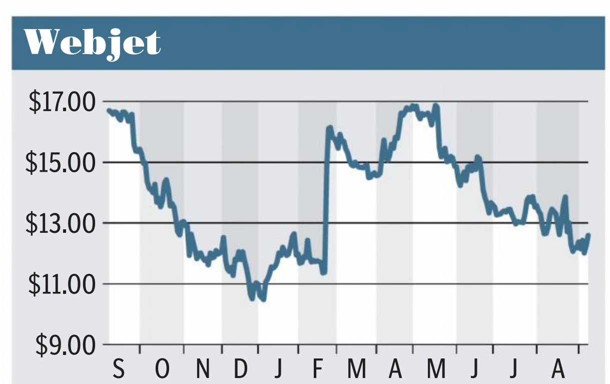
"Despite the cyclical nature of the industry, Champion is growing earnings at a significant pace and its ongoing expansion is yet to be factored into the share price, making Cham-





> The balance sheet has been reset and management has a credible plan to turn the business around

pion Iron an attractive long-term investment as part of a diversified portfolio."

### Healius (HLS): recovering from recent issues and a potential acquisition target

Leading local healthcare company Healius, formerly Primary Health Care, is a stock that is now on investors' radars following a period of underperformance.

"In its life as a listed entity, the company has had a range of issues that have detracted from its appeal to investors," says Mike Murray, portfolio analyst at Australian Ethical Investment. These include concerns over how its medical centre businesses were treated in company accounts, high levels of debt and turnover in its senior management ranks.

"At the same time, earnings performance has been lacklustre in recent years, with declining margins in its core diagnostic and medical centre businesses."

Several of these factors may be bottoming out, says Murray, making Healius an interesting stock to watch. "Accounting policies have been cleaned up, the balance sheet has been reset and management has a credible plan to turn the business around."

At a broader level, the company has an appealing strategic footprint, which may make it attractive to potential corporate acquirers.

"Due to historic issues with the business, the company is trading at a lower multiple than some of the higher-rated healthcare companies, which suggests significant upside if management can execute its vision for the company," says Murray.

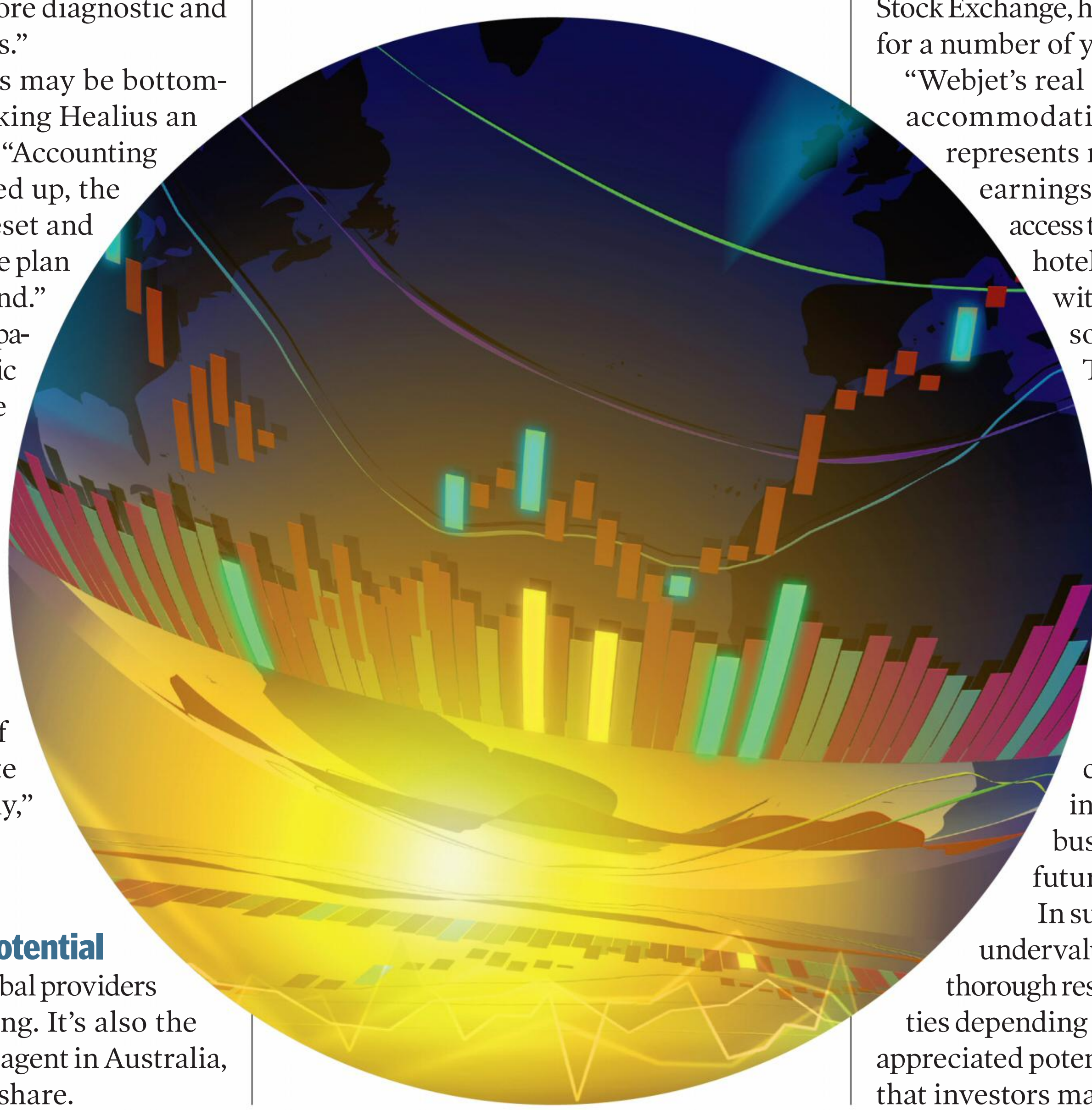
### IDP Education (IEL): international growth potential

IDP is one of the largest global providers of English language testing. It's also the largest student placement agent in Australia, with around 23% market share.

David Leslie, a senior financial planner with stockbroking and wealth management firm Morgans, says his team's research shows IDP Education's financial metrics are hard to fault with a 45% return on equity, 100% cash conversion and 20% EBITDA growth.

"The company is pursuing a multi-year digitisation strategy with its online platform launched in March 2019. It has significantly expanded operations and benefits from increased demand from Asia," says Leslie.

Catalysts for growth include the continued rollout of the digital platform, which has resulted in a 33% rise in student placement volumes compared with last year, higher exposure to the Indian market, continued investment in product innovation and strong growth forecasts from this year's UK and Canadian student intake.



### Webjet (WEB): the market has over-reacted to recent disappointments

A market leader, Webjet is known for its website, webjet.com.au, which is popular for flight bookings. It has benefited from many years of travel bookings going online.

That growth is still coming through, but it's less pronounced as this trend is maturing, says Richard Ivers, portfolio manager at Prime Value Asset Management. "We are seeing this trend across many similar businesses such as carsales.com.au, realestate.com.au and seek.com.au. Although their growth rates are slowing, they are still good businesses."

"We believe the stock is undervalued as the market has over-reacted to its UK exposure, particularly Thomas Cook, which is a small part of the business," he says. The UK-based travel agent, which is listed on the London Stock Exchange, has been an under-performer for a number of years.

"Webjet's real growth driver is its global accommodation business, which now represents more than half the group's earnings," says Ivers. "It has direct access to inventory from 30,000-plus hotels around the world, along with more than 220,000 hotels sourced from third parties. These are sold on to Webjet's partners, including online travel agents, retail travel agents and wholesalers. This business-to-business accommodation offering is growing earnings at more than 20% a year."

Webjet's trading update in August showed strong growth in the current financial year, including acceleration in its domestic webjet.com.au business. This should support future share price growth.

In summary, there are plenty of undervalued shares. The idea is to do thorough research to identify opportunities depending on the market cycle, underappreciated potential and emerging markets that investors may not fully appreciate. M



# Welcome to the new reality: penniless at 100

$1 million sounds like a lot, but future retirees who think they won't need to worry about money could be in for a shock

With interest rates going ever lower, let's consider what retirement might look like in the not-too-distant future. In this example, our baseline retirees are an 80-year-old couple with $1 million to live off in a mortgage-free house in a zero-tax environment.

They hold the classic Australian equities portfolio that averages out to a yield of about 4.5%, with average market franking (about 72%) taking it up to 5.89%. They have mostly banks, Telstra and hybrids. They hope the bank sector will recover and they will "be all right in the end".

They have instructed all the companies they own to pay dividends into a specific bank account, which collects about $45,000 a year plus an annual tax cheque for somewhere between $10,000 to $15,000 depending on the franking. They also live off that bank account.

For this couple, there are several issues they probably share with a lot of retiree income investors:

Their focus is on the bank account. This determines whether they feel poor or rich. They have lost sight of their "capital" and whether it's going up or down. The income from their shares dominates their mood because that's what they live on, and their sole focus is that the income doesn't go down.

They have to budget for the months when no dividends come in. Stocks pay only twice a year. Thankfully, CBA and Telstra dividends are three months out of sync with ANZ, Westpac and NAB, so they get income every three months.

But still it's not regular income – dividend cheques arrive in lumps, which means they are sometimes hanging out for dividends to arrive before they can pay some annual bills. Because the franking can take up to 18 months to arrive, the couple only really budget to live off the dividends as they are paid. Once franking arrives in a big tax office cheque, the couple use it to cover one-off items like holidays, cars and the bathroom renovation. They thank the Lord daily that Bill Shorten didn't get in.

They don't enjoy worrying about the equity market – it's more stress than pleasure, especially when they are not experienced, confident or IT savvy and are losing their marbles. They don't want to pick stocks and trade. But they are still exposed to it, so they sit and hope.

They are vulnerable and worried about the younger generation cocking it all up. They can't afford another once-in-a-lifetime stockmarket event like the GFC. If it happens again they don't have a fallback and can't afford to have the equity market fall, not on $45,000 a year, but still they remain exposed because of the dividends and that franking credit refund. In other words, they have to preserve capital, but they still have money at risk.

Inflation is the other issue. They know the Reserve Bank says it's less than 2% in the official figures, but the Australian Bureau of Statistics obviously doesn't eat anything, insure anything, pay utility bills, drink coffee or drive anywhere. And it obviously doesn't have to buy birthday presents for 20 grandchildren or be the bank of last resort for the financial failures of their kids.

The couple aren't big spenders, but on a bit more than $45,000 a year they are cutting into their capital and can afford less and less, not more and more.

All in all they feel poor, and with "real" inflation included, their standard of living is going backwards. After a lifetime of work, it seems unfair that being a millionaire means being poor.

OK, there are a few things going on here, a few assumptions being made that are incorrect. The most obvious one, which comes through to me every day, is the assumption that you will be able to live off the income you earn on your capital. Depending on just how wealthy you are, this is looking less and less likely every day.

Happiness is all about expectations. So if happiness in retirement is expectations met, then let's set some realistic, zero-interest-rate environment expectations. Unfortunately, that means setting low expectations – because the guaranteed way to be happy is to have low expectations.

So let's set some new ones. For example:

- Assume interest rates are going to zero. Philip Lowe, the RBA governor, is trying to prepare us for that.
- Assume that bonds and other risk-free investments will yield next to nothing.
- Assume that the banks are going to cut their dividends.
- Assume that the stockmarket is not safe.
- Assume your big house goes down in price while retiree "downsize" houses go

up in price. In other words, assume downsizing may not release anything.

If you see what's happening here, the dollar threshold at which you can consider yourself "wealthy" and able to retire is rapidly rising as interest rates and reliable income sources fall. Arguably there are going to be no risk-free returns before long, and that means you need a lot of capital because there is no income.

So what do you do then?

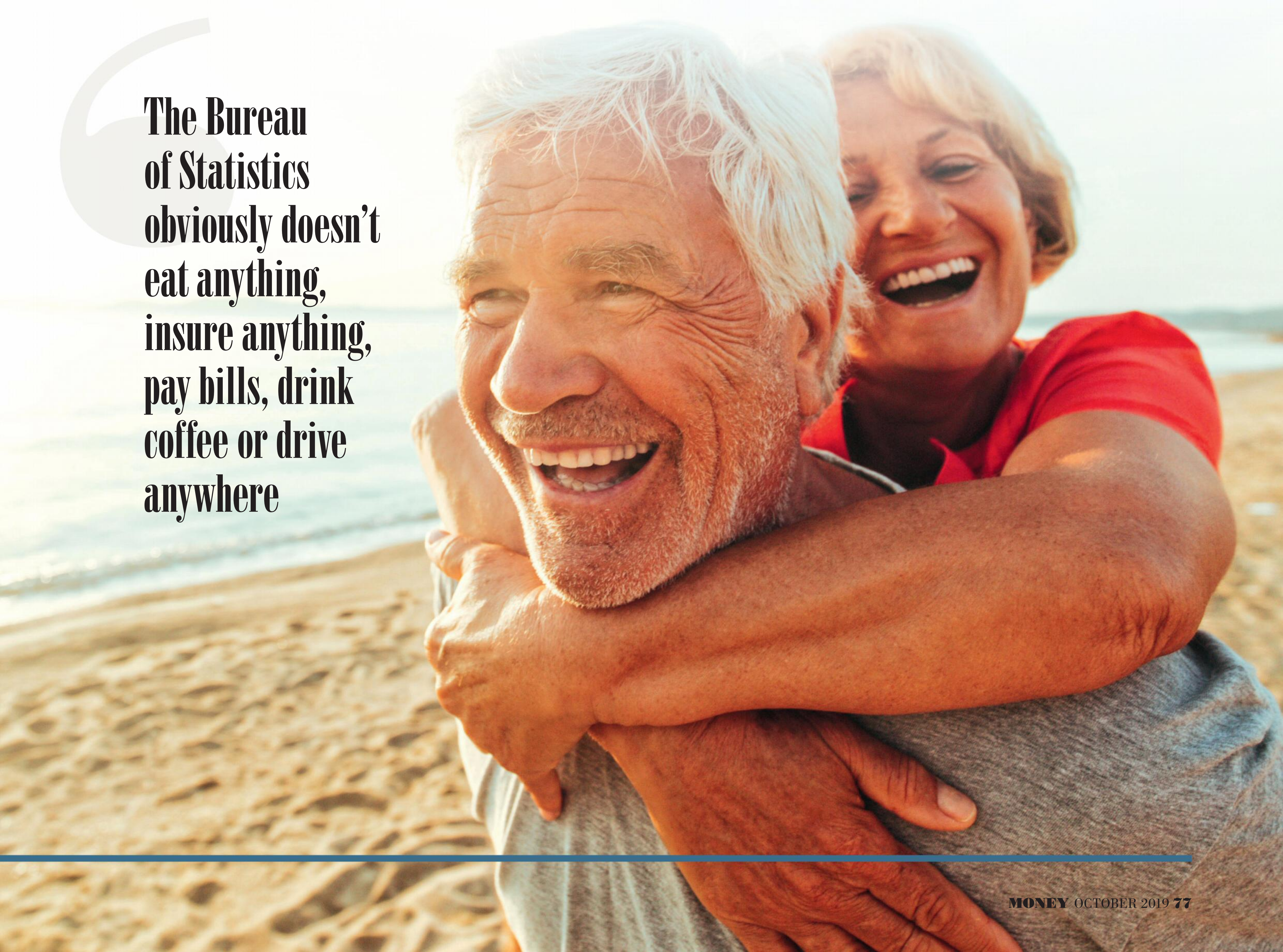
What needs to happen is the mindset of not just retirees but the whole financial advice industry needs to recognise a different formula that doesn't promise or expect historic income returns of 5% plus. If you're not going to take a risk, it's going to be a lot lower than that. The industry needs to stop promising it can deliver the old risk-free returns of 5%-10% and the client needs to stop expecting the old "risk-free return". The risk-free return is going to zero.

A recent article in *The Australian Financial Review* says "super fund communications, including retirement calculators, need to show the impact of potentially worse outcomes relative to the past. Consequently, more members will need to draw down their capital earlier."

The bottom line: I am trying to scare you into being realistic about future risk-free returns and prompting you into planning for that in your retirement calculations. It will hopefully be wrong, but it is now a more appropriate baseline assumption. The financial advice industry needs to take this on board as well and start putting together financial plans that include spending capital, because the income is almost certainly going to dwindle, possibly to zero.

I have a name for financial plans in the zero-interest-rate environment, one that encapsulates spending capital as well as earning income – they're called "Penniless at 100" plans.

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



**The Bureau of Statistics obviously doesn't eat anything, insure anything, pay bills, drink coffee or drive anywhere**



# Birth of a market darling

## The stunning rise of a speculative hot stock says a lot about the state of the market

STORY GREG HOFFMAN

In 2017, the focus of PPK Group (ASX:PPK) was on specialised equipment and services for underground coal mines. It had a number of blue-chip customers, including multinational conglomerate Glencore (the largest coal producer in NSW), the BHP Mitsubishi Alliance (Australia's largest coal producer) and Peabody Energy (the world's largest private coal producer).

But despite its star-studded client roster, it had been a tough few years for the industry, which had suffered a sharp downturn. PPK, a minnow dancing with elephants, reported hefty losses in the 2015 and 2016 financial years as a result.

The company's share price fell from 88 cents in January 2014 to 14 cents in 2017. At that price it was trading below its "book value", the total of everything the company owns (assets) less everything it owes (liabilities). Its book value was $16.3 million and the total value of the shares (or market capitalisation) was a few million dollars below that.

Pessimism reigned for the stock yet the company's 2017 annual report said that "there were clear indications of a sustained strengthening of the domestic coal sector, which will have positive repercussions on PPK's performance during the coming 12 months".

Then at its annual general meeting on November 20, management confirmed that revenue for July 2017 to October 2017 was 77% higher than for the same time the previous year.

A cheap share price and improving prospects sounded like a good combination to me, especially in a notoriously cyclical industry such as coal mining. Downturns can be savage yet this can lead to spectacular investment results when the cycle turns up again.

## KEY CLUE

There was another important clue that the cycle was turning. Directors Robin Levison (chairman) and Glenn Molloy had been repeatedly buying more shares throughout October. I love seeing multiple directors putting additional "skin in the game" and here was a case where the money flows were clearly matching the upbeat rhetoric.

PPK ticked a lot of boxes for me. It was a small company with real potential, committed directors, the likelihood of a cyclical upturn and a cheap valuation. The first point is an important one when I'm looking for stocks that could "multi bag" (rise by several hundred per cent). It's all but impossible for giants like Woolworths or Coles to triple or quadruple over four or five years, for instance. But the right smaller company can offer that potential.

My first purchase was on November 27, 2017, at 19.9 cents a share. And everything continued in a similar vein for most of 2018, with the business improving and directors buying more shares.

Then on November 9, 2018 PPK entered a trading halt for a few days to raise money for an acquisition. During that time, the chief executive of another small company that was also in a trading halt called me to ask whether I would invest more money into his company. While considering that potential investment, I contacted PPK to see if I might participate in its raising, too. The response was the total opposite to that of the first CEO. Effectively, I was told "don't call us, we'll call you".

It reminded me of the Groucho Marx quip that "I don't care to belong to any club that

used to seeing price/earnings ratios in the 10 to 25 range (the lower, the better), PPK's has been around 150. This prompted one wag on Twitter to remark that "anyone with a half decent business [should] float it on the ASX and sell to these [idiotic] buyers".

PPK's current price bears no obvious relation to its recent earnings or the assets stated in its accounts. It has gone from trading at a discount to its book value two years ago to now trading around nine times its most recent book value. To old-school value investors who want to see a stock cheap in relation to its recent numbers, PPK has become a head scratcher.

It's now behaving like one of the small group of hot stocks that have garnered so much media attention recently. These include WiseTech Global, Appen, Afterpay, Pro Medicus, Xero, Nearmap and even an old favourite of this column, Jumbo Interactive.

The potential for each of these businesses seems exciting, but history hints strongly that at least a few high-flyers will strike serious trouble at some stage – if not in their actual business operations, then with investors' sky-high expectations eventually proving too ambitious.

The tricky part with such stocks is balancing the exciting potential with the possibility of it ending up another flame-out on the boulevard of broken dreams. And that can happen quickly, as investors in high-flying tech stocks 20 years ago learned, and those invested in high-flying finance stocks learned a decade ago.

After each of these episodes, investors swore off "high potential" boom stocks. At least for a while. So it's a measure of where we are in the market cycle that they're back in favour today and investors are prepared to look past today's facts and figures and pay for an imagined glorious future.

Managing the risks against the potential rewards is the key to the game. Personally, this has meant selling most of the PPK shares in the family portfolios I manage as the stock has soared to more than 15 times our entry price. But not all of them.

Some of my value investing friends ridicule me for holding any of the stock at this price. But game-changing breakthroughs do occasionally happen and PPK might just have manoeuvred itself into one. The ride from here is likely to be dramatic, I'm just not sure in which direction.

will have me as a member". The first company was ringing around chasing investors while PPK seemed to have them knocking down its door. It was a positive sign. Yet what PPK did with the money it raised caught me off guard.

PPK acquired AIC Investment Corporation, a technology incubator and commercialisation company. AIC, in turn, owned 50% of BNNT Technology, a joint venture between AIC and Deakin University to commercialise Deakin's patented technology for manufacturing boron nitride nanotubes.

I had no idea what boron nitride nanotubes were at the time (and mostly still don't). But my research revealed that there are potentially many important applications for the technology in the aerospace, defence and other industries.

This deal radically changed investors' perceptions of PPK. Commercialising such technology is likely to present challenges, teething problems and perhaps large setbacks. But investors sent the stock soaring and directors kept buying at higher prices. They were clearly "true believers".

## VALUABLE INSIGHT

The share price recently hit $3.34 and PPK has been totally transformed from neglected "value" stock (one with a cheap valuation) to a full-blown speculative darling. And in this respect, it's a fascinating microcosm of today's sharemarket psychology.

PPK's net profit in the 2019 financial year was $1.8 million. Its valuation was around $270 million at recent share prices. For those

**After the tech wreck and GFC, investors swore off "high potential" boom stocks. But they're back in favour today.**

*Greg Hoffman is an independent financial educator, commentator and investor. He is also a non-executive director of Forager Funds Management (not involved in Forager's investment process).*

*Disclosure: Private portfolios managed by Greg Hoffman own shares in PPK.*



**SECTOR CONSTRUCTION**

# It's tough on the home front

## Conditions in residential building are likely to get worse before they get better

Between 2012 and 2016, mortgage lending standards were relaxed, fuelling a boom in domestic property investing. Together with a surge in offshore buying interest, the boom led to oversupply and frequent warnings from your columnist. The oversupply is now hitting the property market at the same time that bank lending standards have been tightened, property prices are falling, quality has been found wanting and building approvals have plunged.

While it's true that auction clearance rates are rising, the fact remains that the economy needs more residential construction, not the sale of established dwellings. More importantly, national new "for sale" listings for the 28 days ended September 1 were down 16.8%.

The sharp decline in building approvals will be followed by a sharp decline in construction activity as builders complete homes that were ordered a year or so ago. There is simply going to be a lot less new work, if approvals for future buildings are already a third lower than they were a year ago.

**Fletcher Building share price**


**Adelaide Brighton share price**


**CSR share price**


Because the residential construction industry employs 3.5% of Australia's workforce, the lower incomes to be earned by chippies, sparkies, plumbers, brickies, tilers, painters and plasterers will be felt by the economy – sufficiently for the Reserve Bank to be worried. Hence, the cut in interest rates.

But whether a mortgage is set at 3.5% or lowered to 2.9%, rate cuts aren't enough to offset declining incomes, poor quality and oversupply to spur buyers to order new homes. No wonder the RBA is asking the government to spend more on infrastructure.

For companies directly exposed to new home construction, conditions might become tougher before they improve.

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

### ❶ Fletcher Building

**ASX code FBU**
Price $4.78
52wk ▲ $6.05
52wk ▼ $3.99
Mkt cap $4.1bn
Dividend 18.5¢
Dividend yield 4%
PE ratio 26
■ **SELL**

Fletcher generates a third of its revenues from a portfolio of businesses including Tradelink plumbing and bathroom supplies, Iplex pipes, Rocla concrete and Stramit steel. The recent sharp decline in the residential market saw earnings before interest and taxes (EBIT) fall 50% in 2019. Fletcher is now cutting costs to stabilise the business. Cutting costs should be a daily discipline, not part of a "restructuring", and returns on equity are in single digits, suggesting the balance sheet assets might be overvalued.

### ❷ Adelaide Brighton Cement

**ASX code ABC**
Price $3.24
52wk ▲ $6.24
52wk ▼ $2.85
Mkt cap $2.1bn
Dividend 28¢
Dividend yield 6%
PE ratio 26
■ **SELL**

About 30% of Adelaide Brighton's revenues is generated from residential housing activity. Half-year revenues fell 6.3% to $755.7 million and net profits fell to a loss of $17.9 million compared with a profit of $84.5 million for the previous corresponding period, highlighting operating leverage. While management is hopeful of offsetting strength from mining and infrastructure, we note iron ore prices are falling, as are the share prices of large materials companies.

### ❸ CSR

**ASX code CSR**
Price $4.19
52wk ▲ $4.41
52wk ▼ $2.62
Mkt cap $2.1bn
Dividend 26¢
Dividend yield 6%
PE ratio 27
■ **SELL**

CSR produces Bradford insulation, PGH bricks, Gyprock plasterboard and Hebel precast concrete blocks, reflecting the company's exposure to residential construction. The building products division fully participated in the construction boom, with net sales up almost 60% between 2013 and 2019. The decline in residential building approvals, however, will have the reverse effect and operating leverage may also impact margins.

*Prices as at ASX close of business, 13-Sep-19.*

# Good luck won't be enough

## The right policies and reforms can lift the economy out of the doldrums

The June quarter national accounts painted a concerning picture of the state of the Australian economy. Private sector demand – from consumers and businesses – was flat and it was only net exports and government spending that kept us in the black.

Consumers, who account for almost 60% of economic activity, have faced consistently slow real wages growth, which takes account of inflation, for six years. When prices were rising we were happy to dip into our savings or increase our debt to supplement our spending. But the boom came to a rapid halt in 2018 and household savings have fallen to critically low levels. So we're giving up the smashed avo on toast, along with much other discretionary spending. Car sales in August were down 10% compared to the same month last year.

Meanwhile, businesses say they are reluctant to increase investment – even at historically low interest rates – because the subdued consumer spending is impacting their bottom lines and confidence.

And, of course, the global economic headlines – US-China trade war, Germany in a slump and Brexit chaos – have exacerbated the decline in confidence. Ironically, however, slowing growth in China has been met with stimulatory spending, which in turn has benefited Australia by increasing demand for iron ore and coal. But we can't rely on this continuing indefinitely.

> **We're giving up the smashed avocado on toast**

So is it time to batten down the hatches and hide under the blankets? And how real is the risk of a recession that is increasingly being talked about?

It's clear that there are significant challenges ahead, but there has also been considerable support in recent months in the form of two cuts to official interest rates and the first round of tax reform in the form of offsets (worth $8 billion) for low- and moderate-income households. In addition, house prices seem to have passed the low point of the cycle and the Aussie dollar is holding at stimulatory levels.

There's no doubt all these factors will help lift consumer confidence and, hopefully, spending. We are still a considerable distance from having to worry about the "R" word. Still, the tax offset is a one-off benefit and the impact of mortgage rate reductions, while enduring, is small – around the proverbial coffee and a sandwich (no avocado, though) a week for those with a $400,000 loan.


The real key to a sustained lift in consumer spending – and thus business confidence, investment and GDP – is higher wages growth. This is something the governor of the Reserve Bank, Philip Lowe, has been advocating for some time now. He has even called on the public sector to lead the way in raising wages and on the private sector to lift wages to better reflect the uplift of productivity in recent years.

Stronger wages growth would be further supported by a lower level of unemployment, which the RBA thinks needs to fall below 5% for a sustained period. There's no doubt employment growth has been impressive over recent years; however, with more people entering the workforce, this growth hasn't been enough to make the dent needed in our unemployment rate, which remains stubbornly above 5%.

There are never any magic bullets when it comes to economic management, but it's clear that monetary policy is close to its limits. This means that it will likely fall to governments to take up the heavy lifting to give the economy a shot in the arm, seeing a return to deficit budgets for a period, which could make it more difficult to deal with any global shock down the track, should this arise.

This is a conundrum for the government. The Australian economy has been resilient for 28 years due to good economic management as well as a large dose of good luck. We can't keep relying on luck, but with some renewed attention to economic policies and reforms we can avoid recession.

*Nicki Hutley is a partner at Deloitte Access Economics and leads its urban advisory practice. She is a regular commentator on economic and financial issues.*

SECTOR ETFs

# Cheap ticket to the world

## Exchange traded funds provide global diversification at a low price

In what seems like the blink of an eye, exchange traded funds (ETFs) have taken the world's stockmarkets by storm. Not lithium stocks and not the gravity-defying WAAAX tech stocks.

What's even more impressive is that many of these market changers are just about the most boring investments you could make. Globally, ETFs are worth $6.3 trillion – larger than the actively managed fund sector.

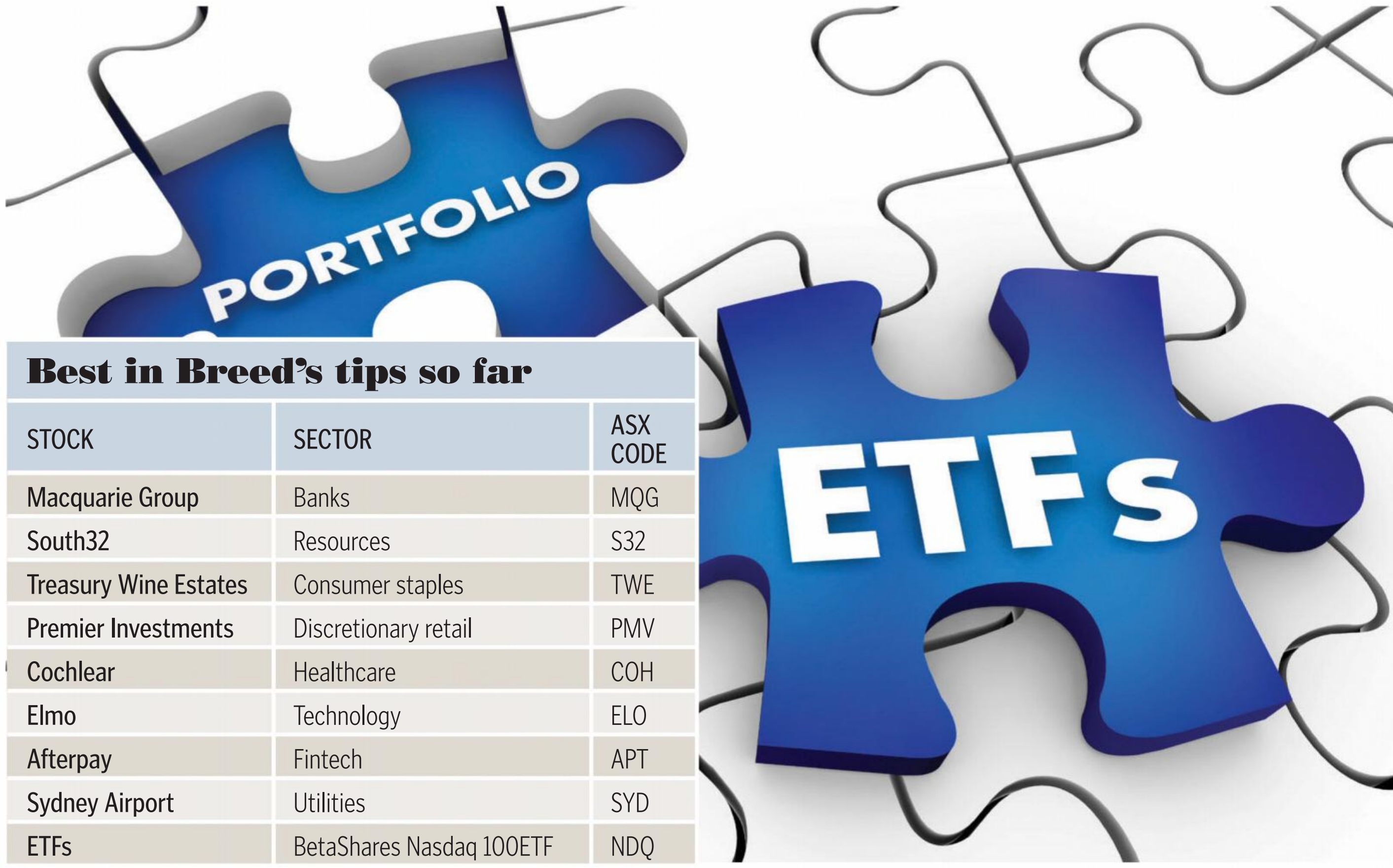
To invoke an old oil ad – ETFs ain't ETFs, Sol. These days anyone can start an ETF. It can have any investment strategy and charge whatever fees the manager decides.

In the US there are high-fee hyper-leveraged ETFs that make money for the holder if the market caves, for example. Other ETFs focus on particular themes (say tech or gold) or on certain geographies or markets. So it's really important that we don't lump them all together.

Now, in my opinion, most of them offer no meaningful benefit (other than to the fund manager, in the way of fees). After all, if you've done enough research to know you want to invest in a particular sector, or with a particular strategy, you're likely better off investing in the best-of-the-best companies within that area. And if you don't know enough to pick the right companies, do you really know enough to invest in that strategy? Probably not.

But there are some good reasons to invest in ETFs. The first is to take advantage of low-cost diversification. For the princely sum of 0.1% (that's $1 per $1000) a year, plus brokerage, of course, you can buy a Vanguard index fund that tracks the S&P/ASX 300.

That gives you one-stop access to 300 of the largest companies on the ASX, and means you'll broadly track the market return, without picking a single stock. Historically, that's a compound 9%-10% a year, which when compounded over many years is a life-changing result if you invest regularly.




### Best in Breed's tips so far

| STOCK | SECTOR | ASX CODE |
|---|---|---|
| Macquarie Group | Banks | MQG |
| South32 | Resources | S32 |
| Treasury Wine Estates | Consumer staples | TWE |
| Premier Investments | Discretionary retail | PMV |
| Cochlear | Healthcare | COH |
| Elmo | Technology | ELO |
| Afterpay | Fintech | APT |
| Sydney Airport | Utilities | SYD |
| ETFs | BetaShares Nasdaq 100ETF | NDQ |

Another reason to use ETFs is to access markets or industries we simply don't have in Australia. Sure, you could open a brokerage account to buy overseas companies (more on that next month), but an ASX-listed ETF, focusing overseas, can be a great option for many.

For example, another Vanguard fund gives you all of the world's developed markets, excluding Australia, for 0.18% a year, plus brokerage. There's a Betashares option which lets you buy an Asian technology-focused ETF, and another that's focused on generating income from US stocks (but don't offer franking, so invest wisely).

A word of warning here, too: please be careful about those ETFs geared to take advantage of "hot" industries or headline news. As with most investing fads, these will likely pass and you could be left holding the (loss-making) baby when the music stops.

### Foolish takeaway

Used incorrectly, ETFs – the progeny of the index fund, invented by US investment legend Jack Bogle in the 1970s – are just another way to lose money (and make money for fund managers). But they can be a wonderful addition to almost every portfolio when used well. For most people the aim should be diversification and access.

For those reasons – and given the small tech sector here in Australia (plus the calibre of the companies within it) – my preferred ETF for Australian investors is the BetaShares Nasdaq 100 ETF (ASX: NDQ), offering currency, geographical and industry diversification, and housing the likes of Apple, Google, Amazon, Netflix, Tesla and many more.

*Scott Phillips is The Motley Fool's chief investment officer. He owns shares in Amazon and Alphabet (Google's parent company). You can reach him on Twitter @TMFScottP and via email ScottTheFool@gmail.com. This article contains general investment advice only (under AFSL 400691).*

STORY JAMES GREENHALGH

# Bunnings saves the day

A buoyant Wesfarmers share price is at odds with the subdued outlook for the next 12 months

Thank goodness for Bunnings. Wesfarmers' best business continued to carry the lesser divisions in 2019, with the home improvement retailer's operating profit rising 8%. The weaker businesses struggled in 2019 and, somewhat ominously, the outlook seems to be deteriorating.

Yet even Bunnings' 8% lift in profit was less impressive than it seemed. Property earnings boosted the result, as they do most years. Underlying retail profit grew just 5%. Same-store sales growth weakened to 3.9% and, while that still implies Bunnings took market share, the figure was down from 7.8% in 2018.

At Intelligent Investor we've long expected Bunnings' earnings growth to moderate, and it has long defied those expectations. But the retailer is maturing, with management expecting to open around 10 new stores a year. It currently operates 374 stores in Australia and New Zealand.

Mature retailers are by implication more cyclical, and it was always going to be difficult for Bunnings to escape the housing construction downturn now under way. Overall, however, 5% earnings growth was good enough.

Weaker earnings from the department store division were flagged by Wesfarmers in June. The division's underlying earnings fell 17% as sales stalled in both Kmart and Target. While Kmart's momentum improved late in the year, Target is more worrying. Management noted that Target's offer was not "resonating" with customers, which implies yet more merchandising mistakes. Target closed 15 stores in the period and might be damaged beyond repair.

The disappointments continued elsewhere. The turnaround of the Blackwoods distribution business will be prolonged and was responsible for a 27% decline in earnings in the industrial and safety division. Officeworks' earnings rose 7% but 2020 will be a year of price reductions given the competitive environment.

The WesCEF (chemicals, energy and fertilisers) division saw an 11% lift in underlying earnings due to favourable market conditions in energy and fertilisers. But chemicals earnings are likely to decline after the competing Burrup ammonium nitrate plant commences production later this financial year.

Overall, Wesfarmers reported operating earnings from continuing operations up 12% to almost $3 billion, with net profit coming in at $1.9 billion, up 14%. A fully franked final dividend of 78 cents was declared (down 35% because of the absence of Coles' earnings following the demerger). While those growth figures look impressive, numerous one-off or non-recurring items benefited earnings in 2019. Gains on investments, insurance proceeds, the negotiated value share from the sale of the Curragh coal mine and higher-than-average property earnings contributed more than $170 million to operating earnings.

Without those benefits, Wesfarmers' operating earnings will certainly fall in 2020. And that is before any underlying weakness in the businesses themselves – the department store


> With a few headwinds in 2020, the potential for earnings disappointment is relatively high

**Wesfarmers' numbers**

| YEAR TO JUNE 30 | 2019 | 2018 | CHANGE |
|---|---|---|---|
| Revenue | $27.9bn | $26.7bn | 4% |
| EBIT | $2.9bn | $2.6bn | 12% |
| NPAT | $1.9bn | $1.7bn | 14% |
| EPS | $1.72 | $1.51 | 14% |
| DPS[1] | $2.78[2] | $2.23 | 25% |

[1]Final dividend 78¢, down 35%, fully franked, ex date Aug 30. [2]Includes $1 special dividend. Figures from continuing operations.

division and WesCEF could report materially lower earnings this financial year.

So it seems somewhat odd that the Wesfarmers share price continues to be buoyant. We suspect that is because of managing director Rob Scott's renewed growth focus. His first major acquisition, the lithium developer Kidman Resources, is due to complete soon (Wesfarmers has officially walked away from Lynas at last). But it's also probably because the market seems willing to value Bunnings more highly than before.

With a few headwinds in 2020, the potential for earnings disappointment is relatively high. There's a chance we might get another opportunity to buy Wesfarmers again, but for now, hold.

*James Greenhalgh is a senior analyst at Intelligent Investor.*
*Note: Intelligent Investor's Model Growth and Model Income portfolios own shares in Wesfarmers, as does the Equity Income Fund.*
*Disclosure: The author owns shares in Wesfarmers.*

# DATABANK

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

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

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

## Top 5 Multi Sector funds by size

| Name | APIR Code | Mngmnt fee %pa | Start Date | Size | 1-year Return | 1-year Rank | 5-year Return (%pa) | 5-year Rank |
|---|---|---|---|---|---|---|---|---|
| Vanguard Growth Index Fund | VAN0110AU | 0.36% | 20/11/2002 | $4,785m | 9.8% | 9 | 8.8% | 12 |
| Vanguard Balanced Index Fund | VAN0108AU | 0.34% | 20/11/2002 | $4,223m | 9.5% | 10 | 7.7% | 24 |
| Vanguard High Growth Index Fund | VAN0111AU | 0.37% | 20/11/2002 | $2,545m | 10.0% | 7 | 9.9% | 6 |
| Vanguard Conservative Index Fund | VAN0109AU | 0.33% | 20/11/2002 | $1,914m | 8.6% | 21 | 6.3% | 38 |
| Schroder Real Return CPI Plus 5% | SCH0047AU | 0.90% | 1/07/2010 | $1,855m | 4.7% | 69 | 5.1% | 51 |
| AVERAGE* | | 0.74% | | $509m | 6.9% | 79 | 6.9% | 66 |

## Top 5 Australian Equities funds by size

| Name | APIR Code | Mngmnt fee %pa | Start Date | Size | 1-year return | 1-year Rank | 5-year Return (%pa) | 5-year Rank |
|---|---|---|---|---|---|---|---|---|
| Vanguard Australian Shares Index Fund | VAN0002AU | 0.18% | 30/06/1997 | $11,906m | 13.0% | 19 | 8.5% | 54 |
| Fidelity Australian Equities Fund | FID0008AU | 0.85% | 30/06/2003 | $6,084m | 11.2% | 30 | 9.3% | 35 |
| Investors Mutual Australian Share Fund | IML0002AU | 0.99% | 30/06/1998 | $2,936m | 6.2% | 68 | 8.1% | 62 |
| Dimensional Australian Core Equity | DFA0003AU | 0.31% | 3/07/2006 | $2,724m | 10.6% | 34 | 9.4% | 34 |
| Bennelong ex-20 Australian Equities Fund | BFL0004AU | 0.95% | 2/11/2009 | $2,653m | -4.6% | 99 | 13.4% | 6 |
| AVERAGE* | | 0.79% | | $658m | 8.4% | 100 | 8.8% | 100 |

## Top 5 International Equities funds by size

| Name | APIR Code | Mngmnt fee %pa | Start Date | Size | 1-year Return | 1-year Rank | 5-year Return (%pa) | 5-year Rank |
|---|---|---|---|---|---|---|---|---|
| Vanguard International Shares Index Fund | VAN0003AU | 0.18% | 30/06/1997 | $14,767m | 11.9% | 53 | 14.1% | 32 |
| Magellan Global Fund | MGE0001AU | 1.35% | 1/07/2007 | $11,180m | 22.4% | 3 | 16.9% | 11 |
| MFS Global Equity Trust | MIA0001AU | 0.77% | 24/04/1997 | $6,306m | 16.1% | 21 | 15.5% | 21 |
| Antipodes Global Fund | IOF0045AU | 1.20% | 31/07/1994 | $4,129m | 1.0% | 114 | 8.8% | 73 |
| iShares Wholesale International Equity Index Fund | BGL0104AU | 0.20% | 31/10/1999 | $4,006m | 12.1% | 48 | 14.3% | 30 |
| AVERAGE* | | 0.91% | | $720m | 9.7% | 127 | 13.1% | 80 |

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

| Name | APIR Code | Mngmnt fee %pa | Start Date | Size | 1-year Return | 1-year Rank | 5-year Return (%pa) | 5-year Rank |
|---|---|---|---|---|---|---|---|---|
| Fiducian Ultra Growth Fund | FPS0014AU | 1.63% | 1/09/2008 | $185m | 6.6% | 42 | 10.9% | 1 |
| Perpetual Split Growth Fund | PER0066AU | 1.16% | 31/03/1999 | $48m | 8.4% | 20 | 10.7% | 2 |
| Legg Mason Martin Currie Divers Income | SSB0063AU | 0.80% | 30/05/2014 | $17m | 12.2% | 1 | 10.3% | 3 |
| Fiducian Growth Fund | FPS0004AU | 1.29% | 1/02/1997 | $127m | 8.9% | 14 | 10.1% | 4 |
| IOOF MultiMix Growth Trust | IOF0097AU | 0.98% | 29/04/2008 | $657m | 9.3% | 11 | 9.9% | 5 |
| AVERAGE* | | 0.74% | | $509m | 6.9% | 79 | 6.9% | 66 |

Source: Rainmaker Information. Data sourced as at July 31, 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**

RAINMAKER INFORMATION
INDUSTRY INTELLIGENCE

# DATABANK

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

| Name | APIR Code | Mngmnt fee %pa | Start Date | Size ($m) | 1-year Return | 1-year Rank | 5-year Return (%pa) | 5-year Rank |
|---|---|---|---|---|---|---|---|---|
| Fidelity Future Leaders Fund | FID0026AU | 1.20% | 22/07/2013 | $327m | 20.1% | 2 | 17.6% | 1 |
| Bennelong Concentrated Aust Equities | BFL0002AU | 0.85% | 30/01/2009 | $831m | -3.9% | 110 | 17.1% | 2 |
| Selector Australian Equities Fund | DDH0002AU | 1.18% | 7/12/2004 | $6m | 18.3% | 3 | 16.3% | 3 |
| SGH Australia Plus Fund | ETL0383AU | 0.70% | 8/10/2013 | $9m | -0.3% | 106 | 16.2% | 4 |
| Macquarie Australian Shares Fund | MAQ0443AU | 0.60% | 28/11/2005 | $124m | 11.9% | 25 | 15.5% | 5 |
| AVERAGE* | | 0.79% | | $594m | 8.2% | 112 | 8.8% | 100 |

## Top 5 International Equities funds by 5-year return %pa

| Name | APIR Code | Mngmnt fee %pa | Start Date | Size ($m) | 1-year Return | 1-year Rank | 5-year Return (%pa) | 5-year Rank |
|---|---|---|---|---|---|---|---|---|
| Fiducian Technology Fund | FPS0010AU | 1.36% | 1/05/2000 | $113m | 15.6% | 22 | 22.5% | 1 |
| Hyperion Global Growth Companies Fund | WHT8435AU | 1.15% | 1/06/2014 | $155m | 20.4% | 7 | 21.7% | 2 |
| Evans and Partners International Fund | ETL0390AU | 1.25% | 18/02/2014 | $54m | 29.6% | 1 | 18.9% | 3 |
| Franklin Global Growth Fund | FRT0009AU | 1.13% | 1/10/2008 | $216m | 11.6% | 58 | 17.4% | 4 |
| T. Rowe Price Global Equity Fund | ETL0071AU | 1.18% | 15/09/2006 | $2,948m | 13.8% | 32 | 17.3% | 5 |
| AVERAGE* | | 0.91% | | $720m | 9.7% | 127 | 13.1% | 80 |

## Top 5 funds by 1-year performance

| Name | APIR Code | Mngmnt fee %pa | Start Date | Size ($m) | 1-year Return | 1-year Rank | 5-year Return (%pa) | 5-year Rank |
|---|---|---|---|---|---|---|---|---|
| Evans and Partners International Fund | ETL0390AU | 1.25% | 18/02/2014 | $54m | 29.6% | 1 | 18.9% | 2 |
| Yarra Australian Real Assets Securities Fund | JBW0030AU | 0.85% | 31/12/2005 | $37m | 27.1% | 2 | 11.1% | 76 |
| Magellan Global Fund | MGE0001AU | 1.35% | 1/07/2007 | $11,180m | 22.4% | 3 | 16.9% | 12 |
| 4D Global Infrastructure Fund | BFL0019AU | 0.95% | 7/03/2016 | $44m | 21.6% | 4 | | |
| Vanguard Global Infrastructure Index Fund | VAN0023AU | 0.49% | 30/11/2007 | $673m | 21.3% | 5 | 13.8% | 41 |
| AVERAGE* | | 0.83% | | $641m | 8.4% | 316 | 9.6% | 246 |

## Bottom 5 funds by 1-year performance

| Name | APIR Code | Mngmnt fee %pa | Start Date | Size ($m) | 1-year Return | 1-year Rank | 5-year Return (%pa) | 5-year Rank |
|---|---|---|---|---|---|---|---|---|
| AIM Global High Conviction Fund | AIT3081AU | 1.50% | 7/07/2015 | $184m | -6.6% | 316 | | |
| Auscap Long Short Australian Equities | ASX0001AU | 1.54% | 30/11/2012 | $508m | -5.2% | 315 | 9.7% | 107 |
| Orbis Global Balanced Fund | ETL3967AU | 1.00% | 1/02/2017 | $10m | -4.7% | 314 | | |
| Invesco Global Opportunities Fund | GTU0102AU | 0.95% | 30/09/1999 | $69m | -4.7% | 313 | 11.3% | 70 |
| Bennelong ex-20 Australian Equities Fund | BFL0004AU | 0.95% | 2/11/2009 | $2,653m | -4.6% | 312 | 13.4% | 45 |
| AVERAGE* | | 0.83% | | $641m | 8.4% | 316 | 9.6% | 246 |

## WHAT THEY MEAN

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

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

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

# YOUR GUIDE TO SUPER DATA

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

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

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

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

# DATABANK

## Best Super Funds: Top 20 MySuper – July 31, 2019

RANKED BY 3-YEAR RETURN

| FUND & INVESTMENT OPTION NAME | Fund Type | Strategy | 1-year Return | 1-year Rank | 3-Year Return (%pa) | 3-year Rank | 5-Year Return (%pa | 5-year Rank | Quality Rating |
|---|---|---|---|---|---|---|---|---|---|
| LGS Accumulation Scheme – High Growth | Industry | LC | 7.7% | 17 | 10.2% | 1 | 9.1% | 5 | AAA |
| HOSTPLUS – Balanced | Industry | S | 7.0% | 32 | 10.1% | 2 | 9.4% | 2 | AAA |
| AustralianSuper – Balanced | Industry | S | 8.7% | 5 | 9.9% | 3 | 9.2% | 3 | AAA |
| Sunsuper Super Savings – Lifecycle Balanced Pool | Industry | LC | 8.4% | 6 | 9.8% | 4 | 8.6% | 9 | AAA |
| Mercy Super – MySuper Balanced | Corporate | S | 8.1% | 11 | 9.7% | 5 | 8.4% | 10 | AAA |
| Qantas Super Gateway – Glidepath Take-Off | Corporate | LC | 7.9% | 13 | 9.7% | 6 | | | Not Yet Rated |
| Telstra Super Corporate Plus – MySuper Growth | Corporate | LC | 7.8% | 14 | 9.6% | 7 | 8.2% | 14 | AAA |
| Media Super – Balanced | Industry | S | 8.3% | 7 | 9.5% | 8 | 8.3% | 13 | AAA |
| Cbus Industry Super – Growth (Cbus MySuper) | Industry | S | 7.2% | 29 | 9.3% | 9 | 8.9% | 7 | AAA |
| First State Super Employer – Growth | Industry | LC | 7.7% | 16 | 9.2% | 10 | 8.1% | 15 | AAA |
| StatewideSuper – MySuper | Industry | S | 6.8% | 33 | 9.2% | 11 | 9.0% | 6 | AAA |
| UniSuper – Balanced | Industry | S | 10.6% | 3 | 9.1% | 12 | 9.1% | 4 | AAA |
| BT Business Super – MySuper 1970s LifeStage Fund | Retail | LC | 7.4% | 24 | 9.1% | 13 | 7.8% | 28 | Not Yet Rated |
| Lutheran Super – Balanced Growth – MySuper | Corporate | S | 8.3% | 8 | 9.0% | 14 | 7.1% | 42 | AAA |
| HESTA – Core Pool | Industry | S | 7.4% | 23 | 9.0% | 15 | 8.1% | 16 | AAA |
| Club Plus Industry Division – MySuper | Industry | S | 6.6% | 36 | 9.0% | 16 | 7.9% | 25 | AAA |
| VicSuper FutureSaver – Growth (MySuper) | Industry | S | 8.1% | 10 | 9.0% | 17 | 8.0% | 22 | AAA |
| Mercer CS – Mercer SmartPath 1974-1978 | Retail | LC | 7.9% | 12 | 8.9% | 18 | 7.7% | 29 | AAA |
| Vision Super Saver – Balanced Growth | Industry | S | 6.8% | 35 | 8.9% | 19 | 7.9% | 24 | AAA |
| NGS Super – Diversified (MySuper) | Industry | S | 7.4% | 25 | 8.9% | 20 | 8.0% | 20 | AAA |
| SelectingSuper MySuper/Default Option Index | | | 7.0% | | 8.8% | | 7.7% | | |

Rankings are made on returns to multiple decimal points.

## SelectingSuper Benchmark Indices – Workplace Super

| INDEX NAME | Performance to July 31, 2019 | | |
|---|---|---|---|
| | 1-year | 3-years (%pa) | 5-years (%pa) |
| SelectingSuper MySuper/Default Option | 7% | 9% | 8% |
| SelectingSuper Growth | 7% | 10% | 8% |
| SelectingSuper Balanced | 7% | 8% | 7% |
| SelectingSuper Capital Stable | 6% | 5% | 5% |
| SelectingSuper Australian Equities | 8% | 11% | 8% |
| SelectingSuper International Equities | 7% | 11% | 10% |

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

## WHAT THEY MEAN

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

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

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

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

# "I was homeless and living in a tent 10 years ago, so I've come a long way"

### What was your first job?

It was making milkshakes in a milk bar behind the surf club at Kingscliff. It was a tiny store called Abundant Health and I'd work on Saturdays making milkshakes and sandwiches and I loved it because it was a health food shop.

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

It came from the book *The Wealthy Barber*, and it was about paying yourself first and paying yourself 10% first. It doesn't matter how much you earn, if you're investing your money it will grow. Have your money make money for you with a passive income. I wish I had this advice a lot earlier.

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

I've made some strategic decisions in real estate that have done really well. We're in a lull at the moment, but real estate is just starting to take off again in Sydney. It's been the Australian dream to own a home and, touch wood, I hope it happens for the upcoming generations. I was homeless and living in a tent 10 years ago, so I've come a long way.

### What's the worst investment decision you've made?

I followed a good friend to invest in original art – you know, D'Arcy Doyle's and Arthur Boyd's works. He thought it would be a great idea and I did too because the price of art only goes up. However, I ended up investing with a fraudster who went to jail. I was part of a class action against him with about 80 people and none of us got our money back.

## Rhiannon Rees

Rhiannon is an award-winning high-performance coach and best-selling author. Through her business, the Conscious Coaching Collective, Rhiannon has worked with celebrity clients such as members of *The X-Files*, *Grey's Anatomy*, the Spice Girls and the Sydney Roosters, as well as Aussie farmers fighting drought and several small businesses. With a 30% gratuitous client base, Rhiannon focuses on single parents who could never afford coaching. She is the author of *How to Climb Mount Everest in Sandals – The Courage to Live an Ordinary Life*, and *Life is a Choice and the Choice is Yours*. She is about to feature in the upcoming film *The Richness of the Journey*.

### What is your favourite thing to splurge on?

For the past five years I've had a list of the "almost impossibles". I had the purchase of a Maserati on that list and it's only in the past year that I was able to buy one. I'm a bit of an adrenaline junkie and like speed, so for me that was a favourite splurge.

### If you had $10,000, where would you invest it?

I'm a massive believer in charities and last year I supported 325 school kids in Africa, and I'd like to build schools and hospitals in third world countries.

Right now I'd invest in Karatbars' KBC coin (a cryptocurrency), because off the back of that you can get a debit card where your Karatbars referral and purchase commissions are held and I'd use that money to keep the charity work ongoing.

### What would you do if you had only $50 left in the bank?

When I was living in a tent, I had a lot less in my bank account. At that time, $50 would have been a lot. Now looking at that question, I'd gamify the $50 and think how, in the space of 12 months, would I be able to trade it up. Could I trade it up to a car or yacht?

### Do you intend to leave an inheritance?

I'll only leave a small inheritance. The only reason I'll leave a small inheritance is because I want my son to know what he's made of and what he's capable of. If I leave him a big inheritance, is there any reason for him to try? Not necessarily, so I want him to try to see what he's capable of.

### What's the best quote you've read about business coaching?

It's from a coach out of the UK, Sarah Durrant. Her quote is: "Coaching is about helping clients unlock the treasure chest of their lives. It's worth bearing in mind that diamonds are made from coal under pressure and it's the grit in the oyster which creates the pearls."

### Money makes...

Instead of "money makes ..." I think money magnifies who you are. If you're a great person it's going to magnify your philanthropic efforts and kindness.

# Three Cs to help grow your super...

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## 1. Contribute

Placing $25 a week extra into your super will add $100,000 by retirement

## 2. Consolidate

If you have two super accounts, you are paying twice as much in fees, with no performance benefits

## 3. Check

If you are in a high performing fund, this may add $660,000 to your retirement savings

1. Source: Rainmaker Superannuation Savings Model. The model is assumed for a member in an average fund (based on performance) and from age 40 additional contributions of $25 are made each week.

3. Source: Productivity Commission, 'Superannuation: Assessing Efficiency and Competitiveness' report,' page 11, December 2018.

Money | SUPER Booster

The #SuperBooster project exists to encourage you as a superannuation member to become more actively involved with your super to improve your financial wellbeing in retirement.

To help you get on top of your super, we'll have more handy tips in the October and November editions of *Money* magazine as well as online.

**#SuperBooster | moneymag.com.au/superbooster**


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