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Money

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WHAT I WISH I'D KNOWN ABOUT SUPER P48

INCOME IS KING

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GONE CAMPING: RENTING YOUR CARAVAN FOR EXTRA CASH
MY MONEY: FINANCIAL ADVICE WORTH THE COSTS

MARCUS PADLEY
WHY SUPER FUNDS CAN'T BEAT THE SHAREMARKET

NICOLA FIELD
THE RISE OF 'RENTVESTING'

PAUL CLITHEROE
BUYING PROPERTY WHILE THE MARKET IS FLAT

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MY MONEY

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SAVINGS & GIVEAWAYS

EDITOR'S DESK

Cash is no longer king

There was a time when leaving your house without a wallet would have been disastrous. With no cash or bank cards at hand, you could not do anything nor travel anywhere. These days, between cardless withdrawals, Apple Pay and debit-card-linked travel cards, you can still get around without a gold coin to your name.

In the world of investing, cash has also lost some of its currency. The mantra "cash is king" no longer holds true and investors must find new ways to stretch their hard-earned savings.

We're tackling this in our cover story "Income is king" (page 34). Pam Walkley explains the choices when interest rates are dangerously heading for zero. The options listed are by no means exhaustive, but there's enough there worth evaluating.

One of our biggest challenges here at *Money* is how to convince our new and occasional readers that thinking long term is the cure to most ills. We've built a case in this issue with three must-read articles.

First, our cover story highlights how the power of time can benefit empty nesters and Gen Y savers and investors.

Second, our columnist Greg Hoffman shows in his column, "Rich Nan, Poor Nan", (page 76) how taking a long-term view pays off.

And finally, we kick off our three-part Super Booster series this month with Annette Sampson's insightful "What I wish I'd known about super" article.

Our Super Booster campaign is a long-term initiative to equip readers with the information they need to make better decisions about their super.

It's not just for people approaching retirement. It's for everyone who belongs to a super fund, regardless of the size of their account balance.

Michelle

Michelle Baltazar,
Editor-in-chief

Feedback

Letter of the month

Switching to a better deal saves thousands

I was late to read your April edition, but it was worth it. Your cover story "Switch to a better deal" has saved me several thousands of dollars on my mortgage, car insurance and mobile phone. I've also been reviewing bank and credit card charges over the past month.

Based on competitive quotes, I requested a better price and all companies adjusted their rates. The biggest saving came from the bank, where the local manager refused to adjust a home loan in line with the competition. However, persistence paid off as I called the bank direct and requested a rate the same as its competitors and two minutes later I was given the same rate with no need to change banks. I would recommend that if the manager says no, call the bank direct as this process has worked a treat twice now.

Jen

Good people are needed to tackle bad attitudes

It was so refreshing to read Paul's comments and thoughts on the recent election results and how it would affect median Australians and not the average (June edition, In Your Interest, page 10).

I read *Money* magazine casually in our lunch room at work. Another colleague brings it in for me. I did not have a lot of money growing up and now as a middle-aged divorced adult looking at retirement in the next 20 years I am not where I am being told I should be financially.

Making the most of my money throughout the last 30 years of my working life was not a priority and never seemed important.

Not everyone has an interest in or the ability to look after their money. They may work hard, and be kind, generous and a great asset to their community, but have not been able to keep ahead of the constant barrage of influences in our society that wish to take that money from us.

It takes good people and our politicians to turn around bad policies, practices and attitudes within the finance industry. Just because I'm not good at making money doesn't mean I should

be taken advantage of. So I just wanted to say thank you, Paul. This is a great step in the right direction.
Yanine

Thanks for exposing all the dodgy deals

Paul's beautiful In Your Interest 20th anniversary column (July issue) captured so eloquently the important role *Money* magazine has played in our community for these last two turbulent decades. The "red flags" you have raised about those dodgy schemes that rolled around far too regularly have given voice and thoughtful analysis to why these "money miracles" were really pitfalls in disguise.

I lament that my own loved ones have been stung by these dodgy offerings, and have seen not just the harm the loss of money causes, but the humiliation that is lifelong for those caught out.

So keep doing what you do so well, Paul and the *Money* team. Keep flagging those schemes, offerings and deals that we need to be wary of – then we can remind ourselves and those we care for to check out the articles in *Money*, because you have it covered!
Susan

Invaluable insights from familiar names

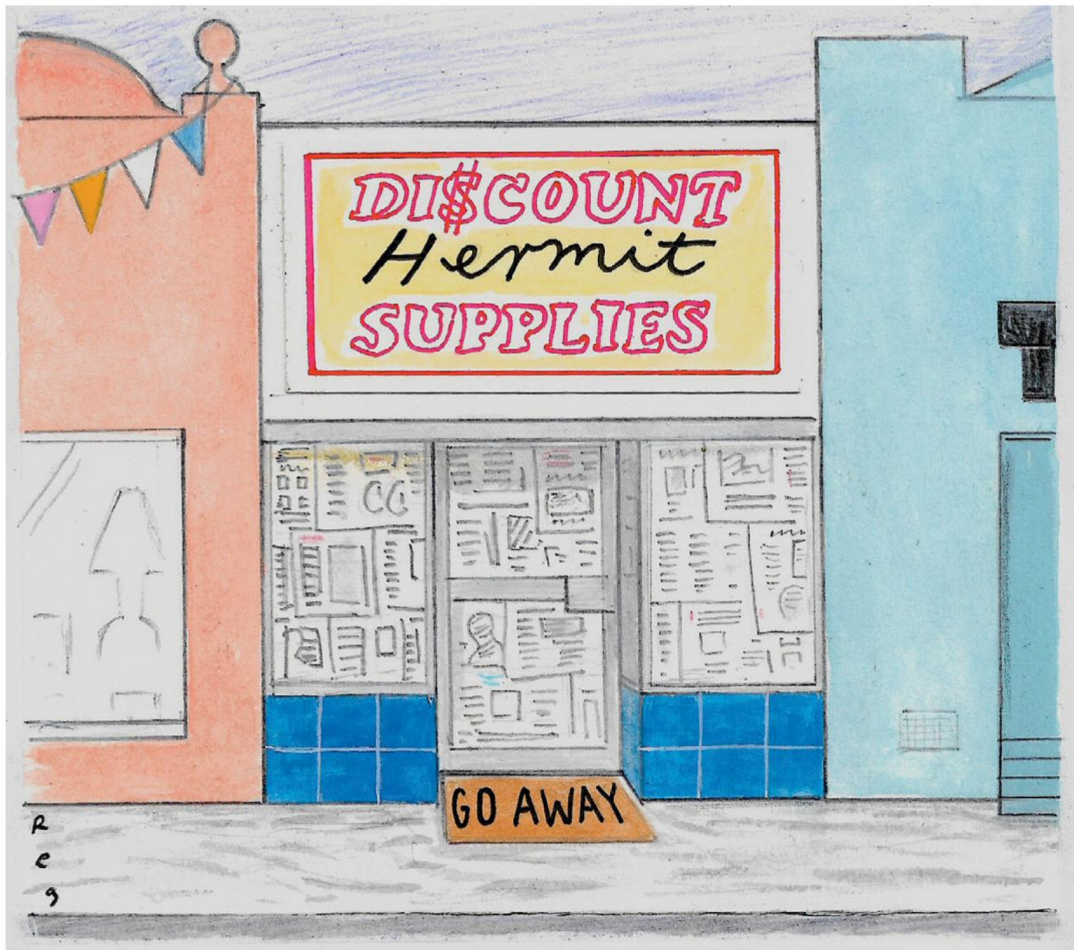
I was an avid reader of *Australian Property Investor* before the magazine ceased trading after 20 years. My wife bought me your August edition and now I wish I had converted years ago.

The topics covered in your magazine are varied with myriad interesting investment strategies. Great to see familiar names like Margaret Lomas and Paul Clitheroe, whose views and insights are invaluable.
Jim

Prize worth winning

Each month we'll award one letter a 12-month subscription to *Money* magazine.
Write to:
Letters, Money, Level 7, 55 Clarence Street, Sydney, NSW, 2000 or email money@moneymag.com.au

REG'S TOON



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The Money team

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What's your worst money habit?

MICHELLE BALTAZAR
Michelle is editor-in-chief of *Money* magazine. Michelle says: "One terrible habit I'm trying to get better at is sticking to my Christmas budget for family and friends. I start with a reasonable sum but the shiny new objects online usually get the better of me. I'm especially vulnerable when it comes to my younger nieces and nephews."

MARCUS PADLEY
Marcus is the author of the daily share-market newsletter *Marcus Today*. Marcus says: "It would have to be solving my children's problems the easy way – with money. Being a soft touch means they don't learn anything. If you buy them a new mobile phone when theirs smashes, they don't care when they break it. They will not become financially independent without feeling their own financial pain."

ANNETTE SAMPSON
Annette is a personal finance writer for *Money* magazine. Annette says: "I have good intentions about regularly reviewing my investments, but often it's a case of out of sight, out of mind. I should set aside an hour each month just to check in and ensure they're doing what they should be."

PAM WALKLEY
Pam is the founding editor of *Money* magazine. Pam says: "I'm a sucker for sales. Whenever I spot a great bargain – either online or in store – I find it hard to walk away, even if it's something I wouldn't have thought of buying before it went on sale."

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5.06%
Unemployment Rate in the ACT

8%
of ACT growth is from interstate migration

Median family weekly income in the ACT is
$2,445

1.3%
Rental vacancy rate in Canberra

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JWLAND

C5

For more information visit
Campbell5.com.au
or call Dallas on 0414 487 086

The figures contained in this fact sheet have been calculated based on available data from the ACT Government, 2016 Census (Australian Bureau of Statistics),Realestate.com.au, vacancy data as at June 2019 from sqmresearch.com.au and rental appraisals from Key Real Estate ACT as at July 2019. This information is intended as a guide only and intending purchasers should seek independent professional advice.

The trick is not to be forced to sell good assets in bad years

Who would have thought? Our official interest rate, now at 1%, is as big a surprise to me as anyone else. A year or two ago, with excellent job creation in our economy, the strength of our exports to big trading partners such as China, our strong education sector seeing large numbers of foreign students, growing exports of agricultural products, including from places with high rainfall in the far north, the US economy powering along and pretty reasonable global economic growth, I thought our interest rates would reflect this strength and remain in the region of 2% to 3%. It was only a short while ago the experts were talking about interest rate rises, yet here we are.

The funny thing is that this should feel really familiar to me. The long history of interest rates shows vast stretches of time where they were close to zero. I have read and written plenty about this over the decades. But my "lived" experience is really different.

When I was leaving school and heading to university in 1974, rates were about 10%. My experience between the ages of 18 to 35 was rates rising. I will never forget the peak of 16.5% in early 1990. Our mortgage hit 18%. From there, though, right up to my current age of 64, I have seen steadily declining rates. There were a couple of upward blips, noticeably in 1994 and more moderately as we recovered from the GFC, when rates rose from 3% to 4.75% in 2011 and 2012. It has basically been a large slippery slide.

I need to remind myself that in the context of hundreds of years of global economic history, simply because of my birth date I have lived through one of the most condensed rises and falls of interest rates in history.

But what of the future and what do we do?

For those around my age, old investment habits are not likely to work. So many retirees and pre-retirees have in the past held safe term deposits. Today, finding 2% is about as good as we will do, and while this will see our capital remain stable it is hardly a living return. The solution I have been banging on about since the late 1970s is diversification.

The great news is that this is super easy and cheap to achieve. For next to nothing we can have globally diversified portfolios with indexed funds and exchange traded funds. This is a wonderful thing for investors like me who are conservative, pretty passive and seeking reasonable returns. My target is about 4% above inflation, over periods of seven-plus years. I think diversification can do this for me. Sure, some years I take a flogging, such as in the sharemarket crash of 1987 and the GFC in 2008-09.

The trick, I believe, is not to be forced to sell good assets in bad years. So my plan was always to get to pre-retirement and then retirement with about three years of lifestyle money in safe assets like term deposits. The return is horrible, but my cash is safe and it becomes my spending money in the bad years. Fortunately, dividends and rent continue to flow. That I spend, but wait for asset values to rise over time.

Pretty obviously our aged pension system remains as a backstop. In particular if you own a home, the pension, while not providing an exotic lifestyle, is not to be scoffed at.

What about younger readers?

Here I salivate about the future. Low wages growth and economic growth numbers do not pick up the revolution that is going on. I agree with Stanley Druckenmiller, formerly of Duquesne Capital, in that we are at a point of a "productivity inflection boom".

"What the heck?" you are thinking, and fair enough. But the productivity revolution going on through our phones and the internet is gobsmacking. A lot of this actually causes economic output to fall. For example, taking photos. Druckenmiller points out we took about 1.5 trillion last year. I actually thought my family alone took that many, but we'll go with his numbers. This has destroyed an industry, with its many jobs, where we used to pay 50¢ to develop a photo. Clearly, hundreds of thousands of new jobs have been created, and these we can count in terms of economic growth, but productivity efficiencies have a side effect. Developments in genetics, medicines, travel and communications are as extraordinary as the industrial revolution, which was undoubtedly a productivity inflection boom.

Older investors will participate in this boom simply by owning low-cost super and indexed funds. But for the young, participation as a business owner, employee or investor will be a powerful wealth-creation strategy.

Some rules do not change and never will. For those of you seeking to create wealth, spending less than you earn then investing the surplus, plus investing in your skills through education and experience, remain the key. "Old" assets like property will still work well. We have a rapidly growing population so well-located property will do well over time. I still hold many "older" shares. The world is changing, but banks, resource companies, sellers of food, infrastructure companies and key medical suppliers will in my mind continue to do well and send me dividends to fund my lifestyle.

So while some things change, the laws of money remain the same. But for investors like me in the capital preservation stage, diversification is our best protection.

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.*


PROPERTY INVESTING, BEYOND THE FAMILY HOME.
Australia's wealth is underpinned by property, and the Zurich Investments Australian Property Securities Fund is an award-winning complement to bricks and mortar investments.
Managed by our strategic investment partner Renaissance Property Securities, the Fund leverages its specialist expertise to provide diversified exposure to property trusts listed on the ASX. It aims to deliver both capital growth and regular income over the medium to long term.
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NEWS & VIEWS

THE BUZZ

APRA 'can do better' to protect our finances

Review recommends increased power and resources

The Australian Prudential Regulation Authority (APRA) must escalate its focus on superannuation member outcomes if it's going to meet the community's heightened expectations of the regulator's role.

This is a key finding of the recent APRA Capability Review (published mid July), which was commissioned as a recommendation of the financial services royal commission. While the review notes that APRA has a strong track record, it says it will need more power and resources to maintain its protection of Australians' financial wellbeing.

Among the review's 24 recommendations it is suggested APRA be given the power to veto the appointment or reappointment of directors and senior executives of regulated entities, including super funds. However, the power should be available only "where the risks associated with the entity, including but not limited to member outcomes for superannuation funds, warrant it".

The review says APRA now has a platform to embed prudential inquiries into its supervisory toolkit following the CBA prudential inquiry. The review panel, led by Graeme Samuel, former chair of the ACCC, says it would expect to see several prudential inquiries in the coming years and in time it should involve retail and industry super, insurance and approved deposit-taking institutions.

APRA should be more transparent, publishing objective benchmarks on super product performance and publicly taking action to demonstrate its expectations for member outcomes, the review says. It should also develop an updated super performance tool by the end of 2019, focused on member outcomes.

Further, the regulator should update its super reporting standards and collect product level data for accurate comparability across funds.

Finally, the review recommends APRA be more forceful in its communication with the public, including the publishing of a strategy to promote long-term super industry performance.

APRA chairman Wayne Byers says it is "strengthening both its resourcing and supervisory approach to make issues of governance, culture, remuneration and accountability a much more prominent and central part of its supervisory framework".

Darren Snyder

CALENDAR OF EVENTS

Thursday, September 5
Balance of trade

Wednesday, September 11
NAB business confidence

Thursday, September 12
Westpac consumer confidence

Friday, September 13
Unemployment rate

Tuesday, September 17
RBA meeting minutes

ON MY MIND

Travel insurance is a must

The world watched last month as political tensions in Hong Kong led to mass flight cancellations, causing chaos for passengers and sparking questions as to whether travel insurance covers such events.

In short, insurance provides cover for "unforeseen" events, which will usually include strikes, riots and protests, but your ability to claim will depend on when you purchased your insurance.

Those with comprehensive policies would have been eligible to claim for out-of-pocket expenses such as cancelled flights and accommodation. However, travellers who tried to panic-buy after the event was broadcast across the world will have learnt the hard way that timing is everything.

What is clear to insurers – and travellers are catching on – is that world events and natural disasters can erupt at any time. We cannot stress enough the importance of buying a policy ahead of time and understanding its conditions.

As a general rule, lower-priced, basic policies would not provide cover for cancellation or travel delays. When in doubt, buy comprehensive travel insurance sooner rather than later. Doing so can mean the difference between recouping your relevant costs and being massively out of pocket.

Natalie Ball, director, comparetravelinsurance.com.au

NEWS BITES

Aberdeen Standard Investments (ASI) has launched an Emerging Market Local Currency Debt Fund for Australian investors. You can invest with a minimum of $20,000. Brett Diment, ASI's head of global emerging market debt, says EM debt is providing higher yields than Australian and global developed-market bonds. The vast majority of the portfolio is invested in government bonds.

The regulator ASIC has banned high-profile financial adviser Sam Henderson for three years. His inappropriate financial advice was laid bare in last year's royal commission. The investigation into Henderson's conduct is continuing, but he has already been fined $50,000 by the Financial Planning Association of Australia, which found him guilty of breaching its professional code of conduct nine times last year.

According to ASIC, Australia's five largest banking and financial services institutions have paid a total of $119.7 million in compensation, as at June 30, 2019, to customers who suffered loss or detriment because of non-compliant advice given by financial advisers.

Scourge of late payments

Late payments cause a world of hurt for small businesses. They create uneven cash flow, which affects the ability to pay regular outgoings such as bills and wages, and can lead to missed business opportunities. In extreme cases, it can force businesses to shut down.

Surprisingly, big businesses are the worst offenders. Data from the international research company Illion reveals that for the 2019 March quarter Australian companies with 500-plus employees had an average late payment time of 14 days.

Research from accounting software Xero, which analysed more than 10 million invoices from over 150,000 Australian businesses, showed that from July 2017 to July 2018 an estimated 53% of invoices worth $115 billion were not paid on time by big businesses.

There are a number of proactive steps that SMEs can take, including automating the invoice process, running credit checks on new customers, conducting cash flow forecasting and looking at invoice finance.

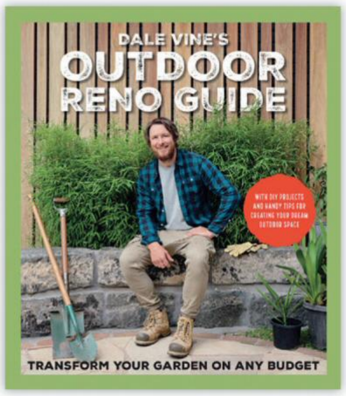
Greg Charlwood, managing director, Australian Invoice Finance

$20bn

is spent each year on gifts in Australia, according to recent research from the Financial Planning Association of Australia. It equates to about $100 per month or $1200 per year. We spend the most on spouses/partners, followed by children, parents and pets.

NEWS&VIEWS

BOOK OF THE MONTH



OUTDOOR RENO GUIDE

Dale Vine
Hardie Grant, $39.99

Dale Vine, a much loved contestant from *The Block*, says even small changes to your backyard or garden can make it an Instagrammable haven. As a professional landscaper, he provides simple and practical examples to walk you through the entire renovation, from initial visions and planning to final execution.

Vine's message is simple: you need a plan. And regardless of your skill level, whether you're starting with bare ground or renovating an existing space, he demystifies the process of turning your humble garden into a place you'll want to relax in.

DARREN SNYDER

Ten readers can win a copy.
In 25 words or less, tell us your best advice for garden care. Enter online at moneymag.com.au/win or send entries to *Money*, Level 7, 55 Clarence Street, Sydney, NSW, 2000. Entries open September 2, 2019 and close October 2, 2019.

APP OF THE MONTH

THE MONEY PODCAST: ABC RADIO NATIONAL

Successful investing hinges on understanding what makes economies tick, recognising how changing markets can drive new opportunities, and being able to tap into the trends of the future. Radio National's *The Money* podcasts explain how the economy and everything in it works, and how it's all connected to the global economy.

It turns out, for instance, that bees are worth $14.2 billion to the Australian economy, pollinating about a third of our food; computer games are the fastest growing segment of the global entertainment market; and there's just over $18 billion in forgotten money waiting to be claimed.

There's no hard sell, no stock tips – and, of course, being the ABC, the podcasts don't plug particular brands. But if you're looking for well-researched information on subjects as diverse as how cryptocurrencies work to the likely impacts of Brexit, you'll find it here ... and it's free.

NICOLA FIELD

TAX TIP

When renovations can be claimed

Renovating a rental property can be an expensive and time-consuming business, but the good news is that many of the costs can be claimed as a tax deduction.

Broadly speaking, any work you do to renovate your property will be tax deductible straightaway or will qualify as an improvement, which is an item of capital expenditure that will need to be written off over time.

Items that potentially can be claimed straightaway against your current year's rental income include repairs to make good or remedy defects in, damage to or deterioration of the property.

Major renovations, such as remodelling a bathroom, are classed as capital improvements and are either depreciated over the life of the asset or claimed as capital works deductions, so you'll spread the cost over several years or even decades.

If you have just acquired your investment property and you are fixing defects that existed when you bought it, the costs should be capitalised and will not be immediately deductible, even if the type of work would normally be deductible as a repair.

If you get a builder to do work that consists of both repairs and improvements, the ATO recommends that you separate these costs. Ask your builder to produce an itemised invoice to help you work out your claim. Otherwise, all the expenditure will need to be treated as capital and written off over time.

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

SNAPSHOT Eat, drink ... and pay up, please

Survey of 1001 people

Source: Bankwest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Belinda & Katie, Greater Bank Home Loan Customers, Armidale
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WINNER Money MAGAZINE AWARDS 2019 HOME LENDER OF THE YEAR
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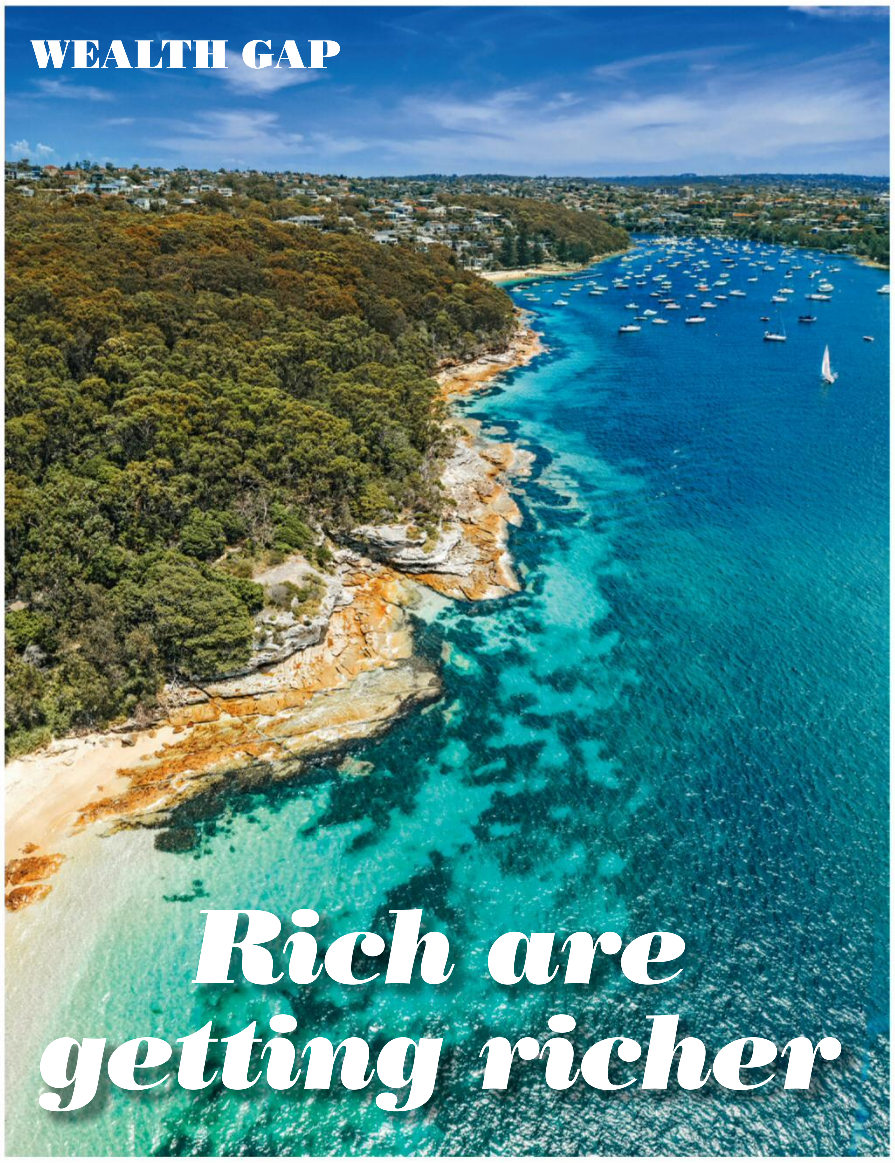
MY MONEY

▶ MORE MONEY STORIES ON P44-55



WEALTH GAP

Rich are getting richer

Australia's rich are getting richer, and although poorer cohorts are closing the gap they are making slow progress.

The latest Roy Morgan Wealth Report shows the wealthiest 10% of Australians have an average net wealth of more than $2 million (up $811,000 since 2007). They also hold 47.9% of the country's net wealth. The poorest 50% have an average of $31,000 (up $11,000). While this is a welcome gain, the group's total share of Australia's net wealth has fallen from 3.9% to 3.7%.

Roy Morgan says growing personal net wealth is highly correlated with age. The 65 and over segment has the highest average net wealth of $759,000 (up 95% since 2007), well ahead of the 25 to 34 age group with an average of $111,000 (up 6%).

NSW has the highest average at $503,000 (up 91%), followed by Victoria on $465,000 (up 89%). Both are well ahead of other states in amount and growth rate, mainly due to increased housing values.

"Although all wealth levels are showing gains, inequality remains a problem," says Roy Morgan chief executive Michele Levine.

"Addressing the needs of poorer groups benefits the entire community and the economy generally, but that is not going to happen unless we break 'the poor' down into the right sub-groups and find solutions suited to their particular needs."

73% of Australian households were in debt in 2017-18, according to the ABS. Of these, 28% were paying off a debt that was three or more times their annual disposable income.

Young savers dispel the myth

Just as many millennial Australians are saving for a house deposit as they are for an emergency fund. Research from super fund Spaceship, which interviewed more than 1000 Australians, shows those aged 20-29 are mostly saving for a house deposit and for a "just in case" scenario (both 23.4% of respondents). This is closely followed by saving for a car (22.8%).

More than half of people in their 20s are saving at least 10% to 20% of their income. And 65% of the millennial cohort started saving as soon as they entered the workforce.

Spaceship chairman Andrew Moore says the results dispel a myth that millennials are financially irresponsible. "We've all heard young Australians are irresponsible spenders, living from one pay cheque to the next, and spending all their money on avocado toast," he says. "This research shows younger people are actually leading the charge when it comes to saving. They're focused on saving for a housing deposit or having money set aside for unexpected emergencies, showing they're far more responsible than given credit for."

Australians born in the 1980s and 1990s reported feeling more financially secure than

older Australians, though Spaceship recognises that this difference could come down to financial pressures introduced later in life.

Moore says the research painted a positive portrait of the savings habits and financial mindset of most Australians, contradicting the "doom and gloom" picture that has dominated the economic landscape in recent years.

Other findings:

- South Australians are the most confident savers in Australia, with more than two in three backing their own financial judgment.
- In NSW, residents are more likely to rely on trusted family members for saving advice.

COMPILED BY DARREN SNYDER

PROPERTY

MIGRATION

A nation on the move

Property research firm Propertyology says population growth due to internal migration has a bigger impact on property markets than new migrants from overseas.

Propertyology head of research Simon Pressley says Australians who elect to move from one city to another were likely to strengthen property prices far more than overseas migrants looking to start a new life in Sydney and Melbourne.

"Both of Australia's two largest cities are currently in the middle of their biggest property market downturns since the late 1980s – this is occurring at a time when both cities produced two consecutive years of all-time record high population growth," he says.

Propertyology analysis of Australian Bureau of Statistics data has identified the locations where populations are benefiting most from intrastate and interstate migration.

The locations of choice for Australian residents are satellite cities, or tier-2 cities on the outer fringe of capital cities, and major regional cities, which are classed as tier-3 cities that play the role as a "capital city" for larger regions.

Pressley says Queensland, Hobart and parts of regional Victoria and NSW are the big winners.

"With a median house price that's only 60% the cost of Sydney, the Gold Coast attracted 7441 new residents from other parts of Australia last year. Last year the 6370 Australians who relocated to the Sunshine Coast was more than the 4266 who relocated to Melbourne.

"Likewise, for the 5559 people who left Adelaide during the year ending June 2018, a similar combined volume of people moved to Geelong and Port Macquarie.

"The combined sum of people who decided to move town and chose Fraser Coast (1376), Maitland (1189), Bendigo (980), Ballarat (883), The Tweed (829), Scenic Rim (637) and Dubbo (375) is comparable to the 6659 people who packed their bags and left Australia's fourth largest city, Perth."

Clearance rates continue to climb

Auction clearance rates across Australia recorded their strongest result in 12 months during the June quarter, according to latest CoreLogic data. Clearance rates in Melbourne, our largest auction market, increased over the June quarter while Sydney's rate outperformed both the previous quarter and the June 2018 quarter.

Highest number of auctions for the quarter: capital city suburbs*

Capital city	Suburb	Auction volumes
Sydney	Mosman	76
Melbourne	Reservoir	132
Brisbane	Wynnum	27
Adelaide	Prospect	22
Perth	Duncraig	13
Canberra	Narrabundah	19

*Based on total auctions held across the suburb over the reporting period.
Source: CoreLogic

In non-capital-city markets, clearance rates also increased over the June quarter, with Geelong leading the charge (56.4%), while the Gold Coast was the busiest of the regions with 571 homes taken to auction.

CoreLogic analyst Cameron Kusher says the improved trend in auction results provides further evidence that conditions are stabilising, especially in Sydney and Melbourne, where a trend towards higher rates has been most pronounced.

Capital city June quarter auction clearance

Capital city	Rate %	Auction volumes
Sydney	59.1	6776
Melbourne	59.5	7838
Brisbane	32.3	1380
Adelaide	47	1082
Perth	27.4	409
Tasmania	60	41
Canberra	50.8	578
Combined capitals	55.5	18,104

Source: CoreLogic

Over the three months to June 2019, the clearance rate for the combined capital cities was 55.5% (across 18,104 auctions). The previous quarter saw fewer auctions and a lower clearance rate (49.9% across 14,647 auctions). CoreLogic adds that lower volumes in the March quarter are not surprising given low activity during the new year period.

The weekly trend in clearance rates also improved, holding above 50% for 11 of the 13 weeks. Across the last three weeks of the June quarter, rates sat above 60%.

Despite an improvement in capital city clearance rates, auction volumes are down 30% from the June 2018 quarter when 25,824 homes were taken to auction.

▶ MORE PROPERTY STORIES ON P56-63

COMPILED BY DARREN SNYDER

INVESTING

▶MORE INVESTING STORIES ON P64-73

ETFs

Bonds boost the appeal of index trackers

Online investment adviser Stockspot believes Australia's exchange traded funds will hit $100 billion by 2022 and represent 0.6% of the global ETF market.

In its fifth annual ETF research report, Stockspot says downward pressure on fees, the underperformance of active funds and increased awareness of ETFs as an investment will fuel industry growth.

Stockspot chief executive Chris Brycki says whether you're investing in Australian shares, global shares or bonds more than 80% of active fund managers have consistently failed to beat the index.

"It's no wonder investors are abandoning risky stock picking for the safer option of tracking the market index," he says. "ETFs have become the recommended investment product of choice for independent advisers who are looking out for their clients' best interests."

The research shows bond ETFs attracted almost a third of all new ETF money in the 12 months to March 2019, almost doubling funds under management. It is one of the few asset classes to perform well in 2018, serving its purpose as a counterbalance when shares fall and also benefiting from interest rate falls.

ETFs tracking the broad Australian sharemarket had a one-year return of 13.1%. The average active exchange traded managed fund (ETMF) tracking the sharemarket returned 5.9%.

The underperformance of active ETMFs is consistent with SPIVA research, which shows 80% of Australian fund managers failed to match the index return over 15 years, says Stockspot.

At a glance

- Twenty-four new ETFs were launched in the 12 months to March 2019. Ten closed.
- As at March 2019, the best performer over one year was ETFS Physical Palladium (52.4%).
- Vanguard Australian Shares Index was the most popular ETF with funds under management increasing by $924 million over the last year.

'No' to freeze on super guarantee

Australians do not support a freeze on the superannuation guarantee at 9.5%, according to a recent survey commissioned by Industry Super Australia.

The survey of 1099 people aged 18 and over, conducted by research company UMR, finds 87% are in favour of increasing the super guarantee (SG) above its current level of 9.5%.

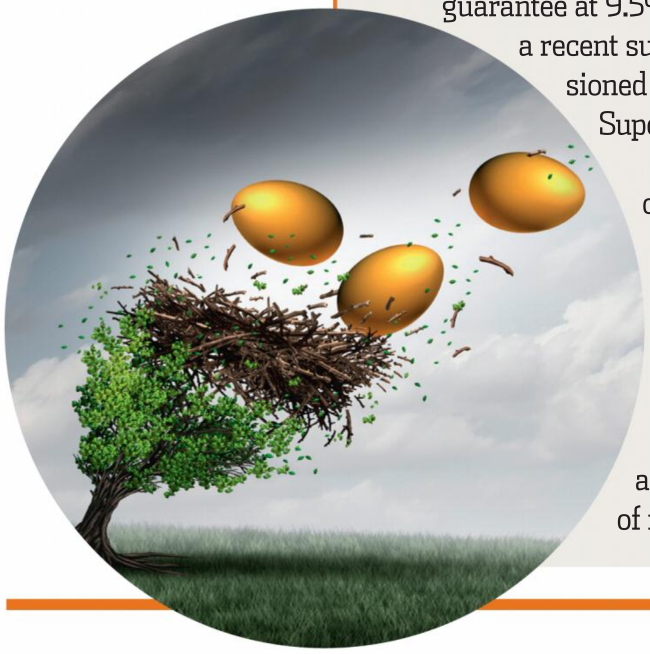
Industry Super Australia chief executive Bernie Dean says Australians have overwhelmingly rejected a push to wind back the super guarantee. "Australians are rightly concerned about their retirement and whether they will be able to make ends meet."

The survey says about 17% expect to have less than $50,000 in super at retirement and 26% expect to have between $50,000 and $200,000.

About one in five Australians (19%) expects to be able to live comfortably off their super. Most say they would either need to work longer to have enough money to retire, or rely on the pension if super contributions didn't increase.

However, even among those who expect a super total of over $500,000, only half (51%) are confident they will be able to live comfortably in retirement.

Industry Super Australia analysis shows that if the SG was frozen at 9.5%, a 30-year-old male earning $85,000pa would stand to lose $147,000 from their super by the time they reach retirement.

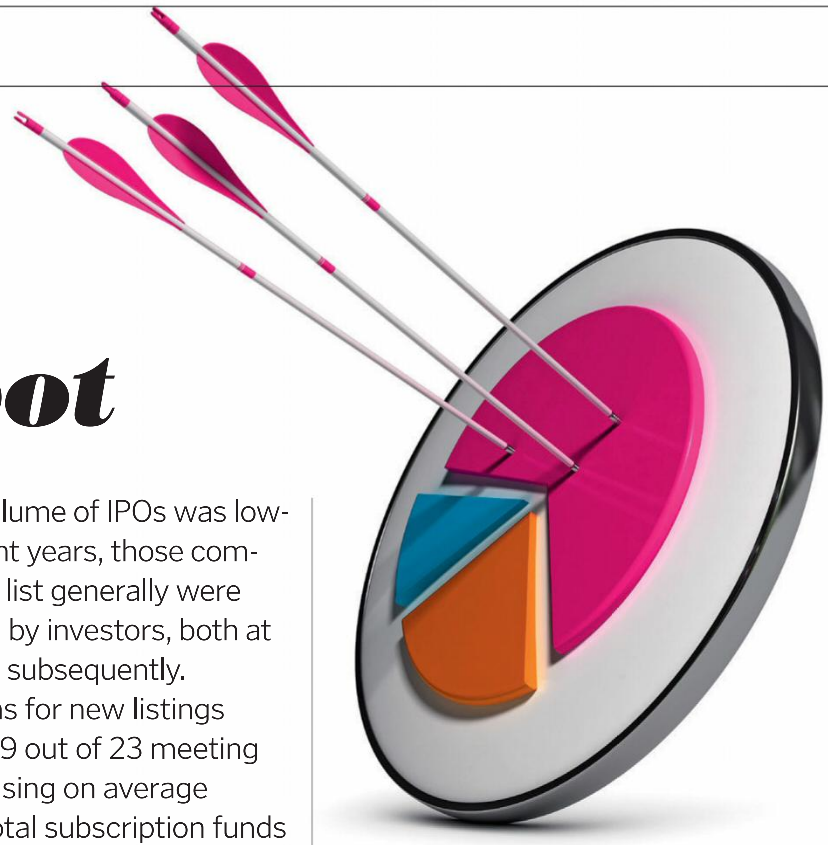


COMPILED BY DARREN SNYDER

SHARES

IPOs

Floats hit a profitable spot



Marcus Ohm, partner HLB Mann Judd

Share prices for 17 of the 23 new listings or initial public offerings (IPOs) jumped, on average, by 21% on the first day of trading over the 2018-19 financial year.

In terms of share price growth after listing, there was an average gain of 63% across all new entrants to June 2019. This represents a significant turnaround compared with the previous year's listings, which lost an average of 18% by year end relative to their listing price.

IPO listings had a slow start in 2019 and most occurred in the second quarter. The lack of activity in the first quarter of the year was possibly reflective of equity market conditions at the end of 2018.

While the volume of IPOs was lower than in recent years, those companies that did list generally were well supported by investors, both at listing and also subsequently.

Subscriptions for new listings did well, with 19 out of 23 meeting their target, raising on average 100% of the total subscription funds sought. There was also a substantial increase in underwritten offers representing 39% of all new listings, compared with 17% for the same period in 2018.

The small cap sector (less than $100 million market capitalisation at listing) has been notably subdued with only 13 offerings, but the large cap sector has been well represented in new listings for the first half of 2019, accounting for 10 of the 23 launches.

An underlying reason behind the drop in IPOs this year compared with the past couple of years has been the materials sector.

Materials had only three new listings for the period, compared with 16 for the same period last year. The reduced activity perhaps reflects broader macroeconomic issues and current investor sentiment.

However, the broader share price gains have been a particularly good result and represent a return to the trend of IPOs tending to outperform the market, which has had a good six months. Most industry sectors also performed well, with 10 recording first-day gains and 10 also recording positive gains on average to June 30, 2019.

▶MORE SHARES STORIES ON P74-85

HOLD ASX (ASX)

The Intelligent Investor James Greenhalgh

RECOMMENDATION

BUY	HOLD	SELL
below $60.00	up to $95.00	above $95.00

HOLD at $83.17

Source: Intelligent Investor; price as at 22 July-19 close of business

ASX will report reasonable earnings growth this year but don't expect it to continue. The stock looks expensive but great businesses deserve some slack.

The 2019 financial year was a good one for ASX. A bull market, combined with a nice bout of volatility in the December quarter, means the company is poised to report its best earnings growth for years.

We'll say more after the company reports its 2019 results on August 15. But what we do know is that ASX is unlikely to suddenly become a high-earnings growth company. Most years it will probably struggle to report much more than 5% growth, even if 2019 is the exception.

What investors seem willing to pay for now is earnings consistency. As a result, the stock has jumped 22% since we reviewed the interim result. Perhaps shareholders are also counting on a special dividend following the sale of ASX's 18.6% stake in Iress.

At this price, ASX looks expensive on a prospective 2019 PE of 33. Few other stock and futures exchange companies trade on those sorts of multiples. Those that do, such as CME Group or Hong Kong Exchanges and Clearing, are larger businesses with superior growth potential.

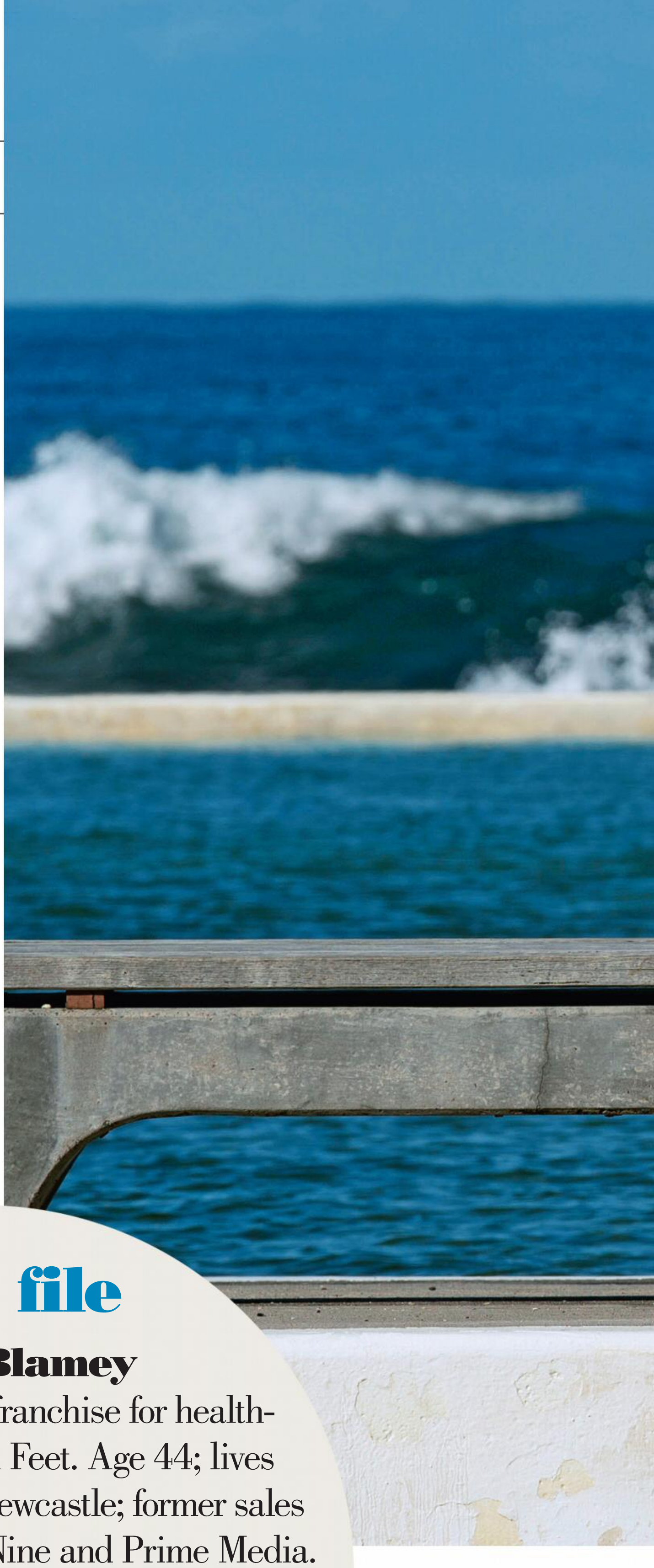
Still, we're reluctant to let great businesses go and are prepared to give ASX a bit of leeway. With that in mind we're lifting our buy price to $60 and our sell price to $95.

James Greenhalgh is a senior analyst at InvestSMART.

COMPILED BY SUSAN HELY

STORY ALAN DEANS

A leap of faith, feet first



Fact file

Jarrod Blamey

Holds the Australian franchise for health-orientated chain Good Feet. Age 44; lives at Merewether Beach, Newcastle; former sales executive with Channel Nine and Prime Media.

An avid saver, using a $1000 inheritance from his grandmother at age 16 to invest in shares; is buying a warehouse for his business through his super fund. Relaxes by surfing and walking along the beach each morning with his dog.

It was a wrenching decision, but Jarrod Blamey's move out of hometown Sydney up the coast to regional Newcastle was critical to the success of his franchising start-up. He needed an ideal market to test his new business. He was strongly advised that set-up and running costs would be crushing in a big city, threatening the commitment and planning he had already spent in setting it up. He and his wife, Rebecca, were reluctant at first to uproot. But the results so far, and a relaxed, beachie lifestyle, makes them glad they took the leap.

Blamey owns the Australian franchise for a US company called Good Feet, which sells shoe inserts for those who suffer foot, back and neck pain. Hailing from San Diego, the global parent company kicked off 27 years ago and custom-makes the inserts. It has a global base of more than 100 stores. Six of them are in Australia, five owned by Blamey and one that he on-sold to a franchisee. He plans to eventually have 35.

"What I love about franchising, if you get the right one, is the people who help and support you," he says. "I have never been great coming up with an invention or an idea. There was no point in me wasting time doing that with a business. But I like the idea of having someone help me, drive me to improve, particularly when they already have the experience. That makes life a lot easier."

Not only did the Good Feet network do that, but so did the local people he met through his membership of the business-focused Entrepreneurs' Organisation.

Blamey previously had other franchises – a home builder and a waste broker. While this confirmed his views that he likes working in such a business, he wanted to hone his focus. He adopted three new criteria. The next franchise had to help people, it had to be something that could be leveraged and expanded and it had to provide him with a lifestyle.

Good Feet seemed to tick each of the boxes. Blamey had long suffered from back pain. He had sought treatment from chiropractors and physios, but nothing worked effectively. He had even tried other custom-made orthotic shoe inserts. "My back was so bad in the mornings that I would roll from side to side to warm up before I could get moving. I have always been active. I ride bikes, run a lot, surf, do everything. But it was getting to the point where it was hard to do very much at all."

On a trip to the US, he ordered inserts from Good Feet. After persisting with them for six months, he started feeling better. Later, Rebecca did the same because of a neck problem. Orthotics are sometimes

MICHELE MOSSOP

criticised for not always being effective. Blamey warns that it can take months to feel the difference, however, and says people sometimes don't keep using them. He claims that the level of complaints he receives is low. One reason is that his staff have a strong conviction about the inserts and, he says, they are careful to ensure customers know how to use them.

"There are 300 styles of orthotic. They can go into women's high heels, a gumboot, any shoe you have in your cupboard. The idea of an arch support is that they put your foot into the ideal position, which helps to align your body and puts the biomechanics into a better position. It's like putting braces on a child. Over time that makes a better bite. That is what our supports do to your feet."

An important reason why the couple opted to move to Newcastle was that they had worked in media. They understood the importance, and cost, of marketing in starting such a venture. Blamey was a TV sales executive and Rebecca was in magazines. After they set up their first store in Newcastle, the first four or five months went well. The results seemed to vindicate their move out of Sydney. "Then we had an awful month when we didn't even come close to covering costs," says Blamey.

"I rang up Good Feet in America, and told them I was going to drop marketing to save money. They said: 'Well, if you do that, you are on the downward spiral. For the next month, you need to put an extra $10,000 into marketing. It's either that or you go on a downward spiral.' I didn't know whether I could do it, but I said OK. They had been right up until then. The next two months were the biggest months we had, and the ball just continued rolling." He came within a whisker of making his biggest mistake.

Luck also played a part. Not long after arriving in town, Blamey met one of the region's sporting heroes, "Chief" Paul

Jarrod Blamey with Milo the spoodle at Merewether Beach, Newcastle.

> **I have never been great coming up with an invention or an idea. But I like the idea of having someone help me, drive me to improve.**

I would get up at 3am and wrap newspapers and deliver them with Dad from the back of the car

Growing pains ... Blamey says the challenge of funding his business "keeps me up at night".

Harragon. The man is huge. A former Newcastle Knights and NSW Blues rugby league forward, Harragon is renowned for his strong, tackle-busting runs. "He was about to have an operation to get two totally new knees. He couldn't walk down stairs, he couldn't run. He was planning a charity trek across Borneo, up and over a big mountain, but he said that he didn't know if he could do it. He was going to get new knees in February of this year, but I urged him to try inserts." Harragon quickly felt the difference, and went on the trek. He now appears in advertisements for Good Feet, and has been interviewed on radio about his recovery. Blamey says this exposure has had a positive impact on sales.

He has recently hired a marketing expert to help boost sales further. The franchise has expanded from its Newcastle base, first to the Queensland coastal town of Maroochydore. This was a smaller test market than Newcastle but Blamey was being cautious. Later, a big move was made into Brisbane, with three stores to help spread marketing costs. One store in Adelaide, which is being franchised, makes up the current chain of outlets although there are plans for ones soon in Hobart and Canberra.

"As soon as we went to Brisbane, we found the marketing costs were so much more expensive. Sydney is even more again – five times more than that. A rollout plan in Sydney would require us to open six shops at once. In Brisbane, we were able to open three at once and get bang for the buck. So we will open Perth and Hobart, and even Auckland, before Sydney. We will do the small centres and then come into Sydney and Melbourne."

One check on these ambitions is the ability to fund the business. "That keeps me up at night," says Blamey. "When you are growing at this speed, it is hard. Importing our inserts from the US is an issue because of the Aussie dollar dropping in value. Our pricing hasn't changed. We have re-mortgaged the house to help out. I have always loved investing, dabbling on the stockmarket, and we were lucky enough to buy our house in Sydney with those returns. When this opportunity came up, we used the equity in our house. Moving forward, any money that we make we are putting back into the business."

Blamey credits Rebecca as being the backbone of the business. It was she who urged him to contact Good Feet after discovering they didn't have any outlets in Australia. He also credits his father, Chris, with instilling in him a strong work ethic from his ownership of a newsagency in Sydney's St Leonards. "I would get up at 3am and wrap papers and then deliver them with Dad from the back of our car. Then on the weekends I filled trolleys with papers and went around Royal North Shore Hospital, visiting patients in bed. A few months after starting, I took them lollies as well, so I ended up having two trolleys to wheel around. I was about 11 or 12."

He developed a sharp focus on saving, and then investing. "Savings has been the key. It is there for a rainy day. You have to keep putting it away. But with the business, there's no point in saving if you don't know what the expenses will be. So you need to look at sales first, and the savings and costs after."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Home Insurance not available in North QLD, NT and North WA.
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Keen to boost income, savings

A novice investor wants advice on how to avoid the shares 'minefield'

CASE STUDY

MICHELE MOSSOP

NAME: Andreas Nassar.
STATUS: Married to Natalie, with a two-year-old son Aiden.
QUESTIONS: How do I invest effectively in the sharemarket? Where do I start? What are the right shares for extra income and growth? What is a trusted cryptocurrency exchange with reasonable fees that is Australian based rather than an overseas one? What is a good strategy for investing in cryptocurrencies?
ANSWERS: Work out the best structure for your investments as you may be able to reduce your tax and improve your asset protection. A diversified portfolio of low-cost exchange traded funds (not active ones) that you buy on the ASX is probably best for you. It could return on average 9.5% a year. Enrol in a course run by a reputable institution such as a university. It is possible to lose all your money in cryptocurrencies so only invest what you can afford to lose. Reliable cryptocurrency exchanges include CoinSpot and Caleb and Brown, and HiveEx for large amounts.

Job security is important for most people, particularly when they have a mortgage and children. It is why 47-year-old IT specialist Andreas Nassar swapped his consulting role and short-term renewable contracts for a dependable public service job. He and his wife, Natalie, bought a home last year. While the pay is less, the job has excellent conditions and is secure over the long term. But Andreas admits he is missing the extra income and would like to build up their savings, invest and earn extra income.

He is interested in two investments: shares (Australian and international) and cryptocurrencies such as Bitcoin.

He admits his foray into share trading has been difficult but he wants to persevere. "I find the sharemarket a minefield," he says. "Where do I start? Who do I invest with? What are the best sorts of shares?"

Andreas went to a financial planner for help but instead of shares he was persuaded to put his money into a company that the planner was setting up with some global investors. Luckily Andreas only contributed a small amount because it turned out the planner, based on the Gold Coast, was an embezzler and eventually was wanted by the police.

Not surprisingly, Andreas is a bit nervous now about what to do. He would like to be a do-it-yourself investor and learn more about shares so he isn't gullible. What are the best courses that explain the basics such as getting the most out of an online broking account?

Andreas is interested in cryptocurrencies and has dabbled in them over the past two years. "I learnt my lessons early on," he says. Even though currencies are volatile and picking the right exchange has been problematic, he has made a small profit and would like to have modest exposure.

But cryptocurrency exchanges aren't regulated and some have been hacked. "What is a trusted cryptocurrency exchange that is Australian based with reasonable fees?"

He has used CoinSpot, Independent Reserve (based in Australia), Plus500 (UK), Coinbase (US) and Binance (a Chinese exchange based in Japan). Andreas found it hard get his money back into Australia from one of the exchanges and had to use Changelly and Binance to release the money back in his bank account.

COMPILED BY SUSAN HELY

Right structure can cut tax and protect assets

JASON PETERSEN

Jason is a financial planner and head of 5 Financial's wealth management division in Sydney. 5financial.com.au

Starting with the end in mind is critical, so Andreas and Natalie should, as a first step, define their life's goals.

Next they should be aware that the structure in which their investments are held is far more important than what they invest in. Getting the structure right will help reduce tax and provide better asset protection. Examples of structures Andreas and Natalie could consider are to own investments through superannuation or a trust, or in Natalie's name. After this, they'll need to choose investments that meet their requirements and fit with the level of risk with which they're comfortable, remembering that if something sounds too good to be true it usually is.

Just as Andreas swapped his consulting role for the security and stability of a job in the public service, he should consider the relative safety of a highly diversified portfolio of shares, property and bonds over cryptocurrencies. (The potential payoff from cryptocurrency could be significant; alternatively, it could deliver a significant loss.)

A cost-effective and smart way to invest is through a suite of exchange traded funds (ETFs) offered by large, reputable organisations such as BlackRock, Vanguard and BetaShares. ETFs allow you to construct a highly diversified portfolio of shares, bonds and property (asset classes) with a single trade on the ASX for each asset class, with an ongoing cost of less than 0.1%. For example, the Vanguard US Total Market Shares Index ETF (ASX: VTS) gives access to the whole US market at a cost of just 0.03%. You own just a fraction of each company, with the top 10 holdings including Apple, Microsoft, Facebook and Google. No need to try to pick winners. Although no predictor of the future, over the past 50 years a diversified market-based portfolio has returned around 9.5%pa.

Comprehensive long-term research by Standard & Poor's highlights that up to 90% of professional investment managers fail to consistently beat the market after costs. So it's expected that non-professionals dabbling in the stockmarket will be even less successful. Instead, I'd encourage Andreas and Natalie to invest in an ETF portfolio that's broadly diversified. ETFs are a highly transparent and cost-effective investment structures that are more likely to deliver relatively stable and solid returns over the long term.

To learn more about sensible share investing, look for a reputable provider, such as Sydney University. Note that many "trading courses" advertised online are designed more to benefit the course providers rather than the participants, so do your homework before committing.

> **With a diversified ETF there's no need to try to pick winners**

With interest rates so low, Andreas and Natalie should maximise repaying their home loan, with a larger proportion of repayments going toward principal rather than interest, and build smart home loan repayment strategies.

Although SMSFs can be quite powerful, they aren't right for everyone. If Andreas and Natalie want to do it themselves, there are alternatives that don't have the overheads and the responsibilities of a self-managed super fund.

Despite the bad experience Andreas and Natalie have had in the past with an adviser, it's really worth their while to find a good one who can educate and guide them, and bring all the pieces together.

Treat it as 'play money'

ALEX SAUNDERS

Founder of Nugget's News, an online educational cryptocurrency website for investors with 500 YouTube videos, tutorials and explanations. nuggetsnews.com.au

Cryptocurrency is a high-risk and volatile asset so I never encourage anyone to invest more than they can afford to lose. You have to treat it as play money because we are in a tech space that is very new.

Exchanges in Australia are supported by an industry body, Blockchain Australia, previously called ADCA, of which I am a board member. The approved Australian exchanges have never been hacked and they have low fees. There are exchanges such as CoinSpot that give you access to a range of coins in Australia. There are plenty of others out there that are trusted.

If you want to be able to pick up the phone when you are buying and selling cryptocurrencies to have a conversation with a broker who can walk you through the process, we recommend Caleb and Brown for amounts over $2000. They do look after our clients well. For amounts over $50,000 we recommend HiveEx. A lot of investors want someone to hold their hand if they are getting started.

Keep in mind that while we call a lot of projects cryptocurrencies, it is a misnomer. They are not currencies but projects in different industries using blockchain technology for decentralisation, and all the benefits that come with that, to disrupt and improve innovation in their particular field.

Some of the best blockchain applications we have seen so far are for supply chains, logistics and traceability, voting, decentralised finance and peer-to-peer trading of anything that can be tokenised. It is a rapidly growing space. Just as with the dotcom bubble, there are going to be some great projects that will pop up and change our lives.

For example, what has happened with Facebook's proposed currency, Libra, proves that blockchain is a good application for payments and money. I describe it as a "corporation coin" as Facebook has taken some of the aspects and ignored others. It is challenging retail banks and central banks but I believe Bitcoin is the real competition.

A lot of the time the best place for a beginner who wants to get into the sharemarket is an ETF or index fund, rather than trying to pick stocks themselves. The market knows a whole lot more than we do. Choose a sector that you are interested in or invest broadly in the whole market.

Q&A

Newly married Scott wants to plan for the future so ...

Buy while the market is flat

Q My wife (28) and I (30) are recently married and looking at investment options. I own the property we are living in, which I bought it as an investment three years ago and was negatively gearing until we moved in earlier this year. I owe about $220,000 on the mortgage (4.29% interest rate). Repayments are $1200 a month and we are paying $1600. I am studying (high school teaching) full-time and working part-time with plans to graduate at the end of 2020.

My wife is working full time, earning $97,000 before tax. She has never bought a house but has $80,000 invested in shares and $75,000 in a term deposit, earning 1.65%. We don't plan to have kids in the next two years and are considering what may be our best way forward financially.

The options we are thinking of are to pay off the house using my wife's shares/cash; look at using her shares/cash as a deposit on another house as we don't plan on being in our current place long term (one or two years); or invest in more shares, keeping our debt to a minimum. Any thoughts?

For two young people, what an excellent position to be in financially, Scott. I am also delighted you are studying. Education, in particular while you are young, is a key to future financial independence.

The first step I would argue is to pop your wife's term deposit money into your mortgage via an offset account so it is easily available. She is currently earning a taxable 1.65%, which is a terrible rate – it should be over 2%. In the mortgage it will be effectively earning 4.29% tax free. I would hang onto the shares based on the argument that they should return more than the 4.29% you are paying on your mortgage.

The property market looks to be flattening out, or at least not getting worse, so I would suggest it is a pretty good time to buy the place you want to live in for some time. After the recent cuts, you should get a homeowner's mortgage at around 3.4% if you choose to go that way. Clearly, with your wife's $155,000 you have a great deposit. The question becomes: can you retain the current property as an investment and still purchase the home you want without going into silly amounts of debt.

Here you need to sit down with your current lender and crunch some numbers. While you are at it, tell them to improve on the 4.29%, if they have not already. If you can keep your current property without over-stretching, that will be great in the long term. But if logic dictates it has to go, that is also OK. Naturally, do your research and buy in a growth location with terrific transport and facilities such as decent coffee.

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*.

Robyn reckons she is running out of time but …

Don't panic – choose a top fund and get going

Q We have decided we have 20 years left (we'll be 67 years old by that time) to make something happen. Looking at Canstar's figures, AustralianSuper has performed well. We will choose a balanced option as I have heard this is logical for the long term and returns were 9.87% on the Canstar website. We are so afraid of selecting the wrong super fund. Could you at least say that any of these top-rated balanced super funds would be as safe as possible while still getting as close to a 10% return in the long term?

We have about $50,000 in super now. However, as soon as we make the decision on which fund to go with, I will start contributing $70 a week pre-tax, off the top of my gross earnings, and my hubby will do the same. So we'll both be contributing, plus what our employer gives at 9.5%. We are so concerned about having nothing at 67 and need to get this going ASAP.

Yes, it is a bit terrifying, Robyn! I know exactly how you feel, in particular as we age. Getting good returns with decent security is a real concern. Good on you, though, for taking the bull by the horns and moving on this by making the most of the next couple of decades.

I have no problem with any of Canstar's top-rated funds – it has more expertise than I do. All these big, low-cost funds have broadly diversified, global portfolios. They have all done really well over the past 15 years, but remember that past performance is not a predictor of future performance. Personally, I think 10% is too high an expectation in these low-inflation times.

At age 64, I fret more than you do, as my super is basically my lifestyle. But what I can tell you is that my money in super is invested in the same mix of assets as it would be with a big industry fund: global and Australian shares, fixed interest, property, bonds and infrastructure. I'm sure that over the next 20-plus years we will have great returns some years and shockers in other years. In bad years, your money and mine will go backwards.

My expectations are closer to an average 7% a year. I would be delighted to be wrong and see higher returns, but I do not think you, I or anyone else can do more to safeguard our financial future than by investing with a quality manager, in diversified assets while paying low fees.

AustralianSuper or the other highly Canstar-ranked funds makes complete sense. Get started ASAP.

To ease his 5.65% interest rate burden, Tim should …

Attempt to negotiate a better deal

Q I have three investment properties with mortgages at three different banks. My ANZ and ING loans are quite competitive.

However, my third loan, with Liberty Financial, is at 5.65% principal and interest. My loan to value ratio (LVR) was originally 95% but now that the Perth property market has slumped it's more like 100%.

The problem I have is that I think it would be difficult to re-mortgage with another lender.

I have tried to negotiate with Liberty for a better and fairer rate, but they are refusing to budge. Can you suggest anything to help me get a better deal with Liberty? Or do you have any other suggestions?

Tim, I need a magic wand here. Liberty will not move, so your only hope is to try to package up your loans with one of your existing lenders. To do this I am sure your three properties will need to have total equity of around 20%.

One piece of Reserve Bank magic is our base interest rate dropping to 1%. Plus, of course, lending restrictions are loosening up again, so it is a pretty good time to talk to your existing lenders.

Q&A

Whitney feels out of her depth so look at the big picture ...

Start with a home

Q I am a 41-year-old recently divorced woman. I have returned home to Australia after living overseas for many years. I have $50,000 to invest (50% of a retirement annuity received in the divorce settlement) and $50,000 in child support maintenance, of which I need to use $12,500pa for my children's expenses over the next four years.

Do I put $110,000 in an account (currently earning 7% pa), use the interest and $5000 of the capital for the maintenance each year, thus saving some of the capital; or do I invest the $50,000 into a super fund, which according to online compound interest calculators will give me roughly $193,500 at 7% interest (seems to be the average over the past decade) in 20 years (referring to the cover story in *Money*, June 2017, "Why you only need $275,000 in super to retire"); or do I have the opportunity to buy a small two-bedroom unit (great for me once the kids have left home) for $300,000? I could put down a 20% deposit and rent it out for now to start paying off the mortgage until I can move in.

The property would be positively geared; however I will have no super and will probably only be in a position to start contributing to a super fund in 2023.

If I start contributing to a super fund in 2023 at $100 a week for my last 20 years of working, I would have $228,000 (if the online calculators are correct) plus a (hopefully paid for) home.

What should I do? I'm trying to avoid any more disastrous financial decisions and feeling completely out of my depth.

Well, to start with, Whitney, you get bonus points for a very articulate description of your situation and the decisions you face. About the only thing I do not understand is the 7% on funds in an account. About the best I can see is 3%, including a "new account bonus" for four months.

I find the "big picture" to be the place to start. Owning a home to live in is, in my opinion, a cornerstone to future financial security, not to mention the emotional and lifestyle benefits of your own home. Super is terrific, but in your case the money is locked away for some 20-plus years.

The property market has been going backwards for some years. You'd think that interest rate cuts and population growth, plus the fact that unemployment is low, would see property values stabilise and start to grow. So I support your plan to buy a home, rent it for a while and move in when you can.

Super really is super. From your comments you will be in a position to add to super in a few years and you will have a couple of decades to do this and see it compound in value.

My vote is to go with the property strategy, but obviously I only have brief information on your situation, so it is critical you do your own research on the purchase and your capability to service the loan.

Rob wants advice on where to invest for his baby son ...

ETF is a long-term present

Q We have recently had a baby boy and would like to set up some form of investment or account where we will deposit money on a regular basis with the intention that he will access it later in life. What do you suggest would be a suitable course of action that has limited risk but will tick over until the time comes?

What a great idea, Rob! My parents did this for me from birth with not a lot of money each year and in my mid to late 20s it made a huge difference to buying a home and starting my business. We did the same with our three kids and are about to do it again with our new grandchild.

I suggest an exchange traded fund (ETF) where you can make regular contributions. The huge and very low-cost managers such as Vanguard and BlackRock are an easy way to get a global or balanced-type fund. Dollar cost averaging and compound returns will do the heavy lifting for you.

SMART SPENDING

Destination Hawaii (Oahu)

Treasure island ... clockwise, from above, Waikiki Beach; Oahu's dramatic coastline; USS Missouri museum on Pearl Harbor; a shave ice cone.

Six things to do

1. Admire: Take in the scenery from above with a helicopter ride. Hawaii has a diverse range of landscapes, from a 300-metre cascading waterfall to lush valleys made famous by the *Jurassic Park* movie and white-sand beaches and turquoise waters. Some of these sights can only be seen by air because they are too dangerous to access (legally) by foot. Tip: wear dark clothes for the helicopter ride or your photos may end up with your reflection in them.

2. Drive: Around the scenic coastline up to North Shore. Most cars on this trip are driven by tourists, so if you see a motorcade turning off at a particular point you know you're close to the next photo-worthy pit stop. These include coral beaches where you can scuba dive, blowhole lookouts, pristine beaches and winding roads that squeeze between the ocean and mountain ranges.

3. Visit: Pearl Harbor National Memorial. The surprise attack on Pearl Harbor by Japanese forces in 1941 resulted in the US entering World War II. The main attraction is the USS Arizona Memorial, which has been built above the wreckage of the sunken battleship. Over half of the 2335 deaths from the attack occurred on the USS Arizona. Accessible by boat only. A battleship that survived the war, USS Missouri, is now a floating museum.

4. Buy: A Hawaiian shave ice cone. Unlike a snow cone, which is made with crushed ice, a shave ice cone uses shaved ice and is like snow in texture. This allows the flavoured syrup to be absorbed by the ice rather than sinking to the bottom.

5. Hike: Hawaii is blessed with amazing hiking tracks that cater for all levels of ability, although most are difficult due to the mountainous terrain. Hikers can enjoy great views of volcanic craters, waterfalls and the city.

6. Capture: If you're not lucky enough to have a hotel room near the sea, stroll down to Waikiki Beach for an amazing sunset. Or if you're a morning person, drive across to the east side of the island for an equally amazing sunrise. ADAM BARKER

DRIVING PASSION

Downsizers can get more for their money

If you're no longer ferrying kids to school and sports, it could be a good time to downsize to a car that's more affordable, cheaper to run and easier to manage. And because smaller cars have lower base prices you might find yourself with a car or small SUV that's safer, better equipped and more luxurious.

These days there is a lot more commonality between large and small vehicles within a particular range – even hatchbacks and SUVs are sharing the same design language, interior look and feel, and equipment levels.

This creates a sense of familiarity that makes the transition easier, thus encouraging brand loyalty. Subaru seems to have got this right with its XV crossover, which has become popular with the brand's devotees looking for a small SUV to replace their Outback wagon.

Other smaller cars that do a great job emulating their bigger siblings include the Audi Q2, BMW X2, Mazda 3, Kia Cato, Mercedes-Benz A-Class, Range Rover Evoque and Volkswagen Polo.

DAVID BONNICI, WHICHCAR.COM.AU

$17,990-$30,990

Volkswagen Polo

The Polo (pictured) ticks all the boxes – it's cheap, well equipped, safe, spacious and driveable. It fits into small parking spots but feels like a bigger car, with a smooth ride and reassuring roadholding. The pick is the mid-spec 85TSI Comfortline auto for $21,990. For another $1400, the driver assistance pack provides a significant active safety boost.

Pros: Punchy engines; great roadholding.

Cons: Conservative looks; limited paint options.

volkswagen.com.au

$28,490-$35,490

Subaru XV

Based on the Impreza hatchback, the high-riding XV is aimed at a younger market but has found favour among former Subaru Outback or Forester owners. The XV shares the bigger car's AWD traction and excellent active safety system. Our pick is the top-spec XV 2.5i-S, which brings plenty of luxury and safety kit for less than the cheapest Outback.

Pros: Safety; driveability; versatility.

Cons: Engine and gearbox lack sparkle; smallish boot.

subaru.com.au

$42,300-$54,800

Mercedes-Benz A-Class

The new-gen A-Class looks like the stately E-Class sedan on the inside, but it's more technologically advanced. It features the latest MBUX infotainment system, which operates via voice command. The A-Class will soon have a sedan version. Keen drivers might like the more powerful A250.

Pros: Infotainment system; interior glitz; smooth transmission.

Cons: Bland A200 performance; ride quality.

mercedes-benz.com.au

EXTRAVAGANCE

The good life

The award-winning Worx Landroid robotic mower automatically adapts to the size and shape of your lawn and growth rate of your grass. The best bit? You won't have to lift a finger.

How much: Starts at $1499

Where to buy: worx-australia.com

WINE SPOTLIGHT

2018 Mr. Brightside by Mr. Riggs $20

This is a preservative-free McLaren Vale shiraz from a new label of the popular Mr. Riggs stable. It's light to medium-bodied, supple and vibrant with good intensity of mulberry and red cherry pastille flavours. The gentle dry tannins finish an attractive red designed to be drunk young.

SPLURGE

2017 Thomas 'Kiss' Shiraz $85

Andrew Thomas has been making some of the Hunter's finest shiraz and semillon for 20 years. This year he has released nine exemplary Hunter shiraz including six from single-vineyard expressions of the variety. While the flagship 'Kiss' Shiraz remains my favourite, it is fascinating to compare the difference the site makes. The 2017 'Kiss' is opulent, ultra-concentrated, seamless and plush with fruit flavours in the blackberry, blueberry spectrum. Fine, elegant, cellarworthy.

PETER FORRESTAL

SMART SPENDING

SMART TECH

Army of gadgets to keep you fit and healthy

There's an end in sight to the chilly, dark days and nights when it's all too easy to spend less time outdoors and more time huddled up under a blanket on the couch, with a TV remote in hand (and an obligatory bowl of comfort food).

Because of this tendency to veg out in winter, and with the warmer months drawing near again, now's a great time to think about some health and fitness goals for the summer. Tech makes it easier than ever to keep on top of this.

The modern activity tracker isn't yet 10 years old, but it's amazing how much fitness tech has changed the landscape in that time. There's a staggering array of products available depending on what kind of features you need (especially in the wearables segment of the market).

This month we're focusing on the affordable basics of fitness tech, pointing out how you probably already own some, even if you never realised it. But if your wallet (and monitoring goals) extend further, the sky's pretty much the limit these days in terms of quantifying your get-up-and-go.

PETER DOCKRILL

What is it? Fitbit Inspire
How much? $129.95
Pros: With wearables, the more you spend the more you get, with feature-packed smartwatches representing the top of the line. But there's still lots of functionality in simpler, entry-level wearables, such as Fitbit's Inspire (pictured), which offers a steps counter, distance and time tracker, calorie-burn tracker, sleep tracker, swim tracker and more. Looks pretty nice, too.
Cons: Lacks features common in more advanced gadgets (like the Inspire HR), notably heart-rate monitoring tools.
fitbit.com/au

What is it? Eufy Smart Scale
How much? $99
Pros: I'm a long-time fan of activity trackers, but there's a rival gadget that gets even more use in our home: the smart scale. This "smart" upgrade to regular bathroom scales lets you easily upload your daily weight (plus BMI and more) to the cloud, giving you an informative insight into weight change over time. This Eufy model integrates with multiple fitness platforms at about half the price of many name-brand products.
Cons: Bluetooth connectivity only.
eufylife.com

What is it? Smartphone health trackers
How much? Free
Pros: If you're curious about activity tracking, you can experiment with the gadget you most likely already own: your smartphone. Thanks to Apple Health and Google Fit, many new phones come with health-tracking capabilities (and there's a huge range of third-party fitness apps to download, too). These apps are limited to what the phone's sensors can detect (such as steps) or what you manually log, but they're a great starting point.
Cons: Phones make heavy pedometers.

GIVE IT UP

Steptember

What is it? A fundraiser to get you stepping out for health and to raise funds for cerebral palsy.
Where your money goes: The average office worker takes just 3000 steps a day – well below the recommended daily minimum of 10,000 steps. Steptember is a great motivator to notch up extra steps and raise funds for Cerebral Palsy Alliance (cerebralpalsy.org.au), which helps Australians living with cerebral palsy lead the most comfortable and independent life possible. Cerebral palsy is a motor disability that affects body movement and muscle coordination. Every 15 hours an Australian child is born with cerebral palsy, making it the most common physical disability in childhood. Yet the cause is unknown and there is no cure.
How to donate: Choose three friends and register your team. Wait by the mailbox for your pedometer and Steptember kit to arrive, then tap into the support of sponsors, with donations going to Cerebral Palsy Alliance. Rack up your daily step count by walking, jogging or dancing – you'll get fitter, sleep better and help a great community cause. See steptember.org.au for details.

NICOLA FIELD

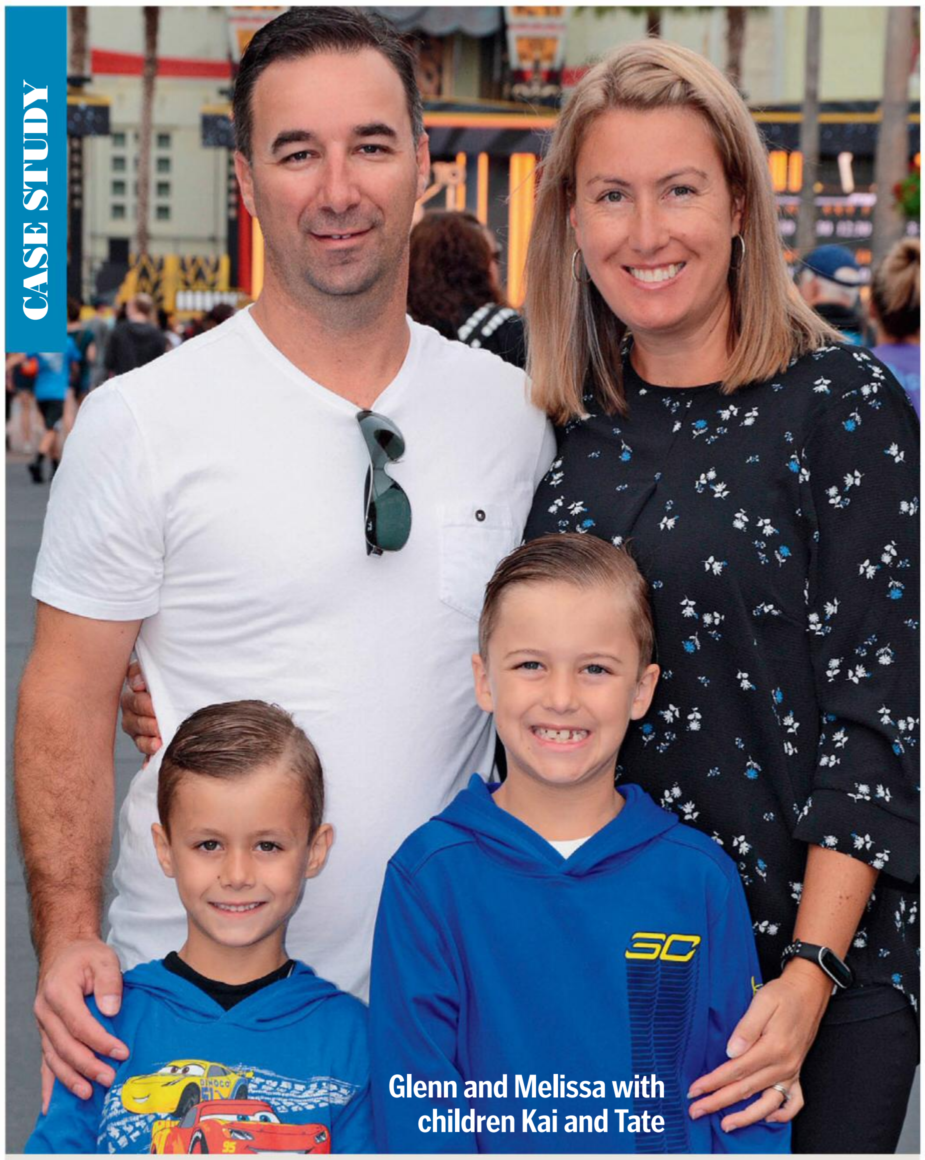
WEBFIND

CATCH.COM.AU

If you love a bargain (and who doesn't?) catch.com.au is worth a visit. This site offers bargains galore on a wide variety of items. At the time of writing, the discounts included 46% off Nike footwear, 65% off Sheridan sheets and 63% off Redken hair care products.

NICOLA FIELD

CASE STUDY



Glenn and Melissa with children Kai and Tate

Life-changing move

My husband, 39, and I, 41, are considering moving our family (children aged 6 and 8) from our outer south-eastern Melbourne home in Cranbourne East to the Sunshine Coast in Queensland.

Our house has recently been valued at $630,000 and our mortgage is $368,000. The mortgage has recently been refinanced at a rate of 3.03%. Our only outstanding debt (apart from normal living expenses) is a secure car loan with a balance of $17,000 at 5.64%.

We're unsure of the best approach. We expect our annual household income will drop from $180,000 to $140,000 with the move.

Option 1 is to keep our Melbourne property and rent it out at about $430 a week and then rent a house on the Sunshine Coast while we settle into new jobs and the children settle into their new school. After 12 months we'd be ready to buy a property.

Option 2 is to sell the Melbourne house and purchase a property on the Sunshine Coast.

Option 3 is to buy a Sunshine Coast property now and rent it out for two years before moving there and living in it. This will see us enter the market before the completion of the new Maroochydore CBD, when prices are expected to increase substantially.

Option 4 is to not pursue our seachange and aim to pay off our Cranbourne East house within 15 years, and reconsider the move in our mid-50s when our boys have completed their schooling.

We would like to live within 5km-10km of Mooloolaba beach or Maroochydore, and expect to pay $580,000-$620,000 for a home.

I hope you can provide us with your valuable advice before we uproot our young family and potentially make the wrong decision.

Melissa

Well, Melissa, this is a big one. It's a personal decision, but I can give you my thoughts from a broader perspective. Your four options are all logical and each has merits. But the real issue is you, your husband and your children. I am sure you are considering this move for a whole range of reasons, from housing affordability to lifestyle and opportunities for the whole family.

Over many decades of being asked the "move or stay" question, I reckon there is one rule that overrides everything else, and that is "try before you buy". We are all humans with strange quirks, beliefs and habits. One thing we all have, though, is great enthusiasm for the honeymoon period of a new relationship, friendship, car, boat or a job. Nothing is perfect, but imperfections in people or products tend to be hidden until we know them better.

I am a bit of a tragic when it comes to boats and have bought and sold quite a few over the decades for both racing and leisure. The great old joke with boats goes: "The two best days of owning a boat are the day you buy it and the day you sell it". I have loved most of my boats, but there is truth to this joke.

I can see from Option 4 that deferring your seachange for many years is one of your thoughts, so there appears to be no need to go immediately. Let me be blunt. You would need to be crazy to sell your home and move. You will only know if the move to the Sunshine Coast is the right one after the honeymoon period. I think you will need to be there for a full year, winter, summer, spring and autumn. You need to go from the honeymoon and holiday period into real life. This means living it with new work, new schools, new friends, possibly a greater distance to family, not to mention new neighbours.

Frankly, this is your only option. I can't help you as to whether you go now, later or never. But I can help you by ensuring you don't make an expensive mistake. If you sell your Melbourne home you are up for a bunch of costs. If you then buy on the Sunshine Coast you are up for another bunch of costs. If it does not work out, you return to Melbourne and incur more selling and buying costs.

The Sunshine Coast is a beautiful area. It is also a rapidly growing area. But when it comes to solid returns on property, it is hard to beat the economic engine rooms of our big cities. I don t have a crystal ball, but history tells me your property in Melbourne has excellent potential for future growth in value. So does the Sunshine Coast, but well-located big-city properties tend to do better.

The point here is that if you move to the Sunshine Coast and love it, you should buy there. But if you don't buy and rent for a while, I do not see that as being financially disadvantageous.

Paul's verdict:
Try before you buy – you would be crazy to sell your home and move

The decision about moving, and when, is yours. But rent in Queensland and rent out your home in Melbourne. That gives you a low-cost return option. If you love it after a year, reassess your property options. Owning where you will live long term is always a good plan, though.

Finally, this is not all about logic. It is about your family's life. So don't be scared to give this a go if you think it is the right move. But keep the return card up your sleeve!

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.

STORY PAM WALKLEY

AFTER TWO recent interest rate cuts – slashing the official rate to a historic low of 1% – there's no doubt those living off their investments, especially retirees, are feeling the pinch. And risk-averse investors – who have long hailed cash as king and mainly used term deposits to build wealth – are in danger of seeing their nest egg go backwards, especially as more interest rate cuts are expected. But don't despair – there are ways to maintain your passive income without taking on unnecessary risk. Here we look at some of the best options.

STRATEGIES TO BOOST YOUR INVESTMENT INCOME

INCOME IS KING

the new order

While interest rates have been dropping, the Australian sharemarket has surged, as have US shares and Australian listed property. The ASX returned 11.5% – as measured by the S&P/ASX Total Return Index – in the 2018-19 financial year. But the result wasn't without twists and turns, with the market down about 10% in the first half of the year and up about 20% in the second half, emphasising the wild ride investors need to be prepared for.

A coalition victory at the May 2019 federal election enhanced the second half rebound. Many investors felt they had dodged a bullet because they had feared the effects of Labor's proposed sweeping changes to the dividend imputation system, capital gains tax and negative gearing. On the first trading day after the election, the ASX rose 1.7% and the big four banks surged between 6% and 9%.

More recently, on July 30, the Australian sharemarket's benchmark index hit an all-time high after the S&P/ASX200 broke through the record mark of 6851.5 points, last reached more than 11 years ago. But in the first weeks of the August reporting season, volatility again hit shares, not because of poor returns from local companies but due to external factors, most notably the trade war between the US and China and renewed fears of a possible recession – a timely reminder that as investors we are all hostage to global events. At the time of writing the S&P/ASX200 closed at 6467.4 points.

Consider this: a retired couple want to achieve a comfortable standard of living – $61,522 a year at the end of the June quarter, according to the Association of Superannuation Funds of Australia (ASFA) – by investing in just term deposits and not eating into their capital. They would need $2.6 million at the best longer-term rate of 2.35% (over three months) that *Money* could find at the time of writing. Not many of us achieve a nest egg of that magnitude.

A single person wanting to live a comfortable life, needing $43,601pa, according to ASFA, and again investing only in term deposits, would need $1.85 million. This is more than the $1.6 million maximum that any individual can have in a pension account, which produces a tax-free income.

If you can improve your returns a little to 4% (around the long-term average income returns from the ASX 200), a couple with a lump sum of $1.43 million (with no access to a pension) can generate an annual income of $60,000 for 25 years, according to superguide.com.au.

And younger people saving for a house deposit or a kitty to start an investment portfolio are also finding little joy in sticking to bank accounts in this low interest rate environment. If you started with $5000 and saved $500 a month at an interest rate of 2.35%, it would take 14 years to save $106,298.

Move to riskier assets

It's not surprising that investors of all ages have realised they need to move some of their money from the comfort of government-guaranteed bank deposits (up to $250,000 for each account you hold, providing they're at different banks) and take a bit more risk to earn better returns.

One route trodden by many has been to seek out dividend-paying shares, especially those that also have fully franked credits. (These are dividends paid out of Australian taxed profits which allow shareholders to receive a rebate for the tax paid by the company on its profits.)

Some other countries have forms of dividend imputation systems, but in 2001 the Howard government supercharged ours, paying out franking credits in cash to shareholders who didn't have any or enough tax to offset them. From the point of view of these non-taxpayers, dividend imputation became a negative income tax: instead of them paying the government money, the government paid them.

Some have billed this as "free money" and undoubtedly some wealthy retirees have received huge amounts from this policy. For example, retired businessman Dick Smith recently pointed out he receives a $500,000 refund from the government.

Australia's unique dividend imputation system has meant that the tax benefits of franking credits have encouraged many self-managed super fund (SMSF) trustees and others to invest in highly concentrated portfolios of Australian shares. This is great when things go well in that narrow segment of the investable universe (the ASX represents only about 2%-3% of the world's bourses), but it's quite risky because it means investors are missing out on diversification.

hunt for yield

Reap the generous rewards

There's no denying that Australian dividend-paying shares do have a place in a balanced portfolio, especially for retirees and others seeking regular income. The average yield derived purely from dividends for ASX 200 companies is currently around 4.4%; globally the average dividend yield is closer to 2.5% and in the US it's about 2%.

And in the current cycle, income stocks have become flavour of the month, particularly in the lead-up to a dividend being paid, says Elio D'Amato, executive director at Lincoln Indicators.

If income is an investor's main objective, then they have less of a need to be exposed to the "risk" of seeking growth, says D'Amato. This means income investor portfolios will often be less volatile than those of growth-focused investors.

But total returns should never be ignored in equity investing. Indeed, many experts say you should consider both as a source of returns, meaning you need to be wiling to sell some shares as you go along. Some experts believe that when share prices are elevated and yields are falling (as could be argued they are now) the best short-term income strategy is to live off capital.

"With yields falling and prices elevated, the smart approach is to draw down on capital for income rather than take riskier bets on yield," says Peter Bolton, editor of YieldReport (yieldreport.com.au) in an article in *The Australian Financial Review* on July 20. "There is nothing wrong in living off capital after a period when asset prices have risen. That is better than being pushed further and further along the risk curve for yield, a strategy that probably will end in tears."

CSL (ASX: CSL), a global biotechnology juggernaut, is a good example of a stock investors can sell down when the price soars (and buy back when the price dips if you want to maintain your holding). CSL's price has grown about 580% in 10 years, although it's experienced dips, having ranged from $173 to $233 over the past 52 weeks. The company has a current yield of only 1.2%.

One problem with just pursuing income is that some of our biggest dividend payers have lost their lustre. This includes the big four banks and AMP, whose capital values have fallen in the wake of the banking royal commission. Some of the big four have seen their prices rebound, but not to pre-inquiry levels.

It's time for investors and retirees to reassess their income-generating investments to ensure they are invested in the best possible stocks, says Don Hamson, managing director and founder of Plato Investment Management. Plato specialises in maximising retirement income for pension-phase and SMSFs.

A recent changing of the guard in dividend-paying shares has been the rise of resource companies, says Hamson. "Dividend increases have been largely concentrated in the resources sector with traditional income stocks like the big four banks and Telstra either maintaining or cutting dividends."

Hamson's Plato Australian Shares Income Fund has distributed a record amount of dividends in 2018-19. It returned 16.4%, comprising 11.6% cash after fees with 4.8% franking.

The income returns from seven resources companies in 2018-19 are shown in the table ("Digging for Yield", page 38). Five included special dividends, which are unlikely to be ongoing, but the outlook is still rosy for high yields to continue from this sector.

The iron ore producers in particular have enjoyed high prices – though they have become bumpy in early August – and the supply and demand fundamentals are strong, says Hamson.

On the supply side, the disruption of supply from Brazil due to dam failures has stripped about 90 million tonnes of high-quality ore from the market. And at the same time Rio, BHP and Fortescue are not spending to build the next mine. "They are happy to maintain supply levels. This means higher prices and also more dividends for investors," says Hamson.

On the demand side, China is still producing record levels of steel because of a proliferation of big infrastructure projects to keep the economy strong. And it's also focusing on reducing pollution and so is using more high-quality Australian and Brazilian ore rather than low-quality local ore, says Hamson. "We are pretty bullish, but of course these things can change."

12 great dividend payers

COMPANY NAME	COMPANY CODE	ROE*	FORECAST YIELD	GROSS FORECAST YIELD	TOTAL RETURN IN 12 MONTHS
BHP Group	BHP	17.5%	9.3%	13.3%	7.1%
Wesfarmers	WES	11.2%	7.1%	10.1%	4.4%
Westpac Banking	WBC	11.3%	6.8%	9.7%	-7.8%
ANZ Banking	ANZ	11.8%	6.1%	8.7%	-11.4%
Commonwealth Bank	CBA	12.8%	5.8%	8.2%	-1.5%
Suncorp Group	SUN	9.0%	5.4%	7.8%	-15.2%
AusNet Services	AST	8.2%	5.6%	6.6%	10.9%
Spark Infrastructure	SKI	5.8%	6.5%	6.5%	-0.7%
Spark New Zealand	SPK	32.2%	6.2%	6.2%	8.8%
Macquarie Group	MQG	15.9%	5.0%	6.0%	-4.6%
Telstra	TLS	17.3%	4.1%	5.9%	33.9%
Arena REIT	ARF	7.0%	5.0%	5.0%	27.2%

Source: Lincoln Stock Doctor. *ROE: return on equity

The banks are expected to continue to experience tough conditions over the next couple of years, says Hamson. This means they're unlikely to produce great increases in profits, but they're also likely to continue to pay decent dividends.

Indeed, three of the big four banks are included in the 12 great dividend payers that Lincoln's Stock Doctor fundamental share analysis program prepared for *Money* readers.

Stock Doctor aims to identify the healthiest businesses on the ASX. "Without understanding the true health of a company you're investing in, you're purely speculating and seriously risking loss," says D'Amato. "While growth is not the main objective, it's important from a total return perspective. Star income stocks offer investors a selection of quality businesses which are expected to pay a yield at or above the market rate into the future and also offer the possibility of some capital growth. Chasing yield at all cost is risky business, mainly as the dividend yield is an inverse function of the share price."

A falling share price can lift a yield and place the stock among the biggest dividend payers. But the price fall may be a signal the market thinks the business is not doing well. "This is exacerbated if the fundamentally underperforming business is forced to cut dividends, such as Telstra did back in early 2017," adds D'Amato.

Plato's Hamson also warns about dividend traps. He says AMP is a good example. "ETFs focusing on just dividends may well have bought AMP in the second half of last year because it had a 10% yield, but that's because its share price had collapsed." Then the beleaguered company cut its dividend and now it pays no dividend.

"To avoid dividend traps you need to make sure the dividend is sustainable, at least till the next dividend." says Hamson. "We tend to look at the next six to 12 months – it's impossible to know what will happen in six years."

Another good source of income and growth over the past year has been Australian real estate investment trusts (A-REITs). The sector (measured by the S&P/ASX 300 A-REIT Accumulation Index) returned 19.4% in the year to June 30 compared with 11.5% from equities. It's offering a 4.5% dividend yield, with forecast growth in dividends of about 3%pa over the next four years, according to Patrick Barrett, portfolio manager of listed securities at Charter Hall.

But investors need to be careful when choosing an A-REITs as there is a wide disparity between the best and worst performers. The best over the past year were Charter Hall Group (CHC), one of the 10 top-performing shares for 2018-19, returning 72.4%, and Goodman Group (GMG), returning 59.9%. The poorest performers – Unibail-Rodamco (URW), with -27.5%, and Scentre Group (SCG), with -7% – have significant exposure to the poorly performing discretionary retail sector.

For those who don't want to choose their own A-REITs, three exchange traded funds (ETFs) have returned more than 20% over the past year: VanEck Vectors Australian Property (MVA) at 28.42%, Vanguard Australian Property Securities (VAP) at 21.2% and SPDR/S&P ASX 200 Listed Property (SLF) at 20.68%.

Funds can do the job

Investors who don't have the time, funds or ability to build their own dividend-paying portfolio have a big choice of managed funds, ETFs and listed investment companies (LICs) aiming to provide income.

"Reading the fine print is imperative with any investment, but especially in the income space," says Morningstar analyst Matthew Wilkinson. "Many product names use 'income', 'dividend' or 'imputation', yet the strategies can vary markedly in cost, complexity, and risk/reward profile," said Wilkinson in a January 2019 report into the Vanguard Australian Shares High Yield ETF (VHY). "Several high-dividend ETFs have launched since 2010. These products are similar but have their nuances."

For investors who prefer managed funds, some income-focused strategies enjoyed great success in 2018-19, which saw a dividend bonanza on the ASX.

And so it was no surprise when an income strategy was named best-performing Australian shares fund for the year by Mercer. Legg Mason Martin Currie Australian Real Income A Fund returned more than 20% over the 12 months and more than 16% over five years, according to Mercer. Major holdings include A-REITs and transport infrastructure, giving investors access to sectors not so readily available in some other income funds.

Retail investors need a minimum of $30,000 to access the real income fund and can make additional investments of $5000.

Plato Australian Shares Income Fund is another actively managed strategy, which was the top performer

Avoid the yield trap

A falling share price can lift a yield and place the stock among the biggest dividend payers. But the price fall may be a signal the market thinks the business is not doing well.

over three years with a return of 13.6%pa, according to Mercer. The fund holds a diversified portfolio of about 100 stocks and has paid 9.7% gross income, which includes franking credits, since it was started in 2011, says Plato's Hamson.

The fund is designed to suit low-tax-paying investors and has dual objectives, says Hamson: to make more income than the market but also to focus on total returns.

Investors need a minimum of $100,000 to invest in the Plato fund, but for those who can't afford this – or want to invest less – Plato also runs an LIC, Plato Income Maximiser (PL8), with a minimum $500 investment.

It's based on the same strategies as the fund but has some differences, says Hamson. It suits those who prefer listed investments to managed funds, which often require lots of paperwork. And the LIC structure enables the fund to retain earnings, so it can bank dividends and franking credits to smooth out dividends and provide a regular monthly income – the only LIC that does this. The Plato Maximiser yielded 8.6% in 2018-19, including a special dividend plus 3.7% franking.

The largest LICs, Australian Foundation Investment Company (AFI), Argo Investments (ARG) and Milton Corporation (MLT), yield about 4%, before franking, according to ASX data.

As closed-end funds, LICs can trade at a premium or discount to underlying net tangible assets (NTA). Persistently larger discounts to NTA are a problem for investors, but can also be an opportunity in higher-quality LICs that revert to their average premium or discount. Buying quality LICs when they trade at a discount to NTA can reduce valuation risk for yield seekers.

Digging for yield

Resources company	Excluding special dividends	Including special dividends	ASX 200 index weight
Alumina (AWC)	18.7%	18.7%	0.32%
Fortescue Metals (FMG)	5.5%	18.1%	0.84%
Whitehaven Coal (WHC)	7.4%	12.0%	0.15%
BHP (BHP)	6.3%	11.6%	6.82%
Rio Tinto (RIO)	6.0%	10.8%	2.22%
Woodside Pet (WPL)	8.1%	8.1%	1.89%
South32 (S32)	6.8%	7.9%	0.94%

Gross income including franking 2018-19
Source: Plato Investment Management

Choosing funds, ETFs or LICs to invest in does require you to do some research. Stick to managers who have a good reputation, are credible and have proven expertise with a good track record, says Robin Bowerman, head of corporate affairs at Vanguard.

He says size also matters, as do fees, which can seriously impact returns. Vanguard, which has a low-fee reputation, offers equity income investors the choice of its High Yield Australian Shares Fund or its listed version, the Australian Shares High Yield ETF (VHY).

The fund invests in companies with higher forecast dividends relative to other ASX-listed companies. To increase diversification, it restricts the proportion invested in any one industry to 40% of the total fund and 10% for any one company. Started in July 2004, the fund currently invests in 62 companies and the minimum investment is $5000. Returns since inception to June 30, 2019 have been 7.95% a year, including distributions of 6.38% each year. Three-year returns are 10.39%. Retail fees are 0.9% up to $50,000, reducing to 0.6% to $100,000 and 0.45% over that

The ETF version requires only $500 for the investor to get started and has fees (0.25%) that are far lower than those of its active peers. It's cheaper than rival yield ETFs and Vanguard's equivalent unlisted fund, says Wilkinson in his report into the fund. "It's a well-run offering suited to investors looking for cheap income-focused exposure."

Both the Vanguard funds and Russell High Dividend Australian Shares (RDV) use forward-looking consensus forecasts to avoid companies at risk of cutting their dividends, says Wilkinson. "Where brokers are accurate, this should identify dividend traps earlier."

"The iShares S&P/ASX Dividend Opportunities (IHD) and SPDR MSCI Australia Select High Dividend Yield (SYI) both focus on trailing dividends, but the former uses price momentum as a signal for the risk of dividend cuts, while the latter monitors balance-sheet metrics."

Launched in 2015, the S&P/ASX 300 High Yield Plus ETF (ZYAU) incorporates both dividend yield and share buybacks, says Wilkinson.

"Increasingly sophisticated ETFs are also available. For example, BetaShares launched Equity Yield Maximiser (YMAX) in 2012, offering a covered-call approach, which involves holding stocks and writing call options over them to generate additional income.

"In 2014, BetaShares also launched Australian Dividend Harvester (HVST), which

reconsider

Investors' home bias can be risky

Many investors who bailed out of bank shares in the lead-up to the May 2109 federal election jumped straight back in on the first day of trading after the Coalition retained government, with the prices of the big four rising by between 6% and 9% on that day.

One positive that may come out of Labor's pre-election threat to Australia's unique and generous dividend imputation system is that some investors may realise an over-reliance on this tax strategy, and more broadly on dividends from Australian equities, can be risky.

"Now the election dust has settled it is perhaps timely for investors to ask themselves how much home bias is too much," says Aidan Geysen, senior investment strategist and manager at Vanguard. "There's a risk that a number of investors have become too complacent about the risks of holding a high concentration of Australian equities, and in many cases the exposure might be made up of just a handful of individual companies."

The level of home bias in Australian portfolios is among the highest in the world, says Geysen. The average exposure to Australian equities within MySuper default funds comprises over 40% of the equity allocation, as reported by APRA. This compares with Australia's market cap within global indices of around 3%.

One positive for income investors in the lead-up to the election was that many enjoyed an income bonanza as some companies prepared for a change of government and dividend imputation policy by paying special dividends.

Mining, investment and other companies committed to billions of dollars in special dividends at their half-year results in February, after Labor vowed to remove cash refunds for excess franking credits from July 1 if it won the May 18 election.

Fortescue Metals, Whitehaven Coal, BHP, Rio Tinto and South32, investment companies Australian Foundation Investment, BKI and AMCIL, and travel agency Flight Centre are among those that paid special dividends.

Make sure it will last

You should know how your super is invested. It's important to maintain a reasonable allocation to growth assets, such as equities, so your super will last as long as you do.

super perks

How to keep the dream alive

The prospect of living without any income from work for maybe 30 years or more is scary for most people, yet that's what's in store for many of us.

The earlier you plan for this long vacation the better if you want to live your dream retirement, but in reality many of us put it off for as long as possible.

Think about what your ideal retirement will look like – and cost – then add up the potential income sources you may have to support yourself. This could include a superannuation fund, government entitlements, investments, savings or an expected inheritance. You should also aim to have paid off the mortgage on the family home by the time you retire as this gives you more options.

Research shows that more than half (53%) of Australians fear outliving their retirement savings and 28% regret not putting more money away for retirement. The National Seniors Feeling Financially Comfortable report, released in April, also revealed that 84% rated having a regular and constant income as a very important factor in their financial planning.

If you start five years out from retirement you can make a difference to your nest egg. Putting as much into super as you can afford – and are allowed to – is a good, tax-effective strategy. Full details of the limits to how much you can contribute are on the ATO website (ato.gov.au). For example, if you are aged under 65 you can make a non-concessional contribution of up to $300,000 using the bring-forward rule.

You can start accessing super when you reach your preservation age – between 55 and 60, depending on when you were born. To give you flexibility you could consider accessing a portion of your super balance via a transition to retirement pension (TTRP), when you become eligible, while continuing to work full time, part time or casually.

You can use a TTRP to reduce your work hours and ease yourself into retirement or as a way grow your super more rapidly. The first strategy means you can continue to receive employer contributions to super for longer and pay less tax, as if you're over 60 your pension payments will be tax free. The second enables you to build your super balance faster as you'll receive a higher income – some of it tax free if you're over 60 – and be able to make voluntary salary sacrificed contributions to your super.

Make sure your super fund is among the top performers over the long term. And you should also know how your super is invested. It it's in a balanced fund you might consider moving to a more conservative option, including more income investments to preserve your capital. But it's also important to maintain a reasonable allocation to growth assets, such as equities, so your super will last as long as you do.

If you're close to retirement and things are looking pretty dire, you could consider using your home to boost your super. If you're over 65 and have owned your home for more than 10 years it's worth investigating the federal government's downsizing scheme, which enables each member of a couple to contribute $300,000 to super from the sale of the family home (see ato.gov.au).

Those who want to maintain some investments outside super should consider income-generating shares, funds, ETFs and LICs.

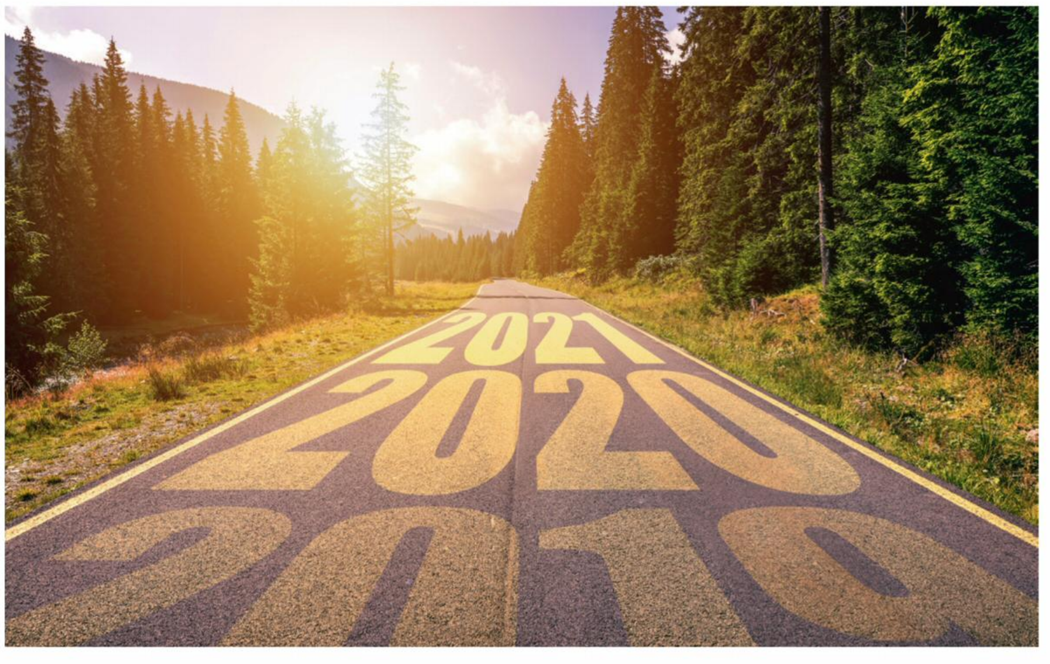
One ASX-listed income-generating fund with a difference is the MCP Master Income Trust (ASX: MXT). It invests in the Australian corporate debt market and is aimed at retirees who want a predictable income, stable capital and low volatility, says Andrew Lockhart, managing partner with its manager, Metrics Credit Partners.

The fund lends to investment-grade borrowers and is exposed to a broad range of industry and credit risks, so it provides lots of diversification, says Lockhart. "Individual investor exposure to any single loan would be about 1%."

The fund aims to provide monthly income with a target of the Reserve Bank cash rate plus 3.25%. It has returned 5.5%pa since inception in October 2017.

In April this year Metrics launched the MCP Income Opportunities Trust (MOT), which targets a cash yield of 7%, paid quarterly.

Because these funds are trust structures, all earnings are passed onto investors and there are no franking credits involved.



Build wealth from an early age

getting started

If you're a twentysomething with $5000 and want to build either a home deposit or a stash for some other purpose – maybe as a pathway to long-term wealth or to travel the world – saving it in the bank is no longer a viable option.

Cash has become a near disaster area for all investors, with the return over the past year only 0.7% ahead of inflation. And interest rates are expected to fall further.

While investment alternatives to savings accounts and term deposits require you to take on a level of risk, that's a trade-off many people have been forced to consider, according to Steve Mickenbecker, group executive, financial services, with comparison site Canstar.

Normally shares are not recommended for anyone who may need their capital within at least five years, but let's face it, not many can save for a home deposit in that time, especially in our most expensive cities.

"Bank savings accounts are really safe up to $250,000, so they serve a purpose if you just want to keep that money safe. But they shouldn't be seen as an option to build wealth," says Daniel Foggo, chief executive of peer-to-peer lending platform RateSetter.

A growing number of fintech platforms and apps have made it easier and cheaper than ever for new investors with small sums of money. RateSetter, for example, offers returns of up to 7.4%pa for a five-year term. You only need $10 to get going (see ratesetter.com.au).

But if you want equities to form the backbone of your portfolio, it's important not to put too many eggs in one basket as it can lead to increased volatility. Picking your own stocks also requires you to commit to doing heaps of research to make sure you avoid the duds.

There are platforms, such as Stockspot, that can help you with simple solutions to building a more risk-averse portfolio. You need $2000 to start investing through Stockspot, and can add to your investment regularly.

After you answer a few questions the platform matches you to one of its five personalised portfolios, made up of baskets of exchange traded funds (ETFs). For example, its mid-level "Turquoise" portfolio aims for medium returns with some protection against market dips. It has a mix of both growth investments, such as Australian and global shares, as well as defensive investments like bonds and gold. Three-year returns have been 8.8%pa.

You will pay fees for these types of services and they can be relatively high on small balances. For example, if you only invest the minimum $2000 the monthly fee of $5.50 will equate to 3.3% over a year (fees are waived for the first six months). But when your balance reaches $10,000 the fee drops to 0.66% (see stockspot.com.au).

Or you could buy into a managed fund that offers high overall returns and has an established track record. For example, the Vanguard LifeStrategy Balanced Fund has a minimum investment of $5000, with additional contributions allowed. It provides low-cost access to a range of sector funds, offering broad diversification. It's designed for investors seeking a balance between income and capital growth and has about 20% in Australian equities, 30% in international shares and 50% in fixed income.

This fund gets a good report and a gold rating from researcher Morningstar. "Vanguard Balanced continues to deliver compelling results with a simple diversified index portfolio at a low fee," says Morningstar analyst Donna Lopata in a July 2019 report on the fund. Over 10 years it's returned 7.71%pa.

The retail strategy has a sliding fee scale starting at 0.9%. If this fee is a concern, you could consider the equivalent Vanguard Diversified ETF product, which has an annual management fee of 0.27%, says Lopata, making them the cheapest multi-sector ETFs in Australia.

Vanguard's low-cost suite of multisector ETFs has recently secured four Morningstar gold ratings, with Lopata describing them as an "exceptional suite of listed multisector strategies". The four Vanguard options are: Diversified High Growth (VDHG), 10/90 income/growth; Diversified Growth (VDGR), 30/70 income/growth; Diversified Balanced (VDBA), 50/50 income/growth; Diversified Conservative (VDCO), 70/30 income growth.

"What makes this series of diversified strategies so appealing is its low cost and sensible portfolio construction," says Lopata.

These diversified ETFs have proved attractive to younger clients, says Robin Bowerman, head of corporate affairs at Vanguard Australia. They could suit those saving for a home deposit as long as they have a five- to six-year outlook and are prepared to take some risk, he says.

Take the easier route

If you don't have the time, inclination or temperament to build your own diversified portfolio, seeking out a good diversified fund or exchange traded fund could be the way to go.

Time is still on your side

empty nesters

The kids are educated, the mortgage is under control and you've managed to grow a nest egg outside super – and now want to supercharge it to give you more options in later life. Where you choose to invest will depend on several things, especially your tolerance of risk.

Part of your savings was probably built using bank term deposits when interest rates were higher, but if you stick to these it's likely your savings will go backwards. So you'll have to consider taking a bit more risk. The good news is you still have time and long-term returns from more risky investments have been good, if volatile.

Vanguard's annual index chart, which plots the returns across key asset classes over the past 30 years, reveals that $10,000 invested in 1989 would have grown to $146,337, $105,787 or $80,382 as at June 30, 2019 if invested in Australian shares, Australian bonds and international shares respectively.

The chart reflects the long-held view of Vanguard's founder, the late Jack Bogle, that "staying the course" and investing in a low-cost diversified portfolio are key investment principles for investment success, says Bowerman.

Wise investors should ignore the siren's call to react to short-term events or predictions and instead maintain a long-term perspective, he says.

The chart serves as a reminder that a diversified portfolio helps provide insurance against the peaks and troughs of domestic and global sharemarkets and fluctuating economic conditions."The role of diversification in one's investment strategy is simple. It ultimately serves to deliver more consistent returns over time by reducing the risk of any individual holding, asset class or market," says Bowerman.

If you don't have the time, inclination or temperament to build your own diversified portfolio, seeking out a good diversified fund or ETF, some of which are outlined elsewhere in our cover story, could be a good way to go.

If you would like more involvement in your investments, maybe you could choose your own basket of ETFs, listed investment companies or other listed products to build a diversified portfolio. Or you could choose to invest in several different sector funds, each managed by an expert in that field. ***M***

Sit back and watch it grow

$10,000 invested in 1989	Investment value in 2019	Return pa
Australian shares	$146,337	9.4%
International shares	$80,382	7.2%
US shares	$189,551	10.3%
Australian bonds	$105,787	8.2%
Listed property	$139,744	9.2%
Cash	51,896	5.6%
CPI (to June 2019)	$21,534	2.6%

Growth of $10,000 excluding acquisition costs and taxes with all income reinvested.
Source: Andex and Vanguard

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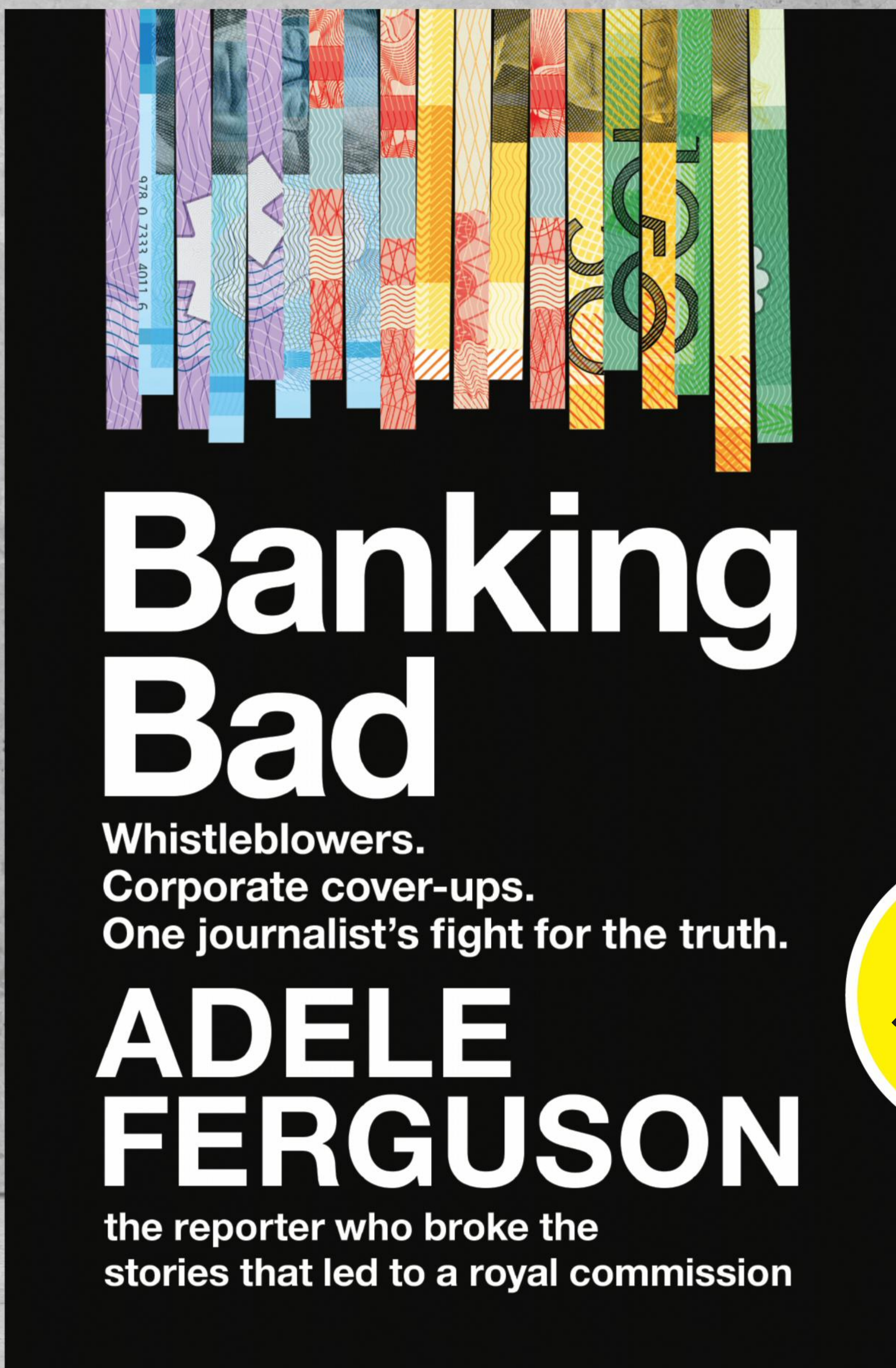

The shocking truth about Australia's financial institutions, as told by the journalist who did the most to bring about Australia's banking royal commission.

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The ABCs of advice

STORY
DARREN SNYDER

Planners have to come up with a new formula for adding value to clients' portfolios

During the banking royal commission's public hearings, the damage caused by poor financial advice was there for us all to see. It did little to repair the trust gap between financial advisers and existing or prospective clients.

Trust is only one problem plaguing financial advisers. We're increasingly savvy when it comes to managing money and more likely to manage our own affairs, which means advisers need to better demonstrate their value and do so quickly before advice becomes all too stale.

Jodie Hampshire, managing director of Russell Investments Australia, is concerned not as many of us will look for financial advice in the future because what an adviser has to offer – on the surface – will appear less appealing.

New adviser education standards (think more compliance and training) and forced changes to adviser business models (think fees for service; no grandfathered commissions) have led financial advice practices to tell Hampshire they'll need to charge more upfront. They think prospective clients will need a higher level of assets before advice is seen as an attractive and valuable option.

It's not all doom and gloom, though.

The way forward

Hampshire's not alone in feeling this way and it's partly why Russell Investments has called upon its global expertise in recent years to help spread the word that many of us can benefit from financial advice.

The company's 2019 Value of an Adviser Report estimates advisers deliver value of 4.4% or more every year to their clients beyond investment-only advice. For the average Australian, this would make a big difference.

"Start with a 40-year-old with a modest amount of savings and apply that 4.4% to it. Over a lifetime that's a difference of more than $550,000 in terms of an individual's wealth," says Hampshire. "[For example] it can mean the difference between private versus public health care – it makes a big difference in the assets of every Australian."

Dante De Gori, chief executive of the Financial Planning Association of Australia, says the future of financial advice will be "not as you know it".

Recently declaring financial advice as being of national importance and second only to our health, De Gori's vision for the industry includes advisers being recognised as professionals; advice becoming tax deductible; and universal access to advice with the assistance of low-cost technology.

"There will be truth in labelling – a consumer will know when they are getting advice and when they are being sold a product," says De Gori. "Product providers and other gatekeepers in the value chain will be held accountable for their role in any failures that cause consumer detriment – there will be proportional liability."

Seven months on from the royal commission, we would be right to ask whether we are any better off? The financial planning industry says changes are already under way.

"There will be no more ongoing fee arrangements as we know them today and there'll be an invoice for services actually delivered rather than for services that are promised to be delivered," says De Gori.

Do we value financial advice?

Anne Fuchs, head of advice and retirement at Sunsuper, says she knows some of us struggle to appreciate the benefits of financial advice and question whether it's worth investing in.

But according to the super fund's 2017 Value of Advice Report, which was published in conjunction with CoreData, 75% of us believe the advice we received was more than worth the cost, while 72% of us felt we have a better understanding of what to expect in retirement.

Roy Morgan research from 2018 showed 1.96 million Australians aged 14 and over (with an average value of $360,000) had used a financial adviser to purchase superannuation or managed funds, accounting for $703 billion in wealth management products.

At the time, Roy Morgan industry communications director Norman Morris said: "Any weakening of existing planning or banking relationships would leave the way clear for new entrants such as fintechs to enter the market."

Clark Morgan, head of strategy and development at Crestone Wealth Management, says the providers of financial services will only deliver better value if they truly understand what the target market wants.

Crestone, in conjunction with CoreData, surveyed 1000 high-net-worth (HNW) and ultra-high-net-worth (UHNW) Australians between January and February this year. The results imply these investors also have unmet financial advice needs and their portfolios are not necessarily sophisticated.

"The conservative approach that participants espoused is not reflected in the investments they had undertaken," says Morgan. "To me that was quite surprising – one, the mismatch in risk profile and portfolios; and two, the lack of engagement with a professional adviser."

Crestone's 2019 State of Wealth Report shows that less than 25% of the HNW and UHNW segment have an ongoing relationship with a financial adviser. Their portfolios were described as unsophisticated and were largely made up of cash, Australian equities and direct residential property (excluding the family home).

This leaves them exposed to downside risk, yet the majority described themselves as cautious and unwilling to tolerate more than moderate investment losses.

"Wealth will be preserved by a properly structured and diversified approach. And they [investors] will get peace of mind by having the requisite discussions [with their adviser] and crossing off the various components and attachments to their wealth," says Morgan.

He adds that, generally, HNW individuals (those with $1 million in investable assets) generated their wealth through one endeavour or one investment, meaning there was a significant level of risk undertaken. But protecting that same wealth must be met with a different approach.

"We call it the wealth paradox. Many of these investors are inherently cautious, but due to their lack of diversification they are increasing the risk profile of their portfolios significantly. They are risk-averse risk takers," says Morgan.

As easy as ABC+PT

Hampshire says to deliver Russell Investments' estimated 4.4% or more in adviser value, at the very least we should be looking for financial advisers who follow "the ABCs" of adviser value:

A – Is for annual rebalancing. Left to their own devices, individuals will usually let their portfolios drift and can end up with a different risk perspective or profile than intended. The rebalancing process attempts to avoid unnecessary risk exposure.

B – Is for behavioural mistakes. Advisers can't control markets but they can use behavioural economics to have better client conversations as well as to better understand client behaviour and biases to make better decisions.

"As markets go up, they're (investors) buying high and selling low. By avoiding one behavioural bias, advisers can add 1.9% per annum," says Hampshire.

C – Is for the cost of getting it wrong. Hampshire cites an example of an investor under the age of 35. "Without an adviser to coach that investor, they may choose to invest in a 30% growth portfolio when probably they should be invested in a 70% growth portfolio. The difference over a long time period can be 1.6%pa, so it's significant."

P – Is for planning. Russell Investments says a good adviser will build and regularly update a custom financial plan. They will conduct regular portfolio reviews and offer services such as estate planning, investment and cash flow analysis, retirement income planning, tax return preparation and one-off custom requests. There should also be a communication plan or engagement road map.

T – Is for tax-smart investing. Hampshire says no-one can live on gross returns – "you need to live on after-tax returns". And the technical expertise required to get the most out of your tax circumstances for superannuation is daunting, she adds.

Russell Investments estimates that tax-effective strategies can deliver between 0.9% and 1.2% of additional value, depending on whether you're in the accumulation phase or transitioning to retirement. *M*

CASE STUDY

Advice in action

Lisa is 58 years old. She works as a senior, full-time nurse.

Now that her two children have moved out of home, Lisa feels it's the right time to step back and transition into retirement by reducing her hours.

But the process of easing into retirement is a little daunting for her, so she feels her best chance at achieving her best possible retirement is with the help of a financial adviser.

Lisa's financial position

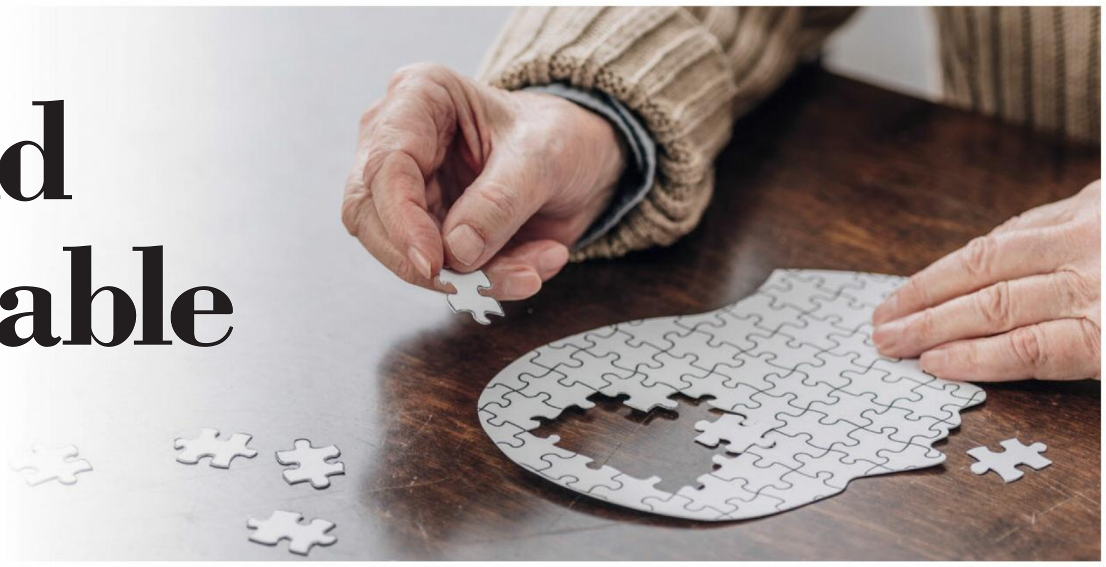
Income: $60,000pa
Living expenses: $35,000pa
Additional expenses: $5000 for holidays every two years
Super balance: $250,000
Non-super investments: $30,000
Home ownership: Yes, with mortgage outstanding
Investment property: $500,000
Mortgage: $150,000 (residential), $200,000 (investment)
Other liabilities: $10,000 (credit card debt)
Insurance: $29,000 Sunsuper default life + TPD cover
Future lump sum: $100,000 inheritance in 10 years

How the benefits can add up

The value of advice for Lisa from age 58 until retirement at age 65:	The value of advice for Lisa from age 58 until life expectancy at age 87:
$45,000 Total tax saved	**$75,000** Total tax saved
$3000 More drawdown from retirement income account in first year of retirement	**$12,000** More drawdown from retirement income account in first year of retirement
1.7% Additional average return on investments	**3.1%** Additional average return on investments
$24,000 Additional net assets at retirement	**$213,000** Additional net assets at life expectancy
$9000 Total interest payments saved	**$168,000** Less required reliance on government age pension payments
$17,000 Additional net earnings on super balance	**$306,000** Additional net earnings on super balance.

Lisa paid for financial advice: $3000 upfront plus $1500 each year from age 58 to 87.
Source: Sunsuper Value of Advice Report 2019.

A helping hand for the vulnerable



Significant memory loss can wreak financial havoc

Just over a year ago, a 63-year-old relative was diagnosed with dementia. He is the first person I know of in my close circle of family and friends to be affected, so when it happened I had no idea how debilitating it could be.

At first, it was the little things. Forgetting where he parked the car. Then it got bigger. Like the time he was stranded on the road because he forgot where he was or where he was going. He lost weight, forgetting to eat and losing his appetite altogether.

He has been a devoted father all his life, and his grown-up children rallied around him. Early this year, he got to the point where he couldn't do his own banking. The family had to start looking after his financial affairs.

Not everyone, however, has loved ones to look out for them. People living with dementia, especially the elderly, are vulnerable to scams and financial abuse. Con artists specifically target them because dementia affects a big enough number of us. St.George, for example, found in 2017 it had 900,000 customers over the age of 50. More than 13% had dementia.

The bank has since rolled out plans to become a "dementia friendly" institution. The badge requires the bank to train frontline staff to identify customers with dementia and assist them accordingly and to get their office branch audited each year to ensure it meets Dementia Australia's guidelines.

Banks are well-positioned to safeguard the savings of people living with dementia. In the case of St.George, Bank of Melbourne and Westpac, branch technologies have been updated to identify, record and maintain the files of customers who have been nominated as having a vulnerability. This helps in several ways, including allowing the account holder to use their signature (instead of a pin code) to do their transactions; to have important account information centralised so the account holder doesn't have to keep providing the same information; and to ensure that they are signed up for the right type of financial products and services.

It's not just banks. All types of finance institutions must be alert to potential scams. In the US, some investment firms ask customers for the contact details of a "trusted person" so they can inform the nominated person of any suspected financial exploitation. For example, there was the case of a healthcare scam where a fraudulent business was selling unnecessary orthopedic braces to hundreds of thousands of seniors. The US and Australia have also fallen prey to tax scams. Many Australian seniors have lost thousands of dollars to callers they genuinely believed were from the tax office.

In need of care

In 2019, Dementia Australia estimates almost 1.5 million people are involved in caring for someone with dementia.

The best form of protection is knowledge. There are three websites worth visiting to find out more about dementia and finance: dementia.org.au (Dementia Australia); moneysmart.gov.au (Australian Securities and Investments Commission, search for "Life events & you"); and the UK-based but just as useful alzheimers.org.uk (Alzheimer's Society, under the "Get involved" section).

The time after a diagnosis of dementia can be full of uncertainty and worry for the individuals and their families. To date, more than 440,000 people are living with dementia and almost 1.5 million are actively involved in caring for them.

It should be mandatory for all banks, not just a select few, to have the right framework in place to help people with dementia as they transition to a completely different way of banking.

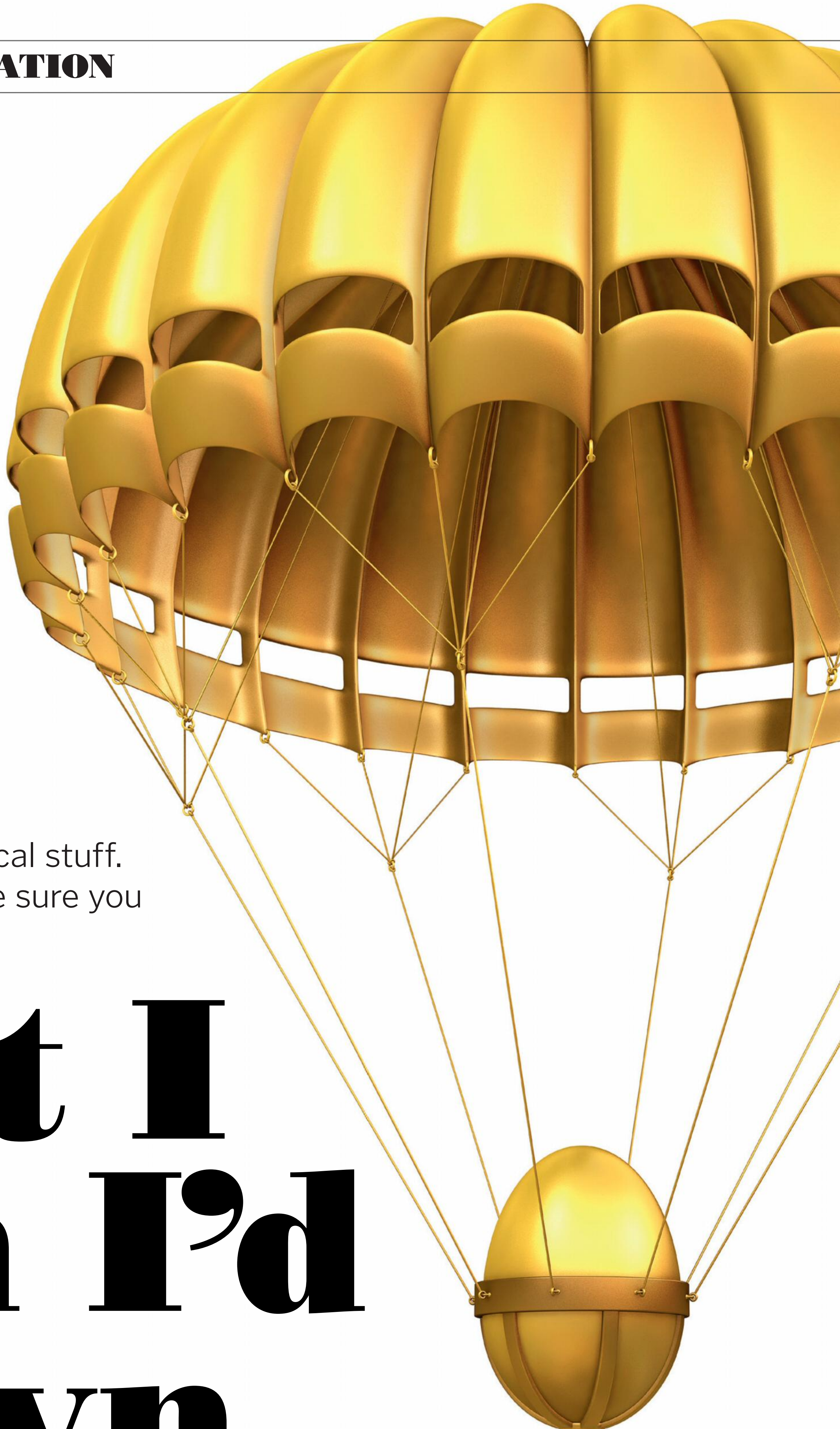
There are simple but effective ways banks can help customers living with dementia to remain financially independent for longer.

SEVEN WAYS BANKS CAN MAKE IT EASIER

1. Review and standardise procedures for dealing with joint accounts where one person has dementia.
2. Engage with the local police force to understand the top scams and crimes in your area.
3. Record key details that can offer a tailored service to best meet the customer's needs, helping them select the most suitable products in response to their specific type of dementia.
4. Design an accessible and supportive physical environment for people living with dementia (for example, office layout, fitout and lighting).
5. Train staff to identify signs of dementia or when a customer with dementia is vulnerable to making the wrong financial decisions (for example, unusually large withdrawals and accumulating overdrawn fees).
6. Keep account details updated, including phone number, home address and next of kin.
7. Offer affordable products for people living with dementia.

(Sources: Dementia Australia, Alzheimer's Society UK)

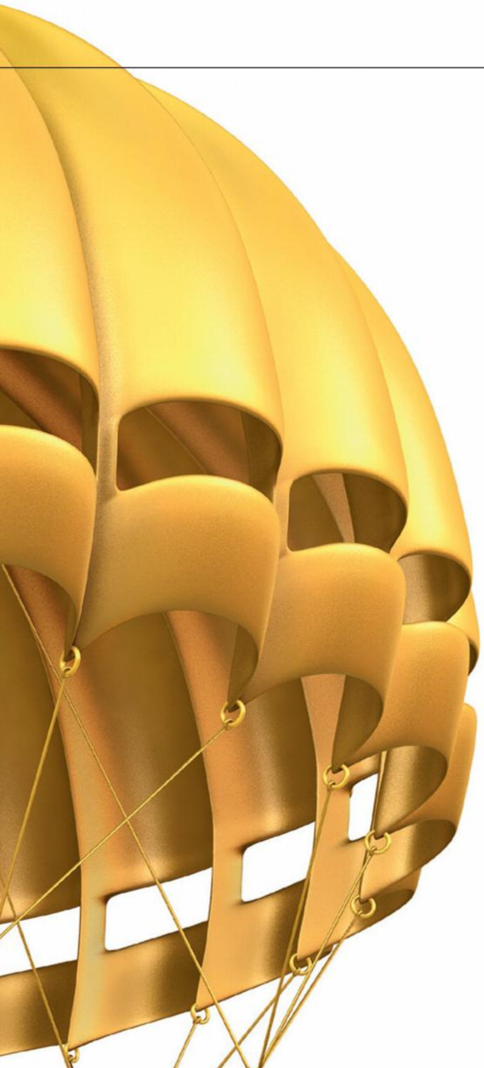
Michelle Baltazar is editor-in-chief of Money. *She has worked on various finance titles including* BRW *(now closed) in Australia and* Shares *magazine in London.*



STORY ANNETTE SAMPSON

Don't worry about all the technical stuff. Just focus on the basics to make sure you have enough in retirement.

What I wish I'd known about super



You don't need squillions of dollars for a comfortable retirement – it may be more affordable than you think

Superannuation is a bit like cholesterol – and not just because both have long names. By the time you need to know about it, you wish you'd known more, earlier. It's not hard to put super on the backburner. Most of us are too busy in the present to worry about something that is strictly for the future.

But you don't have to become an expert to make the most of your retirement savings. Here's what you need to know, as opposed to all the technical stuff you don't want to know.

1 SUPER IS ALL ABOUT COMPOUND INTEREST

And compound interest is wealth-creation magic. Financial planner Laura Menschik, of WLM Financial Services, says saving consistently over many years is a powerful strategy for building wealth, as compounding means you earn interest on your previous interest – much like a snowball grows in size rolling downhill. If you start early, your snowball can multiply in size by the time it reaches the bottom of the hill. But if you start near the bottom, it doesn't have time to pick up extra snow before it stops moving.

"Super is forced savings," she says. "And even little things add up. If you can put a bit extra in for 10 years it provides quite a bit of extra benefit at the end of the day."

2 SUPER ISN'T JUST FOR OLD PEOPLE

John Perri, AMP technical strategy manager, has a favourite cartoon where one character asks how to motivate himself to save in super. The answer? Get older. But thanks to compound interest, you get far more bang for your super buck if you put it away when the idea of having grey hair and not working is inconceivable.

Glen McCrea, deputy chief executive of the Association of Superannuation Funds of Australia (ASFA), says if someone aged 30 consistently put aside just $250 a year, or around $5 a week, they'd have about $14,000 more by the time they retired. Little things add up.

If you can afford a bit more, AustralianSuper group executive Paul Schroder says a 25-year-old putting an extra $50 a month into super will have an extra $175,000 by age 65, whereas a 35-year-old who did the same would have an extra $79,000 and a 45-year-old $32,000.

Menschik says governments have also been progressively limiting the amount you can contribute when you're older and trying to catch up. She says parents and grandparents often help by directing any spare cash into younger people's accounts, particularly to take advantage of tax bonuses such as the super co-contribution.

3 THE GOVERNMENT HELPS PAY FOR YOUR SUPER

Fancy a 50% return on your money, guaranteed by the government? If you earn less than $38,564 and can find $1000 to put into super in a year, Perri says you can get that return through the super co-contribution. The government will give you 50¢ for every $1 you chip in up to $500. If you earn between $38,564 and $53,564, you will still be eligible for part of this benefit.

Perri says most people can also claim a tax deduction on contributions up to $25,000 by either asking their employer to contribute the money from their pay before tax, or by making a personal contribution and claiming the tax deduction themselves. The net result, either way, is that you pay just 15% tax on your super contributions as opposed to your marginal rate, and any future earnings on that money are taxed at a maximum rate of 15%.

Menschik says if you can salary sacrifice that's usually better than making a personal contribution at the end of the year. While the tax break is the same, she says it's easier to have the money taken out of your pay automatically than relying on discipline.

She says there is even a benefit in making extra contributions after tax, especially when you're older, as your money can grow in that low-tax environment and provide a tax-free retirement income or lump sum after age 60.

Perri says there are also tax breaks on contributions made for a low-earning spouse.

4 YOU DON'T NEED MEGA-MILLIONS

People often think they need squillions for a comfortable retirement but it may be more affordable than you think. McRae says ASFA has calculated you need around $640,000 to fund a comfortable retirement for a couple and around $545,000 if you're single. That will generate a yearly income of about $61,000 for a couple or $43,000 for a single, combined with a small part age pension.

"It means you'll be able to go to the club and have a meal, go on the odd holiday, get

balance and other details. You should also be able to transact or change your preferences digitally. Or you could just go the old-fashioned route and make a phone call.

If you have changed jobs and are not sure where all your super is, the Australian Tax Office website can help to track down old accounts so you can consolidate them and avoid paying multiple fees and charges

Menschik says there are also comparison websites where you can check how your fund measures up. But make sure you're comparing apples with apples. She says even funds with names like "balanced" can mean a range of things, so look at their investment mix, what their stated objectives are and whether they're meeting those objectives. She says you should focus on longer-term returns, not just the past year or three years, as super is a long-term investment.

your car fixed when you need to and generally make sure the adjustment in your standard of living is not so dramatic you can't enjoy yourself," he says.

Of course, if you want a more opulent lifestyle, you'll need to save more. There are retirement calculators online to check whether you're on track. Start with the Australian Securities and Investments Commission's MoneySmart site or ASFA's Super Guru.

5 SUPER ISN'T GENERIC

Perri says it's important to understand that super is just a structure, not an investment. Your money is held in trust for your retirement and the trustees make decisions on how it's invested. So it's worth knowing what they're doing with your money.

If your fund was chosen by your employer, chances are that you're in a default option – usually a balanced fund that holds a mix of investments or one where the investment risk is adjusted for your age. But if you are unhappy with this choice, there are alternatives you can explore.

You can also switch funds if you're unhappy with the investment performance or fees and charges.

Schroder says good investment returns and low fees are critical as a 1% difference in net returns can translate into a difference of almost $100,000 in retirement over the longer term. McCrea says most balanced funds have been returning around 7%-8% in recent years so if your fund has been returning 3% you should ask why.

"Often it's as simple as gut instinct," he says. "If fees seem high or your balance is not going up in an orderly fashion, you need to find out more."

6 INFORMATION IS AT YOUR FINGERTIPS

Menschik says even those just starting out should take five minutes a year to read their super fund statement. This handy little document tells you how much you have, where your money is invested, what your fund has earned and what you've paid in fees and charges.

It will also tell you whether you have life insurance through your fund and who will get your super if you die. Menschik says you should check these details to ensure the cover is appropriate for you and you have nominated who you want your money to go to.

McCrea says most funds now have websites and apps where you can check your account

7 ADVICE IS THERE IF YOU NEED IT

Perri says most fund websites have material to educate members and offer so-called "intra fund" advice that is general in nature. Financial planners, either through your fund or independent, can provide more personalised advice when you need it.

8 YOU CAN KEEP GETTING PAID AFTER YOU RETIRE

Possibly the best thing about super is that you can use it to draw down a regular, tax-free income when you retire after 60. You can transfer up to $1.6 million into a super pension when you stop working and both the income you receive, and any earnings on your money within that fund, are tax-free.

Menschik says you can choose how much income you want and how often you want to receive it, so long as you take a minimum amount determined by your age. She says you can also take part, or all, of your super as a lump sum in retirement – for example, to pay off your mortgage when you stop working.

Perri says if you can afford to have other assets outside super, the tax on them will be unaffected by your super income as it doesn't have to be declared in your tax return. *M*

Save yourself a tidy sum

You may discover hidden treasure in the dark recesses of your finances

Confession time. I love a good spring clean. Not just the "dust and tidy" variety, but a good old "pull everything out, scrub everything clean and only put back what you want in an ordered way" type of clean.

My wife often takes a deep breath when I say, "I'm thinking of cleaning out the bedroom cupboards." She knows soon there will be piles of things once stored in the upper reaches of our wardrobe strewn across the bedroom as I fastidiously clean everything before re-ordering it into "keep", "give away" or "sell" piles and neatly packing it all away again. It's total chaos for a bit, and it can be exhausting work, but in the end the whole house seems to feel lighter, more peaceful, more ordered and more in control.

I know I'm not alone in this – people do feel this way after a good spring clean. It seems that cleaning and decluttering our physical environment has the effect of decluttering and ordering our mind as well. If we feel in control of our external physical space, we feel in control of our mental space as well. What a lot of people don't realise is that every now and then we should also spring clean our finances. This is not like doing tax returns or EOFY accounting – it's a different head space. This is about really getting into the financial nooks and crannies of your superannuation, loans, credit cards, memberships and subscriptions. Discover what the real costs are and what you are paying for them.

When I spring clean I often find things I had forgotten about, or never knew I had. The same thing happened recently when my wife and I did a financial cleanout.

Questions to ask before the big clean-up

- What is included in your superannuation insurance policies? Many policies offer better rates for certain occupational ratings – check that you are getting the best deal possible. Also make sure you're not paying for policies you don't want or need.
- What rewards and discounts are you entitled to through your financial products or other memberships? Small discounts and benefits can really add up.
- Do you have any other insurance policies that you haven't reviewed for a few years? Make sure your coverage matches your current requirements.
- Look at your memberships and subscriptions – are there any you haven't used for several months? In this online world, it's easy to lose track of monthly paid apps, software subscriptions and premium access services. Check your bank and credit card transactions for any unnecessary monthly or annual withdrawals.

Picking through my super we discovered I had certain insurance that was costing quite a bit each month – it was a product that suited our circumstances a few years ago, but we no longer needed it. Out it went and now I have additional money going into my super. I also found three extra subscriptions that I didn't need and realised my health insurance was more suited to my 30-year-old self rather than my 40-year-old self, and changed it to a more appropriate product, which saved even more money.

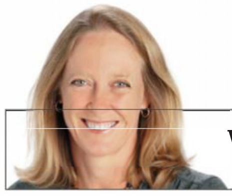
That's hundreds of dollars saved every month simply by spending time looking into every corner of your financial lives and throwing out anything that is unnecessary. It's like giving yourself a pay rise!

Don't forget that many financial products also come with rewards and benefits such as discounts on purchases and entertainment that can make a significant difference to weekly spending. No longer are we spending on things we don't need; we also have access to gifts and discounts that can really add up.

So with such obvious financial benefits, why is it we rarely look into the darker, hard-to-reach parts of our finances? The main reasons I hear are that some products and benefits can be hard to find, it doesn't feel like an urgent thing we need to do and there are other more obvious, more important (or fun) things to attend to. But probably underlying all these reasons is that psychologically it feels like a painful and effortful task. However, the buzz you get from finding hidden treasures in your finances and taking control of your money far outweighs any painful effort.

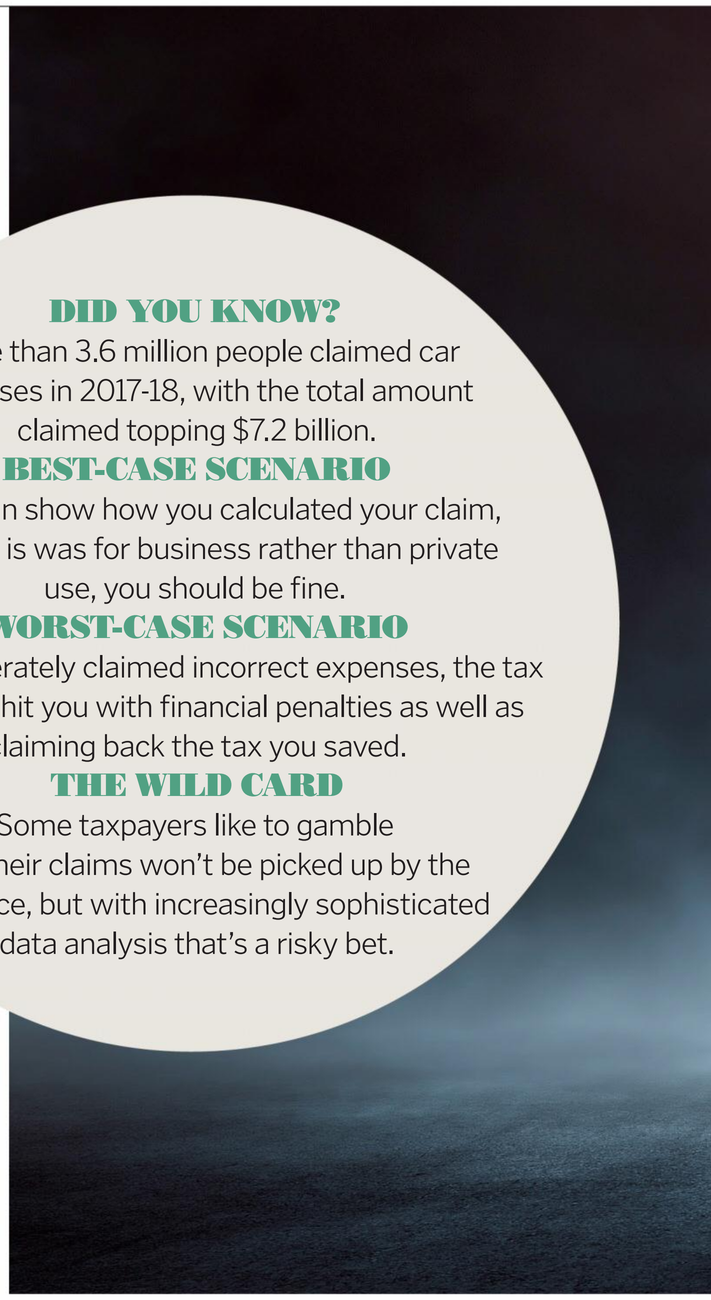
Spring cleaning our finances increases our financial wellbeing as well as our mental wellbeing. Give it a go, and you'll be surprised just how good being in control of your life feels.

With more than 15 years' industry experience, Phil Slade, 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.



WHAT IF? Annette Sampson

The tax office takes a closer look at my motor vehicle expenses



DID YOU KNOW?

More than 3.6 million people claimed car expenses in 2017-18, with the total amount claimed topping $7.2 billion.

BEST-CASE SCENARIO

If you can show how you calculated your claim, and that is was for business rather than private use, you should be fine.

WORST-CASE SCENARIO

If you deliberately claimed incorrect expenses, the tax office can hit you with financial penalties as well as claiming back the tax you saved.

THE WILD CARD

Some taxpayers like to gamble that their claims won't be picked up by the tax office, but with increasingly sophisticated data analysis that's a risky bet.

IS IT WORTH THINKING ABOUT?

Don't rule it out. The tax office has warned it will be a key area it's focusing on as we lodge this year's returns. While many people can legitimately claim costs associated with using their car for work purposes, the ATO is concerned that some are claiming things they shouldn't or over-inflating their claims to get a bigger refund.

It says it will be using data analytics to trawl through tax returns and identify questionable claims. One danger sign is someone claiming more than other taxpayers on similar incomes in similar jobs. If your number comes up, it will contact you for more information on how you worked out your claim. If it thinks it is warranted, it says it may also contact your employer to ask whether you were required to use your car for work-related travel.

DANGER AREAS

Common problems include taxpayers claiming for private trips, trips they didn't actually make and expenses an employer has already reimbursed them for. You can't claim travel to and from work unless your employer requires you to transport bulky equipment.

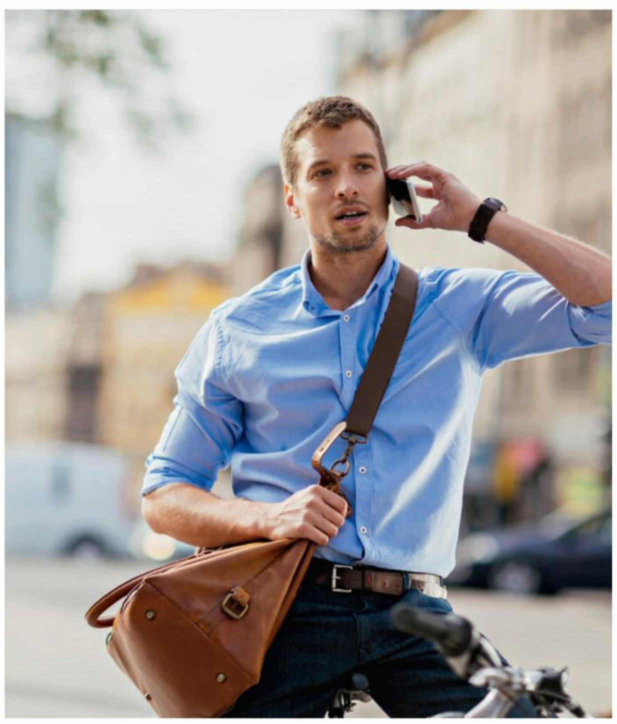
The tax office says dodgy claims it uncovered in 2018 included:

- A retail worker who claimed $350 for what turned out to be the cost of public transport to and from work.
- An office worker who claimed $3300 for 5000 kilometres of work-related travel under the cents-per-kilometre method. Again, the travel was to and from work.
- A taxpayer who claimed $4800 using the logbook method. When asked to substantiate the claim it turned out the taxpayer had used the car service logbook and hadn't kept a logbook showing work-related travel as is required. It turned out they hadn't undertaken any work-related car travel during the year.

PLAY IT SAFE

To stay on the right side of the tax office, stick to claims for genuine work-related travel and be prepared to show how you calculated the amounts claimed.

In 2015, the federal government reduced the methods for calculating car expenses to two options.



THE CHALLENGE Darren Snyder

Get the best phone deal

Buying outright may be cheaper than a monthly plan

In 2016, the average Australian household was spending $17 every week (or $884 every year) on mobile phone use. According to the Australian Bureau of Statistics' Household Expenditure Survey 2015-16, that $17 is more than we spend every week on pets ($13) and household appliances ($15) but a little less than childcare ($18).

Given this spending pattern, it's no wonder the mobile phone market is highly competitive. So how can you make sure every last cent of that $17 is giving you value for money or how do you score a better deal on your mobile?

For more than a decade it's been a common view that buying your phone on a monthly plan (usually under contract for 12 or 24 months) is cheaper than buying a phone outright and setting up the plan

The simpler cents-per-kilometre method allows you to claim a set rate (currently 68¢) for each kilometre of work-related travel, up to a maximum of 5000 kilometres a year. You don't need to keep receipts or a logbook, but while that might sound attractive it's not trouble free.

The tax office says one in five people using this method claims the full 5000 kilometres. But on closer inspection it has found many of them can't show how they've arrived at this figure and have had their claims reduced or disallowed.

It says you need to be able to explain how you worked out your business kilometres, ideally through something like diary entries that show when you made the trip, how far it was and what it was for.

The logbook method allows bigger claims, but it requires more paperwork. You need to keep a logbook for 12 continuous weeks during the financial year showing the car's odometer readings at the start and end of the period, how many kilometres you travelled, the reason for each of your business journeys and the proportion of business use over the period.

The good news is you only have to do this once every five years but for the next four years you'll need to keep odometer readings at the start and finish of the period you're claiming (that is, the start and end of the financial year if you're using your car continuously) and the percentage of business use based on your logbook. You also need to keep receipts for expenses such as registration, insurance, servicing, lease payments or interest charges and fuel (though you can use a reasonable estimate based on your odometer readings for that one). The tax office says you should also be able to show how you calculated any depreciation claimed on the car.

There is a myDeductions tool in the ATO app that can track trips using GPS, a point-to-point calculation or the odometer readings, which can be sent directly to your tax agent or uploaded into myTax at the end of the year.

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.*

separately. While the prices of phones have increased, plan costs have dropped significantly – and it's seen a tipping point in terms of what option can deliver the most value.

Deloitte's Mobile Consumer Survey 2018, which interviewed more than 2000 Australians, shows that despite rising phone prices, more of us are choosing to purchase phones outright.

Fifty-three per cent of iPhone X owners in 2018 bought their phones through a contract plan versus 63% per cent of iPhone 7 owners in 2017. Similarly, 69% of Samsung S9 owners in 2018 were on contracts versus 81% of Samsung S8 owners in 2017.

Deloitte says there are several drivers leading this trend. Consumers could be turning to SIM-only plans for better value inclusions or to prepaid plans for greater certainty in cost.

"An alternate view is that the value consumers perceive from their smartphones is now outstripping the total value of the contract, making it an easier decision to buy outright. In the premium segment in particular, the smartphone as a luxury item implies a greater propensity to buy outright, like any other luxury item, potentially financed through personal debt such as credit cards," says Deloitte.

Telecommunications companies can generally offer the latest mobile handsets at a subsidised discount if you sign up to a 12- or 24-month plan, but only if that plan meets a certain price threshold. However, the plan might not be the right one for you and potentially cost more than buying the phone outright and then purchasing a SIM-only or bring your own device (BYOD) plan.

Several comparison websites can assist you in working out what solution will best suit. It's also good to visit your local telco stores to better understand what's on offer. The Australian Competition and Consumer Commission says when considering a new phone or plan, be sure to check if there are any charges for ending or leaving your current contract early.

Put the spare wheels to work

Instead of just sitting in the backyard, your van could top up your income

If your caravan spends most of the year sitting idly in the garage, you could be missing out on some big bucks. In fact, by hiring it to fellow travellers via the RV sharing platform Camplify, which launched in 2015, you could add thousands of dollars to your annual income.

Today there are more than 3500 caravans, campervans and other recreational vehicles registered with the platform in Australia, and about 600,000 RVs parked across the country, according to various industry sources.

How does it work?

In the same way Airbnb lets homeowners make some extra cash from a spare bedroom, Camplify gives people the chance to score additional income from their vans or motorhomes. Van owners list their vehicle on the website and accept bookings directly from hirers (or "explorers" as the platform refers to them). The platform also gives owners full discretion as to who can rent their van and when.

What you can earn and how to set your prices

According to Camplify, owners can boost their income by $10,000 to $35,000 a year depending on the type of vehicle they own. Those with motorhomes can earn up to $35,000. Caravan owners could add an extra $25,000 to their annual incomes while campervan and camper trailer owners could benefit from an extra $15,000.

Camplify has a calculator (camplify.com.au/calculator) to help you determine your price. The calculator considers the age of your vehicle, its sleeping capacity, and whether it offers features such as air-conditioning or an annex. As with motel rooms, seasonal factors will come into play.

Using the calculator, we found that a two-year-old air-conditioned motorhome with an annex located in holiday mecca Byron Bay can earn up to $620 a week during off-peak times. In peak season the weekly return for this RV, which sleeps four, could be as much as $775. You can also consider offering a discount if a certain number of nights are booked.

While listing an RV is free, once a booking is taken Camplify takes a 5% commission from the owner. If you don't receive any reservations, there are no charges.

AT A GLANCE

- Australians spent a total of 54.5 million nights caravanning and camping in the year ending March 2019, marking a 6.5% increase from the previous year.
- You can choose when to list your vehicle on Camplify and how to set your prices depending on the season.
- Van owners will not automatically be covered by insurance, so you need to take out your own comprehensive policy.
- All income earned will be taxed; however many of the van's running costs are tax deductible
- Camplify's competitors include Camptoo (camptoo.com.au) and Lets Go (letsgomotorhomes.com.au).

Get the right insurance

Camplify does not cover owners with insurance, so you will need to take out comprehensive cover. However, the platform offers two insurance products designed for RV hire. You can either add to your existing policy with top-up style insurance, with options starting from $7 a day. This extra insurance might cover mishaps such as a tree falling on your van while it's out on the road.

Alternatively, there is a premium membership option, which covers you for both private use and unlimited hiring 365 days a year. Prices start from $66 a month.

Protecting yourself

Your motorhome was a significant investment, so of course you will want to ensure it is always returned in good order. To this end, Camplify screens and verifies explorer's driver's licences. As an owner, you can screen hirers, too. This means you can ask appropriate safety-related questions of the explorer before a booking, such as details about their car or their experience driving campervans.

Camplify also takes an imprint of the hirer's credit card during bookings and holds a $1000 security bond. Funds are only taken from an explorer if damage occurs.

How will my tax return be impacted?

All money earned from hiring out your van is considered taxable income, and if you have more than one van you will be required to register for an Australian business number (ABN).

On the flipside, as a Camplify owner you can claim running costs such as registration, services, maintenance, interest on finance and other running costs as tax deductions. You can also claim back the money you used to help you make bookings, such as cleaning supplies or toiletries. Of course, before starting any new financial venture, it is usually worth consulting your accountant.

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

Driven around the bend

When kids are old enough to get a licence, parents face a new set of dilemmas

Learning to drive used to be one of the milestones on the path to independence. But some kids have different priorities these days and the number of 17- to 20-year-olds learning to drive is sliding.

They have a point when they say driving is expensive, and why should they spend their money on fuel, parking, insurance and other costs? Even when they finish studying and find a job, their wages often don't support running a car because their housing is expensive too. If they live near public transport, they don't see the point in learning to drive. And besides, one day there will be driverless cars, so why bother?

But parents often see it differently. They want their kids to drive. It saves parents hours spent behind the wheel as an unpaid cabbie, particularly going to and from parties and their part-time jobs. Having a licence does open up job opportunities for kids, too.

One of my friends bought her 25-year-old son a second-hand car in an attempt to encourage him to learn to drive. She also bought him driving lessons, but a year has gone by with no interest. Instead he catches taxis and she continues to drive him to work and around town on the weekends.

For my own kids, learning to drive was a long process and there were plenty of costs. We started them off with driving lessons that cost around $80 an hour for a block of 10, one-hour lessons. I wanted them to have the road rules explained by an expert. Some local councils offer free courses for parents who are supervising their kids' driving lessons.

When my kids' confidence or enthusiasm went backwards, I bought more driving lessons and the safer driving course for $140. A learner licence, two provisional licences, sitting driver knowledge tests, a requisite logbook, road user's handbook plus the cost of sitting a driving exam ... it adds up to hundreds of dollars. But the biggest expense was the jump in the comprehensive insurance premium for my six-year-old VW Golf. It increased by $550 once a teenager was nominated as an alternative driver. If you don't nominate your child and they have an accident, the age excess can increase by $1000.

The next dilemma is whether to help them buy a car? As a student my younger daughter can't afford her own car. Not surprisingly, she tells me "all her friends" have been given cars by their parents – thankfully, often an older model.

An advantage of being able to drive a car – instead of riding a bicycle – is that kids will have a broader range of possible part-time work. But the money from their part-time work would go towards the running costs. So is the car a net positive? In our case I am the fallback because my daughter doesn't have enough money for a car.

Another dilemma for parents is whether they encourage their kids to buy an old car or a new one? Is an old car a death trap for the under-25s, who probably more than any other age group need a safe set of wheels.

The NRMA says whether it's a new or used car, it's important to do the research to check out the safety features so that your kids, their friends and family are protected.

Figures from the Transport Accident Commission (TAC) in Victoria show that a new car is not necessarily safer than an older one and many second-hand cars rate well in terms of safety and affordability.

The TAC has set up an online service (howsafeisyourcar.com.au) to provide buyers with independent information about the safety of the new and used cars on the market. Older cars, particularly those with the right safety features, can be just as safe as, or even safer than, some new cars.

When shopping on a budget, there are a number of vehicles that can provide good levels of safety equipment. The things to watch out for include:

- Five-star ANCAP rating;
- Dual front, side curtain and head airbags; and
- Electronic stability control (ESC).

The TAC says because novices have a high crash risk, all probationary drivers should drive a car with a four- or five-star safety rating. And you do not have to spend a lot of money to find one. Some used vehicles with a four- or five-star rating can be bought for as little as $5000.

My experience as a finance journalist is that cars are a huge financial bind that my kids, while studying and working part time in hospitality jobs, simply couldn't afford. Essentially they are a depreciating, rather than appreciating, asset so their overall cost needs to be well understood. So my kids drive my car when they need to and I catch the bus more often.

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

Love where you rent

STORY NICOLA FIELD

Golden opportunity for rentvesting ... Toowoomba, which has a diverse economy underpinned by farming, is a place to consider.

Rentvesting can give you the best of both worlds. Just make sure you do your research and run the numbers.

Can't afford to buy in the area where you live? There is a way to enjoy the lifestyle of your favourite suburb and still get a foothold in the property market. Rentvesting – owning an investment property while renting where you live – is gaining traction. Research from Property Investment Professionals of Australia shows a third of first-time buyers are shunning the owner-occupied dream and instead investing in a property and continuing to be tenants elsewhere.

While it can offer the best of both worlds, rentvesting calls for plenty of research to be sure it stacks up as an alternative to buying a home. On this score, Angus Raine, executive chairman of the Raine & Horne property group, doesn't mince his words. "Today we have historically low interest rates and more affordable home prices," he says. "It's time to stop saying, 'I can't afford to buy property in my area', and start looking at buying in a more affordable suburb even though it may mean a bigger commute. If your budget doesn't allow this, consider rentvesting."

Check the numbers

Taking your first step on the property ladder as an investor rather than owner-occupier will mean missing out on the first home owner grant and any savings on stamp duty. These are entitlements that can really add up. In Victoria, for example, first home buyer benefits can total up to $51,070.

On the other side of the ledger, if your investment property is negatively geared (meaning it makes a loss that can be claimed on tax each year), rentvesting may mean you're able to claim personal tax savings. Over time, these savings can compensate for the sacrifice of first home buyer benefits. But it's worth crunching the numbers, or asking your mortgage broker to do it for you, to be sure that rentvesting makes sense financially.

Susan Mitchell, CEO of Mortgage Choice, says first-time investors should avoid negatively gearing their investment property where possible. "It is generally not an ideal outcome, as the ongoing cost of maintaining the property outweighs the return," she says.

Consider your long-term plans too. The high transaction costs associated with buying and selling property mean a rental investment often works best as a long-term asset. "The key for rentvestors is to be prepared to hold onto the property for at least five years," says Raine.

Where to buy

Without personal preferences to consider, rentvesting opens up a much wider choice of areas to buy into. Even so, Raine points out that if your finances don't stretch to buying in an inner-city area, chances are the outer suburbs are also out of reach. The solution, he says, can lie with regional centres.

"Property values are a lot more affordable in regional cities, and plenty have thriving local economies and growing populations," he says.

In NSW, Raine nominates Wagga, Bathurst, Orange, and Tamworth as good options for rentvestors. In Victoria, Ballarat and Bendigo tick plenty of boxes. In Queensland, Raine says Toowoomba is a good choice as it has a large population and a diverse local economy, while numerous coastal options such as the Sunshine Coast, Gold Coast, Townsville and Cairns also have appeal for rentvestors.

While regional markets tend to be more affordable than metro areas, they don't have to be bridesmaid locations when it comes to capital growth. The Real Estate Institute of Victoria says regional Victoria has recently outperformed the Melbourne metro market, with gains of almost 10% recorded in some regional towns in the March quarter of 2019 alone – four of the top 10 locations being in Ballarat. In Queensland, the Sunshine Coast stormed home with 6.3% annual growth in median house prices for 2018 compared with 0.2% for Brisbane.

Ultimately, nailing the location that's right for you can come down to understanding your long-term goals.

If rentvesting is a stepping stone to future home ownership, Raine says it's important to focus on areas with capital growth potential. Infrastructure developments can be a sign of possible future gains. Raine cites the example of Branxton, a fast-growing area of the NSW Hunter Valley, where the new Hunter Expressway has shortened commute times to Newcastle. This has seen Branxton's median home value jump from $392,000 pre-expressway to $637,500 today.

On the other hand, if you plan to be a long-term renter, Raine says rentvesting should be more of a "yield play". Yield measures rental income as a percentage of a property's value, and regional centres can have an edge here, too. CoreLogic figures show that rental yields in regional areas average 5.1% compared with 3.8% in our state capitals.

Raine says that no matter where you buy, "ideally a

rental property should be a set-and-forget investment." To achieve this, he recommends a low-maintenance place plus a good property manager.

Rent potential matters

Rental income can be a crucial aspect of successful rentvesting. "Do your research to determine how much rental income you will receive from the investment property before proceeding with the purchase," advises Mitchell. Check a suburb's vacancy rates, too. "This will help you determine how desirable the area is. An area with a high vacancy rate may suggest it is difficult to find tenants."

No matter how strong the rent return is, it's unlikely to cover all the outgoings of your investment property including insurance, maintenance, rates and loan repayments. In the meantime, you still have rent of your own to pay.

Mitchell recommends measuring the gap between your overall costs and the rental income you receive. This can show whether rentvesting will leave your cash flow thinly stretched – with or without tax savings, especially during the inevitable vacancy periods when you're not receiving rental income at all.

Organising an investment loan

In recent years, investment loans have come with higher rates than owner-occupier mortgages. A string of Reserve Bank rate cuts has pushed the cost of investment loans down, and Mitchell says this is helping to close the gap between owner-occupied and investment loans. As a guide to what's available, *Money*'s Investment Lender of the Year, Newcastle Permanent, has investor rates starting from 3.59%. Non-bank investment lender Freedom Lend has rates as low as 3.34%.

Even with record low interest rates, rentvestors still need a reasonable deposit to get started in the market. According to Mitchell, some lenders will accept a 5% deposit, but "these are limited in number". So aim for at least 10%, preferably more.

A helping hand may have arrived with the recent decision by the regulator APRA to relax the lending restrictions it had imposed on banks and other financial institutions. The result, says Mitchell, is that, "some investors may now have increased borrowing capacity". Speaking with a lender or mortgage broker will provide a clear idea of how much you can afford to borrow for a rental property.

As an investor, note that lenders will include the rent you earn when calculating your ability to service a loan. This makes it worth asking the selling agent to put the property's estimated weekly rent in writing so it can form part of your loan application. On the flipside, Mitchell says lenders will also include the rent you pay in your household expenses.

When it comes to the potential tax savings of negative gearing, the picture is less certain. "Some – but not all – lenders will include negative gearing tax savings in their servicing assessment," says Mitchell.

Beyond the big cities ... regional centres such as Bendigo (above) and Cairns (below) can provide better value for rentvestors.

When you're ready to buy your own place

A carefully chosen investment property should rise in value over time, and by selling further down the track any capital growth can form the basis of a home-buying deposit. Unlike an owner-occupied home, any profit on the sale of an investment property will be hit with capital gains tax (CGT). By holding onto the place for more than 12 months, it's possible to halve the CGT.

It may not be necessary to sell your investment property to buy a home. It can be possible to use the equity in your rental investment in lieu of a cash deposit. Mitchell explains how this can work: "If you want to borrow against your equity so that you have a deposit available, you will need to draw down on your existing home loan or obtain a second mortgage loan."

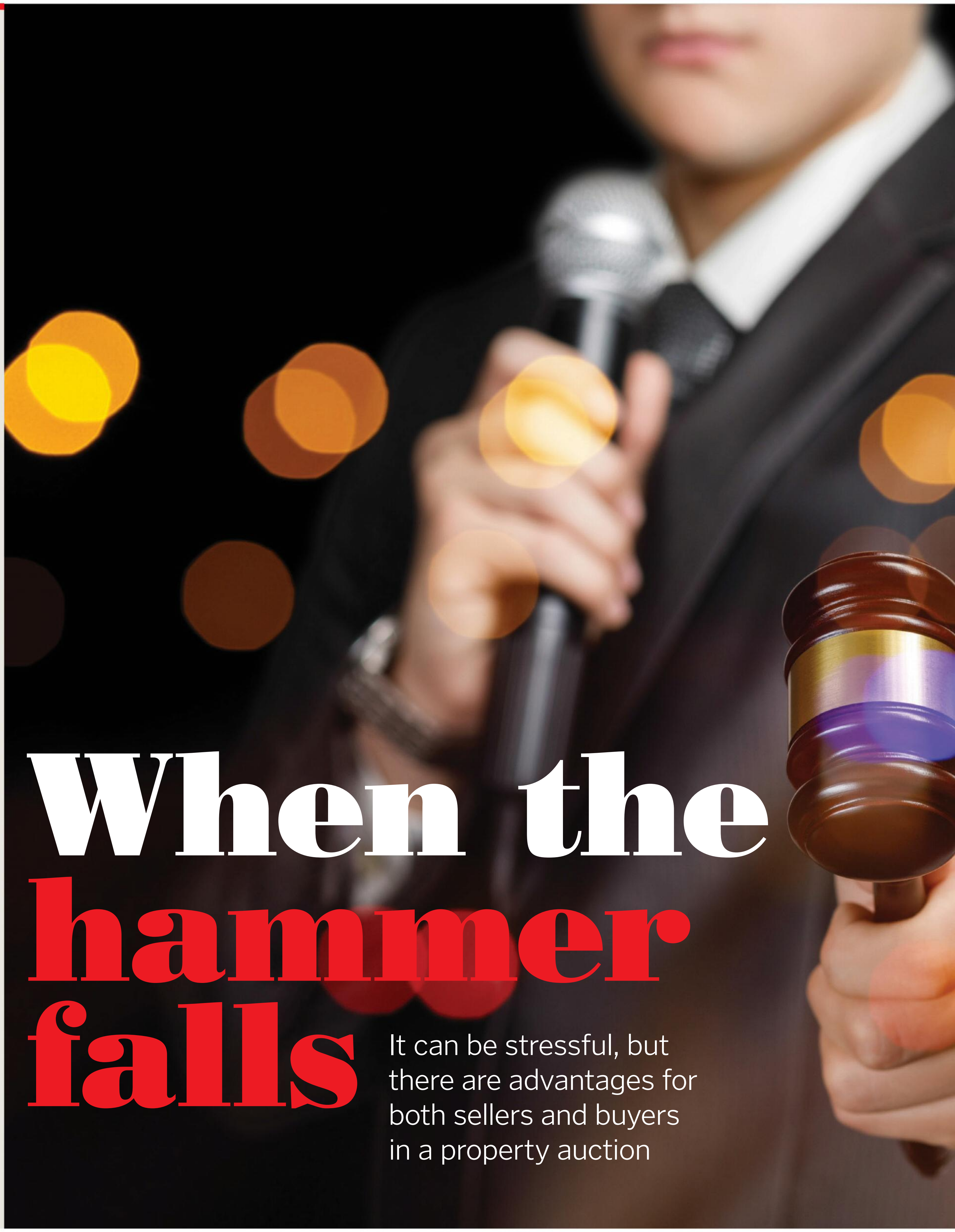
In the meantime, being a rentvestor can be a big plus when it comes to finding a place to rent for yourself. "When a property manager knows that you own an investment property, it can take you to the top of the queue," says Raine. "It shows that you understand how to take care of a property and the importance of paying rent on time." **M**

THE EXPERTS

Scott Kennedy-Green, chief auctioneer, McGrath Estate Agents

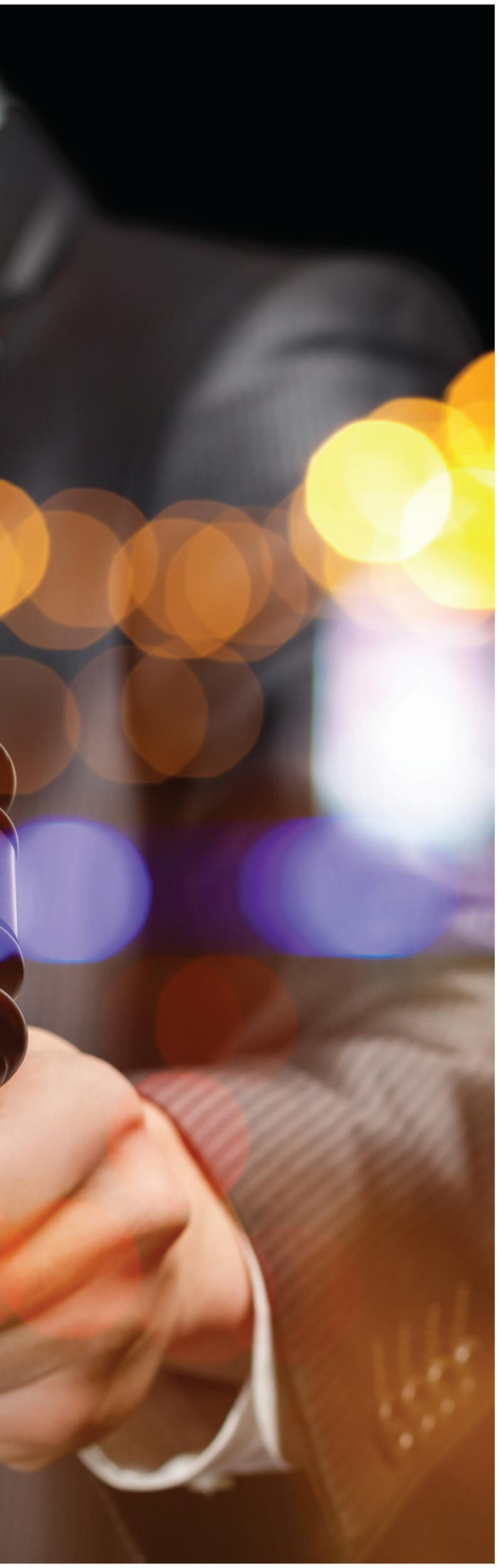
Jerome Smith, senior auctioneer, LJ Hooker

Clarence White, independent auctioneer, clarencewhite.com.au



When the hammer falls

It can be stressful, but there are advantages for both sellers and buyers in a property auction



10 MOST-ASKED QUESTIONS

Q How do property auctions work?
A property is typically marketed for three or four weeks and then the prospective buyers come together at an appointed date and time to bid on the property. The vendor sets a reserve price (in writing), which represents the minimum price at which the property may be sold on the day. The highest bidder at or above the reserve price becomes the purchaser of the property upon the fall of the hammer. They must then sign the contract and pay a deposit. The contract is unconditional on the day of auction and does not offer cooling-off rights.
CLARENCE WHITE

Q Before attending a property auction, what can I do to prepare?
Attend as many auctions as possible to observe how the process works. It's important to do your due diligence by looking into the area you are hoping to buy in: recent sales, upcoming infrastructure, amenities, etc. Also, get your pre-approval from the bank before you go to an auction, so you'll be in a position to compete with other buyers. Importantly, know your limit and strategise your moves at auction – bid with clear intention and confidence as if you're going to buy the property.
JEROME SMITH

Q What should the real estate agent/auctioneer tell me before the auction?
The real estate agent should be able to provide you with an indicative price guide on the property, except in Queensland, where it is illegal for a seller or their agent to give you a price guide for an auction property. Also, under Australian common law, vendors and real estate agents are required to disclose any information considered to be a "material fact" to prospective purchasers. Material facts may include any known defects in the structure, or a murder or crime committed at the property.
SCOTT KENNEDY-GREEN

Q During the auction, what should I look for or anticipate?
It is always best to have a bidding strategy in place, set yourself a budget and stick to it. Short-term disappointment is better than long-lasting remorse. Don't leave your bids until the last second, as once the hammer falls the auctioneer cannot accept any further bids.

The most critical thing you need to do is establish your walk-away price. This figure is not just what the bank will lend you plus your savings. You need to ask yourself, what else am I willing to do if I need to stretch my budget to secure this home? For example, what if you scrapped or delayed your next holiday? Whatever you do, don't push your boundaries so hard that you end up in financial difficulty. But do consider your priorities and ask yourself, "Will I be happy walking away from this property if an extra few thousand could have bought it?" Get comfortable with a number and stick to it.
SCOTT KENNEDY-GREEN

Q If I'm the vendor, how do I prepare my property for auction?
First and foremost, engage an experienced agent whom you feel comfortable representing your property. Talk to them about what things may help maximise the value of your home. Typically decluttering, depersonalising, painting, re-carpeting, doing any repairs and maintenance, and ensuring the property is either professionally styled or presented in an attractive manner will show a strong return in terms of the money you spend versus the increased value of the property at sale. Appearances matter. Remember that when prospective buyers walk through your home the most important thing is how they feel. So their initial impressions count for a lot in terms of the perception of value. Don't rely on buyers to "see potential". Show them the potential. Sell them the lifestyle they can expect and allow them to visualise themselves living in the home by the way you present it.
CLARENCE WHITE

Q What is a vendor bid and why are they made?
A vendor bid is a bid made by the auctioneer on behalf of the vendor. In NSW, the vendor has the right to place one bid and one bid only (the amount of vendor

> Slow bidding can send the wrong message about the home's value, so it's vital to set a realistic reserve

bids varies from state to state). It's not an actual bid to buy the property; rather, it's a public statement that the seller is not happy with the amount of the last bid and is used to keep the bidding moving forward. The auctioneer must announce that they are making a vendor bid when doing so.
JEROME SMITH

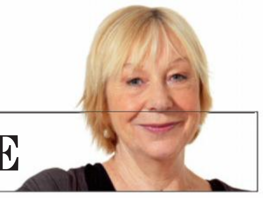
Q Do I have to attend the auction or can someone bid on my behalf?
If you are unable to attend the auction, you may arrange for someone to bid on your behalf by providing the auctioneer/agent with a letter of authority authorising them to do so. You can also authorise the auctioneer to sign the contract on your behalf should you be unable to do so.

Equally, if you really don't think you can handle the stress of bidding on the day, hire a buyers agent or ask a confident friend or colleague to do it for you. Just check with the agent as to what you need to do to officially authorise your nominated person to act on your behalf.
SCOTT KENNEDY-GREEN

Q What happens when a property is passed in?
A property is passed in when bidding fails to reach the reserve price. At this point the auction is concluded without the property being sold. Typically the highest bidder will then be invited to engage in further negotiation to see if there is a price at which both parties are satisfied to transact. If agreement is reached before midnight on the day of auction, the sale is considered to be the same as having been sold at auction and no cooling-off rights apply.
CLARENCE WHITE

Q I'm the highest bidder and won the auction, what happens next?
Congratulations, you've just bought a property! Make sure your finances are in order as you can't change your mind after you put in the winning bid. The next step will be to immediately sign the contract and pay a 10% deposit on the day. The selling agent will have already set the conditions of payment, and a personal/bank cheque is generally acceptable (EFT transfer can be acceptable with prior notice). The next business day, contracts are sent to the vendor's and purchaser's solicitors and in the agreed time frame the property is settled.
JEROME SMITH

Q What are the main pros and cons of property auctions?
For vendors
Pros: It's a set time frame that creates urgency and helps cultivate buyer commitment. It's an unconditional sale with no cooling-off period that will be settled in an agreed time frame, so you have security and certainty of moving onto the next phase of your life.
Cons: Bidding can be a fickle process and if, for whatever reason, bidding is slow, it can send the wrong message about the true value of the home. This is why it's vital to take onboard realistic market feedback to set a reserve that can be achieved.
For buyers
Pros: It's the most transparent way to purchase a property and you can distinctly see what the offers are and where they're coming from. Buying property at auction is also a fast process and only takes around four weeks to settle.
Cons: Because the process is fast, it means you have to get your finances in order quickly. Generally, buying at auction means you're facing a high amount of competition, so know your limit and stick to it.
JEROME SMITH



Join the extra space race

Granny flats are going up everywhere but there are downsides to consider

More than half a million homeowners across the eastern seaboard have enough space on their property to build a granny flat, which could boost home values by 30% and add around 27% to rental income, according to property researcher CoreLogic.

Recent analysis by CoreLogic and ArchiStar, a property design platform, identified 583,440 properties in Sydney, Melbourne and Brisbane that meet the criteria for an additional self-contained unit of at least 60sqm.

"Building a granny flat is becoming an increasingly compelling proposition for homeowners in a relatively lacklustre market," says Tim Lawless, head of research at CoreLogic. "Not only can it help to manufacture new capital gains, but it has the potential to generate rental income while meeting demand for more affordable housing."

NSW is the granny flat capital, with more than double the number built in Queensland in 2018, figures from the Housing Industry Association show (see table).

A major reason is that regulation in NSW is much more flexible. If a residence meets specific criteria the owner can apply for a complying development certificate, instead of having to lodge a development application, which takes longer.

Having a second dwelling on your block can add value, create extra accommodation or provide a rental property.

But it's not all upside. Property expert Michael Yardney, a director of Metropole Property Strategists, is not a huge fan. He warns that building an additional home in your backyard can reduce your resale and rental market potential. "Most owner-occupiers are not keen to have a granny flat in their backyard, preferring all the accommodation under the main roof," he says.

And most tenants don't want another tenant in their back yard or the noise and nuisance that another nearby home can cause. This means your pool of tenants will be restricted for both properties, so you'll have less choice in your selection of renters and probably experience longer vacancy periods, he says.

STATE	GRANNY FLATS BUILT
NSW	6065
Queensland	2365
South Australia	910
Western Australia	638
Victoria	166

Source: Housing Industry Association, 2018

Another drawback is that some of the councils allowing granny flats are not in high capital growth areas, which increases the danger of over-capitalising. Yardney says you might spend $100,000-$120,000 on a granny flat but the banks will only increase the value of your property by $70,000-$80,000. And on top of that, once you have an approved granny flat on your block you won't be able to subdivide, so you cannot sell the properties separately.

Despite these potential problems, building a granny flat can work well for some investors and expanding families. It really comes back to the individual property, the quality of the design, the orientation of the two properties and access.

If you want the granny flat to add value, make sure its design and quality match your existing home and it doesn't look like an afterthought. Ensure that the granny flat doesn't dominate the garden, take up too much of the outdoor space or create privacy issues, especially for children wanting to play in the backyard.

These properties can also provide generous depreciation allowances, including on the areas the granny flat shares with your home, providing they are new.

For example, you could claim for a pool or a patio, assuming the tenant uses these assets, says Tyron Hyde, director of quantity surveyor Washington Brown.

"Recent law changes mean that the structure of the pool would still qualify even if second-hand, but the pool filtration equipment wouldn't ," says Hyde. "Research suggests that you could claim over $5000 in depreciation on a granny flat for the first year of ownership. This figure increases to almost $24,000 over the first five years. That's about a fifth of the value of the average granny flat [$120,000] in just five years."

If you do rent out your granny flat you need to report the income and can deduct expenses, such as a proportion of utility bills or any interest payments on money borrowed to build the flat. Depending on your circumstances, your granny flat might generate a taxable profit or a loss to claim against other income.

Then there's the likelihood you'll incur capital gains tax when you sell your main residence, which is normally CGT exempt.

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.*

Launches hit the heights

STORY ALEXANDRA CAIN

While overall numbers are down, there have been some star performers among our stock exchange listings

While there has been a dearth of initial public offerings (IPOs) so far this year, those that have come on the bourse have performed well. The IPO Watch Australia Mid-Year Report from accounting firm HLB Mann Judd says only 23 companies have listed on the ASX this year, a knock-on effect from the desultory sharemarket conditions in the second half of last year.

In total, $823 million was raised during the first half of 2019, compared with $2.5 billion in the first half of 2018. It was slim pickings in particular in small caps, with just 13 listings in the first half versus 31 in the same time last year.

On a sector basis, materials have suffered the biggest decline with only three listings as opposed to 16 for the same period last year.

But the good news is IPOs that have hit the market have done well, enjoying on average a 21% rise on their first day.

"We've had a pretty good couple of years in the IPO market, but 2019 has been the exception to the trend," says Marcus Ohm, HLB Mann Judd partner and the report's author. "IPOs take time to get going. We deal with quite a few materials companies based in Perth and it's been very difficult to raise money there. Which is surprising because commodities like gold have done very well. It takes about four or five months to get an IPO going and poor conditions at the end of last year had an impact."

"Companies with reliable long-term cash flows and strong balance sheets will benefit the most"

How they performed: IPOs versus the All Ordinaries

	All Ordinaries Index[1]	Average first day gain/loss[2]	Average period-end gain/loss[2]
First six months 2019	19%	21%	63%
Year end 2018	-7%	10%	-18%
Year end 2017	8%	23%	63%
Year end 2016	7%	16%	39%
Year end 2015	-1%	9%	23%

[1] Movement in the All Ordinaries Index (XAO) during the period. [2] Average gain/loss for all new IPOs listing in the respective period.
Source: HLB Mann Judd

Ohm says the rocky economic outlook is also dampening demand for capital raisings. "High valuations and uncertain earnings are causing people to hang back."

Additionally, there's no real pattern in terms of the companies that have done well. "The best-performing company during the half was telco Uniti Wireless, whose share price went up by 600% from listing until June 30. But it's not like you can take on a particular industry or technology like artificial intelligence and assume you'll make reasonable money from it," says Ohm.

More speculative stocks have, however, done well. Biotech Next Science's share price is up by 311% from listing to the end of June. Fintech Splitit Payments, an Afterpay competitor, was up by 215% across the same period and hemp company Ecofibre's price doubled.

"As an investor, the message is you've got to do your research and download the prospectus to make sure you actually understand what the company does and what the prospects for success are," says Ohm. "This is particularly important for retail investors because the danger is they don't do the research and just rely on what brokers tell them. So see what commentators and analysts are saying and take responsibility for understanding the company and the business."

Vega Capital portfolio manager Scott Shuttleworth notes that another Afterpay competitor, Sezzle, had a spectacular first day of trading, up 80% from the IPO price. "These businesses are disrupting the credit card industry, so the opportunity is large," he says.

In terms of their future prospects, Shuttleworth says the risk is many of these firms have no experience handling bad debts during an economic contraction. "This is a factor to watch for since the credit and equity markets on which these businesses depend for funding may not be as reliable in a weak economy."

But he warns investors that global economic growth is slowing and central banks are reducing interest rates, themes that are likely to play out in the IPO market. "We believe companies with reliable cash flows which are projected to continue for the long term and strong balance sheets will benefit the most. These include businesses in healthcare, established technology and consumer staples. If China chooses to stimulate its economy to counter Trump's tariffs, this is a strong indicator for higher commodity prices, which should benefit the mining sector."

Shuttleworth says this should benefit upcoming mining IPOs. "The financial sector may be more challenged in a low-rate environment, as has been the case in Europe. But niche firms with a strong point of difference will likely do well in any environment."

He says IPOs with a "buy now, pay later" business model will continue to perform in this environment. But now the barriers to entry have lowered and market saturation is increasing. "As such, investors would do well to properly look into the risks of these companies before considering the potential for gains."

Others also believe the outlook for IPOs remains strong as long as equity markets hold steady. "We are seeing a lot of available capital for the right deals, due to the lack of IPOs in the first half of the year, although we did see a steady flow of secondary capital raises," says Martin Crabb, chief investment officer with wealth management firm Shaw and Partners. "The message we are telling corporate clients that want to IPO is to get going before the music stops.

"There is good demand from retail investors who are looking to move money out of low-yield cash investments into anything with a stable yield. A number of fund managers are looking to tap into this trend, especially fixed income managers."

FOOT IN THE DOOR

Getting access to IPOs remains a challenge for many retail investors who don't have a strong relationship with a broking house. "It's not quite as bad as it used to be, but it's a real issue," says Ohm. "From the company's point of view, it's far easier dealing with institutional investors than retail investors."

Services such as OnMarket BookBuilds are changing this, however. They provide a platform through which retail investors can access IPOs.

Of course, it's important for retail investors to recognise the risks involved with IPOs and not be too swayed by the prospect of strong gains on debut. Many new listings see their share prices rise on day one, only to subsequently retreat far below the issue price.

"With IPOs, there always risk but there's also potentially rewards as well," says Ohm. "Over the last seven or eight years IPOs have outperformed the market on average, although that's not true for them all. Again, it comes down to research and it depends on the company. Some of them are very speculative. They may have no earnings at all. You also need to be prepared for the risk of dilution. If they do a capital raising there's a chance the value of your shareholding will go down if you don't participate."

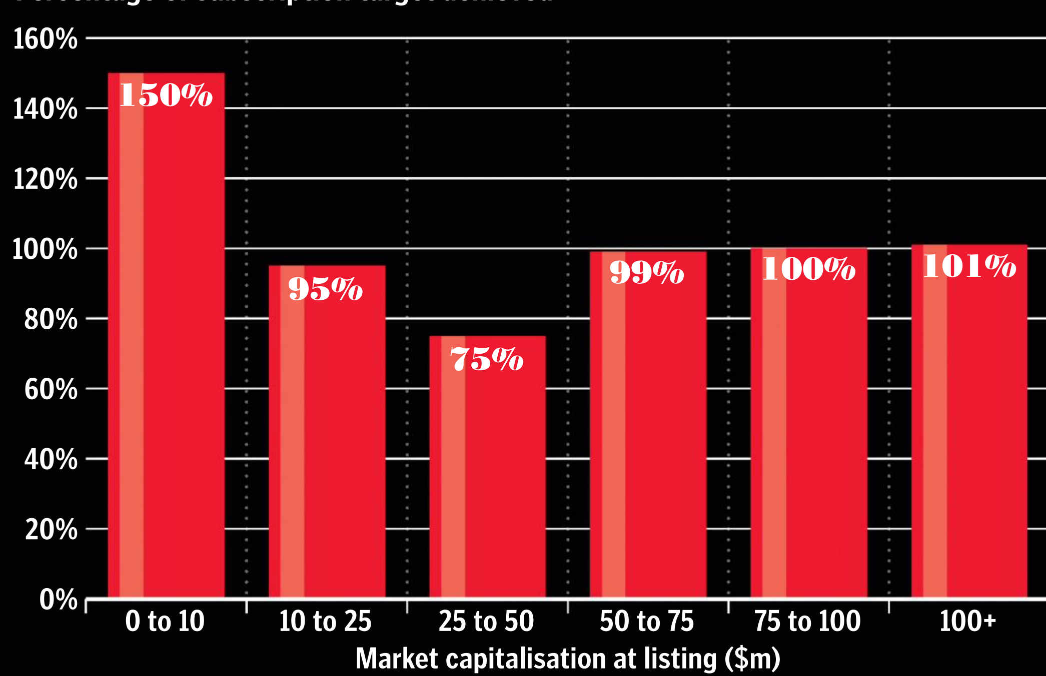
The aim is a balanced portfolio that includes large, blue-chips stocks as well those that have more recently listed on an exchange. "It's just common sense not to allocate too much money to any one stock to spread risk."

In terms of the IPO outlook, typically the back end of the year is where all the action happens. But not this year. There are only three IPOs scheduled: biotech Osteopore, listed investment trust Partners Group Global Income Fund and potash explorer Trigg Mining.

"It could end up being a pretty quiet year overall," says Ohm. "The coming six months are going to be a little bit difficult. If you look at the way the market's going, I don't think we're going to have a huge final quarter. So there may not be that many opportunities for retail investors to take positions in IPOs for the rest of the year. There's a lot of uncertainty at the moment, and people need to take that into account when investing. But things may pick up next year." *M*

Where the money ended up

Percentage of subscription target achieved*



* Based on the funds target being the midpoint of any allotment (some companies do not have a range). This means actual fundraising can exceed "targeted" fundraising (that is, oversubscription).
Source: HLB Mann Judd

Start investing early and let time work its magic

Younger workers can take greater risks and enjoy greater rewards

Millennials have an invaluable tool at their disposal: it's time. As investors, which they all are thanks to compulsory super, they have long time horizons, can afford to invest in higher-return options, take advantage of market cycles and therefore reap much greater rewards.

Nathan Bonarius, senior analyst at actuarial firm Rice Warner, says: "It's better than doing so when you are older. If you put in $10,000 when you are 25, and assuming you get a real return of 2%, you will have $23,000 at retirement – so more than double. If you wait until your early 60s to get the same increase in balance, you might have to put in $20,000.

"At that younger age you have a long time horizon and can afford to put it in more growth-orientated investment options. It's locked up for a long time so it's often appropriate to take on a little more risk. Cash would be the riskiest place to keep it. You wouldn't earn much."

You should also take into account the appropriateness of fees and insurance.

"You can't predict returns but you can predict fees," says Bonarius. "Make sure you're not paying too much compared to other products. Also be aware if you cancel your insurance you may not be able to get it again without medical underwriting. It might be appropriate to cancel it now, but it might be harder to get later."

Contributing more can really turbocharge your super account. And every little bit helps. For example, making coffee at work a couple of times a week instead of buying it can have a dramatic impact. Martin Fahy, CEO of the Association of Superannuation Funds of Australia (ASFA), gives the following examples to demonstrate the impact of doing so.

BENEFITS OF SUPER AT 12%

The super guarantee (SG) is legislated to go up to 12% by 2025, starting with 0.5% increments in 2021. It will mean 50% of Australians will get to live comfortably in retirement by 2050 – over double the current proportion, according to ASFA.

For a 30-year-old on $40,000 a year, with a current balance of $20,000, compulsory super will deliver an estimated $263,500 at retirement. This will increase retirement income from $23,662 a year (the age pension including allowances) to $34,078 a year.

Some Liberals argue it shouldn't be lifted as it will dampen wages.

But ASFA CEO Martin Fahy disagrees. "Wages have been stagnant for about seven years. Yet at the same time the ASX sits about 6800. It shows all the gains in productivity, however modest they have been over the last 10 years, have accrued primarily to the providers of capital, not to the providers of labour. Moving to 12% is a guaranteed way of capturing those gains for workers and giving them a better retirement."

CASE STUDY

David is 30 and earns $70,000 a year in an office job, receiving the benefit of the 9.5% SG. He is on track to reach the ASFA comfortable standard of living by the time he retires at 67 with $568,600 if he currently has $50,000 in his super and the SG increases to 12% by 2025. If the SG stays at 9.5% David would be projected to have significantly less – $497,000 – at retirement.

"If you put in $50 a month extra in additional contributions starting at 20, it gives you $50,000 extra in retirement; if you do that when you are 30 it gives an extra $33,500 at retirement; if you start at 40 it would give you $21,400; if left until 50, you'd only have $11,300; and if you started at 60 you would have just $4300 extra," says Fahy.

He is upbeat about millennials and their ability to think long term. "They understand it with climate change. They understand it with sustainability issues, they understand it with health. We need to encourage them to take the same long-term thinking with retirement."

Investing in growth options is appropriate, he says. "Over a 10-year period there may be some cycles, but given these people aren't going to be drawing down on their super for another 40 years, now is a good time to dial in some of that risk to get the higher returns."

Super has many advantages we take for granted: it is compulsory and professionally managed. "People wouldn't save without it," says Bonarius.

Finally, super provides tax benefits and remains an attractive savings vehicle, including for low-income earners, says ASFA.

For an individual on less than $37,000 a year the effective tax rate on super contributions is zero when the impact of the low income superannuation tax offset is taken into account.

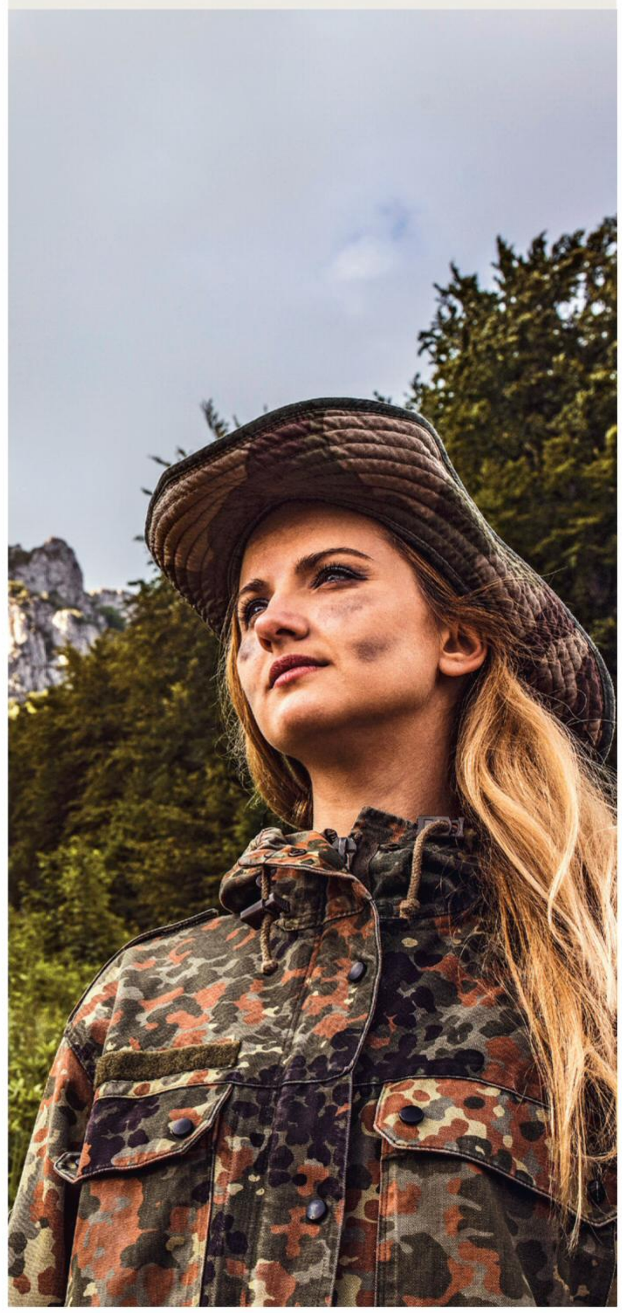
Outside super, the tax rate, including Medicare levy, is 21% for those who earn above $18,200.

For individuals on an income of $37,001 to $90,000, the tax rate including Medicare is 34.5%, compared with 15% within super.

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

CASE STUDY

Ann, 30, is a park ranger. She earns $60,000 a year and currently has a super balance of $20,000. With the SG rate due to increase to 12% by 2025, Ann will have $422,000 in super savings at retirement (age 67). This is around $66,000 more than if the SG remains at its current rate. Ann will have a higher standard of living in retirement when the SG rate increases, with an annual retirement income of $40,900, compared with $39,200.



Y marks the spot

STORY SUSAN HELY

An array of specially designed apps and tools aimed at the tech-savvy generation helps them take charge of their investments

Putting his heart into it

case study

Greig King (pictured), 31, is a millennial with a mortgage who bought half a house with friends. But he wants to generate an income higher than the cash rate so he started investing, picking around 10 funds and companies that resonate with his outlook.

Take his holding in Metrics Master Income Trust, which pays a monthly income from investing in corporate loans. So far it has outstripped the cash rate with a net return of almost 6% over the year to June 30. Peer-to-peer lending has given him a return of around 12.5%, but the risk is that if the loan falls through he can lose his money. "I'm not hugely into it. I have put in a maximum of $1000," he says.

Greig also likes to invest in companies and funds that he can get his head around. He reads what the fund managers post on their websites and will invest if he connects with their aims and ideas.

For example, a fund called Hearts & Minds Investments appealed to him because its managers donate their time and their best highest conviction ideas. Their investment management fee of around 1.5% is passed onto a group of charities that include the Black Dog Institute and the Victor Chang Cardiac Research Institute. "I like the way they look after their money and do some good for someone else."

Ethical investing is important and Greig has a list of no-go areas such as arms manufacturing, armour and tobacco. He doesn't gamble or smoke and his three nieces have inspired him to look at good gender representation on boards as he wants them to have opportunities when they grow up.

Greig says he picks up a lot of information online through his broker CommSec and the popular trading forum HotCopper.

"If I had time to be an active investor I would be, but I don't," he says.

He likes to have fun with some of his investing money and as a whisky drinker he has invested in Australian Whisky Holdings, which he says has been one of his worst calls.

Would his interest in investing spread to his superannuation? "I'm in a good industry fund and I wouldn't touch my super," he says.

If you're a millennial aged 23 to 38, watch out. Investment managers, banks, insurance companies and superannuation funds are monitoring your every financial move. They can see you coming and are rolling out a smorgasbord of millennial-baiting products to snare your dollars.

We all know millennials, also called gen Y, are tech savvy, but it goes both ways. Financial institutions are employing their algorithms to watch millennials and develop products to match any trend that arises.

Australian millennials are evolving rapidly when it comes to their finances. They may face plenty of headwinds such as student debt, expensive housing, underemployment, stagnant wage growth and, if they have kids, high childcare costs. But they also have plenty going for them. They represent almost half of all workers and spend $1 in every $3. This tech-obsessive group loves financial apps and can dial up any information it wants. Thirty-five per cent distrust financial institutions – particularly after the jaw-dropping revelations of the royal commission. They value transparency and want investments that resonate with their core values.

"The disparaged millennials are really starting to come to life as they get older," says Michael Blomfield, chief executive of the researcher Investment Trends.

Millennials have one huge advantage – they have time on their side. If they put away a little money regularly it will compound significantly over time.

In fact, millennials do better than their parents, with 30% saving more regularly than their mums and dads, according to a report by AlphaBeta Advisors for Afterpay. Eighty per cent are budgeting,

Cash no longer cuts it

case study

Erica Robinson (pictured) doesn't see the point of keeping her money in cash and term deposits. "The lack of return on term deposits makes it a no-brainer," says Erica.

Cash doesn't keep up with inflation so you are going backwards by keeping your money in it.

Erica, 24, developed an appetite for shares from a young age when her grandparents bought her some shares in the packaging company Amcor. After she finished university, she transferred the holding into her own name and began to look around for good market information. "I take a real interest in economics and how it affects the sharemarket."

She listens to money experts such as Alan Kohler and EquityMates' Julia Lee. She has signed up with online broker CommSec. She holds four shares: NAB, Amcor, Afterpay and the software company LiveTiles.

Erica likes to invest in companies that are relevant to her life. For example, she uses the LiveTiles platform at work and uses Afterpay for her online shopping.

"It's nice to know that you have a minuscule part of a company that you use. You get exposed to a company and like it, then you can dive down into researching it."

Erica is with Hostplus superannuation fund and has opted for its Choiceplus investment option, which allows her to pick shares in the ASX top 300 and listed investment companies. It also gives her real-time trading, market information and Morningstar research at a low cost. She has bought a mining company and a pharmaceutical company, but no ETFs yet.

Erica says that she is not fazed by the data that financial groups gather on her. "They can push as much as they want in your face, but it's on you to push it away."

Would she ever consider going to a financial planner who sees people like her parents? "I'm not at the level that my parents are and I am not at all like my parents," she says. There is a massive gap in the middle market for financial help, says Erica.

She believes she is lucky that her grandparents gave her the shares and awakened an interest. "I have a lot of friends who have no idea where to start."

compared with two-thirds of their parents. Millennials are turning away from credit cards: 41% own one credit card compared with the older generation's 66%. One of the reasons for a lower rate of credit cards ownership is their enthusiastic take-up of buy now, pay later products like Afterpay and Zip Pay.

Financial groups are rolling out a range of apps so that millennials can manage their finances closely. One in three millennials use online tools to track their spending and 7% use budgeting apps; 72% of them do their research on their phone before spending, compared with 28% of older Australians.

But it is the huge take-up of investing via online brokers that has surprised Investment Trends. More than 50% of all new account holders with CommSec, the largest online stockbroker, are under 35, up from 38% 10 years ago. Soraya Alali, general manager of customer experience and product innovation at CommSec, says millennials are delving into shares for three reasons: they want to get a deposit for a property, save to travel and build up their investments.

This age group is three times more likely than older generations to put their money in low-cost, diversified exchange traded funds (ETFs), which allow an investor to access multiple securities or funds through one investment. Millennials favour global ETFs that offer greater exposure to the technology sector and small-cap ETFs that include start-ups.

But newbie millennials trade half as much as older investors, leading CommSec to come up with a new app-based product called CommSec Pocket. "While many young people want to get involved in investment they just don't know where to start," says Alali.

Apps that micro-manage savings by diverting cash flow into investments have been embraced by millennials. Raiz Invest (formerly Acorns) has attracted 700,000 users, with more than $300 million under management.

Raiz's mobile financial services platform started off in 2016 with a popular product that sweeps small change into a savings vehicle made up of ETFs. It has evolved to also offer superannuation and the latest feature, Raiz Rewards, which gives a percentage of cash back to its users when they shop online through 200 retail partners, including Woolworths, The Iconic and Apple.

With the CommSec Pocket app, investors can start with as little as $50 instead of the usual $500 for listed securities. For a low brokerage fee of $2 (instead of $10 to $25) they can choose from seven ETFs that span emerging markets, healthcare, technology, sustainability, high yield and broad Australian and global shares. The ETFs are iShares Core S&P/ASX 200, iShares Global 100, iShares MSCI Emerging Markets, SPDR MSCI Australia Select High Dividend Yield, BetaShares NASDAQ 100, BetaShares Global Sustainability Leaders and iShares Global Healthcare.

The app links investors with their pay cycle and allows them to invest regularly with small amounts. "It is designed for people who want to do more with their savings," says Alali. "It breaks down barriers to investment and works for people of all ages who think that investing is too hard."

But as investors turn away from the safe haven of cash towards listed investments, they are loading up on significant risks and have to live with a new experience – volatility. *M*

Set up for life

STORY CANNA CAMPBELL

A diversified mix of stocks and industries, coupled with a strong savings habit, can provide a regular, long-term passive income

Whether you decide to use shares as your main source of passive income or merely as one of your sources to help build your retirement "number", you must understand the importance of diversification, the risks involved and how to handle these challenges.

Diversification essentially means not putting all your eggs in one basket. By spreading the range and type of companies in your portfolio, so that it covers a wide selection of businesses – at least 20 to 30 different stocks and industries – you'll reduce the risk and impact if and when something goes wrong.

You never want to be reliant on an investment in just one company for all your returns and passive income. I will explain why.

Our economy is increasingly dynamic, thanks to the speed with which the media react to events and the ability of the public to access an enormous range of information and opinions.

Not all companies, industries and asset classes perform in the same way at the same time. Businesses can experience challenges and even collapses. A share price can drop quicker than it can increase. And dividends may need to be temporarily reduced to help a company get through a challenging period.

Meanwhile, some companies, such as supermarkets and healthcare providers, thrive in tough conditions. This is because no matter what happens, we still need their services and products. We still need to buy bread and milk, see doctors and buy medication, and use electricity and the internet.

These "staples" aren't entirely recession-proof businesses, but having a mix of them among your investments can be prudent, so that your portfolio can weather all conditions. On the flipside, when the economy is stronger people and businesses are more open to investing in growth. Whether it be homewares, building or renovations, new cars, even higher-quality food and luxury designer goods, these businesses can benefit in economically healthy times.

KNOW YOUR ASSET ALLOCATION RATIO

Investing is actually exciting! Be mindful that you're investing not just financially in your future, but emotionally as well. This is about making your hopes, dreams and goals come true.

When you make your first investment, it may feel a little scary, which is quite normal. But once it's done, you'll mostly likely laugh at yourself over how easy and straightforward it is, and wonder why you were so nervous.

But one important step that everyone should take before they start investing is to know their asset allocation ratio. This is like your dress size – it can change over time (go up or down), but being aware of it helps you grab the right size off the rack.

Asset allocation classes include:

- Two-dimensional income and growth assets, which are for your long-term financial goals, such as building "your number". This is where you have a long-term approach of 10 years, if not forever. These are assets such as shares, both domestic and international, and property.
- One-dimensional income-based assets,

which are perfect for your short- to medium-term goals, such as saving for holidays, home deposit, wedding, a new car – essentially anything that you need the money for within seven years or less.

Your correct asset allocation ratio will depend on your goals at the time and will need to be adjusted accordingly.

There are no good, bad, right or wrong asset allocation profiles; they just need to be right for you and your current and long-term goals. Identifying your ratio helps you work out how much, where and when you should save and how much, where and when you should invest. Over time your asset allocation ratio may change as your education and experience grow, and this is perfectly natural.

Say your goal is to save for a holiday in the next 12 months, but you also want to get started on building your retirement number. You could split your regular savings in a variety of ways.

Say you have $1000 available for regular saving and investing: 20% can be for short-term goals, say $200 in a cash account (for example, a lifestyle goal account); and 80% can be for long-term goals, say $800 invested in shares or property.

You can tweak this ratio depending on what you need and want at the time, as long as you know that your cash is only for short- to medium-term expenses and your long-term assets are to be used for long-term goals.

TIME FACTOR WITH ASSET ALLOCATION RATIO

"Mindful" money is not about speculating or trading stocks and assets or adjusting your asset allocation ratio in response to short-term volatility or changes in the sharemarket.

The ratios are not only meant to serve as a guide for you to build your wealth, but also to suit and satisfy your immediate needs with safety and peace of mind.

The only assets that I hold personally are my two-dimensional ones, which include Australian and international shares and property. Then I simply have a cash savings account for anything that is short to medium term such as holidays, expenses for the house, cars, etc. I keep it simple and easy to look after, with no confusion ever.

The fundamental message that I'd like to present is how to build a passive income that lasts indefinitely, giving you the freedom to do what you want, when you want. Holding assets that aren't two-dimensional is only going to hold me back.

I am not prepared to settle for average, so for me having a larger asset allocation to shares, with all the short- to medium-term ups and downs, is well worth the long-term payoff.

So if you are new to investing, start with a 80:20 ratio of cash to investing and over time, as you see, feel and experience your financial successes building momentum, start to look at slowly shifting towards a different split if and when you can.

This means investing for the long run, buying investments that you want to hold forever, then actually holding those investments forever and never selling them. Selling them would cut off your precious passive income of dividends, forgo great buying opportunities and jeopardise your financial freedom. Selling your investments would also be likely to trigger capital gains tax or even crystallise a capital gains loss from a short-term pullback, both of which would make a dent in your net wealth.

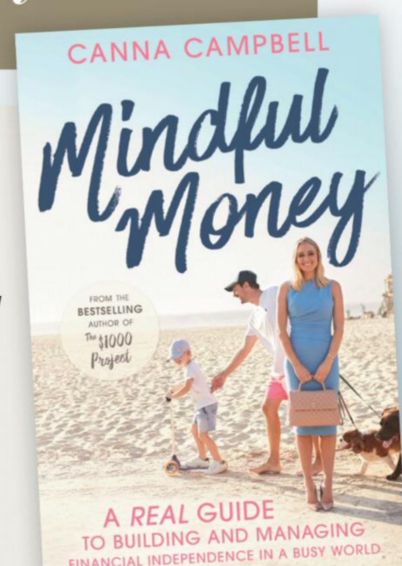
I advocate a long-term buy-and-hold approach, where you never miss out on a dividend and you never crystallise a capital gain or loss. But rather keep your eye on your long-term goal: your "number". This results in a higher weighting towards two-dimensional assets that provide you with growth and income. These will be more volatile over the short term, but they're a more efficient and effective way to build wealth over time, which you can afford because you're in it for the long term.

It's particularly important to commit to the long run. Some people make the fatal error of selling down their entire portfolio once they hit their number, switching their investment portfolio to cash and term deposits. This is very common with retirees, who leave their working life and then sell down their assets, parking their funds in term deposits and going fishing.

Initially the return from a term deposit may seem fine – no risk, no volatility and a known interest payment made each month by the bank. But when you think about it, life after age 65 or even 70 is still a long-term proposition, with life expectancy stats suggesting another 15 or 20 years ahead of you at least. And medical advancements in curing and preventing diseases continue to push this time frame out even further.

The effect of inflation over the long run can really kill the yield of that term deposit, especially with the current low rates. Your buying power erodes at a disturbing speed as you eat into your bank balance more and more each year, trying to keep your term deposit income covering your budget, all the while knowing there may be many increasingly expensive years ahead of you. ***M***

Win a copy of the book



This is an edited extract from *Mindful Money: A Real Guide to Building and Managing Financial Independence in a Busy World* by Canna Campbell (Viking, RRP $34.99) available now. For your chance to win one of five copies, tell us in 25 words or less how you would build a share portfolio. Enter online at moneymag.com.au/win or send your entry to *Money* magazine, Level 7, 55 Clarence Street, Sydney NSW 2000. Entries open September 2, 2019 and close on October 2, 2019.

Rich Nan, Poor Nan

STORY GREG HOFFMAN

A tale of two grandmothers demonstrates the value of true long-term investing

One of my grandmothers was a self-funded retiree in a capital city who took an active interest in her investments. The other lived in a small country town and survived fortnight-to-fortnight on the age pension. Let's call them Rich Nan and Poor Nan.

Rich Nan managed to successfully navigate the social and financial pressures of being a single mother in the 1940s and 1950s while building a career as an accountant in Perth. She understood the value of combining calculated risks and the power of compound interest.

Poor Nan had a small amount of savings and was distrustful of almost everything in the financial world. She was a hoarder and after she moved into a nursing home my mother found hundreds of dollars of banknotes hidden in the piles of magazines she kept around the house. "Safer than the bank", I guess, was her reasoning.

She showed some adaptability late in life, buying her first shares (Telstra) in her 90s. But as Rich Nan could have told her, Poor Nan left her run too late to let compound interest begin really working its wonders.

Poor Nan was fearful and mired in the past. Clinging to old views, superstitions and nostalgia, she watched daytime TV and loved gossip. She told stories about our family history, like how our convict ancestors had been unfairly sentenced and how we'd been cheated out of various fortunes over the years. She also doted on me and indulged me endlessly. She amplified the magic and excitement of Christmas (often rising earlier than me and my brother on Christmas morning and waking us up). She was easy for me to be around and, in the end, stoic in the face of death when she knew it was upon her.

Rich Nan was the polar opposite in many ways. She wasn't outwardly caring, indulgent or easy to be around. There was no small talk. She was interested in serious ideas, books, community work, travel and the theatre. She lived on the other side of the country and I probably only saw her less than 20 times in my life. But she took a keen interest in the academic results achieved by me and my brother and encouraged us to lift our sights, try harder and be disciplined. These are not particularly attractive concepts to most kids. We were no exception.

Dad and Rich Nan used to talk over the phone each Sunday afternoon for hours. One of the main topics of conversation was the sharemarket. Overhearing some of these conversations is where I picked up the investing bug.

I was too young to understand the nuances, but I knew that she was a patient investor (not a trader) with a steady eye on a business' long-term prospects. She was the long-time treasurer of the successful community-owned South Perth Hospital and in *Hands That Heal*, the history of that institution, it says "she was known for her always optimistic but keenly analytical summaries of the state of the hospital's finances."

In her sharemarket investments, for instance, she appreciated the global potential of the fibre-reinforced cement (FRC) developed by James Hardie. FRC used alternative reinforcing materials to make asbestos-free, cement-based building products. She bought the stock in the 1980s and it grew to be the largest holding in her portfolio.

Another stock she held for the long term was an innovative water filtration technology company called Memtec, which was taken over in 1997, the year she died.

I've been thinking of her a lot lately and the broader topic of transferring knowledge and wealth across generations. I've also been asking myself which of the stocks in the portfolios I run would Rich Nan most approve of. Here are my top two:

Lovisa

I wrote about fashion jewellery and accessories retailer Lovisa (ASX: LOV) in my March column. I suspect Rich Nan would love the long-term potential, with Lovisa currently rolling out stores in the UK, France and the US. She'd likely also appreciate the impressive profit margins and absence of debt on the balance sheet (ever the fiscal

> Poor Nan left her run too late to let compound interest begin really working its wonders

conservative). The company is backed by one of Australia's most savvy retail minds in billionaire Brett Blundy, who stepped into the role of chairman last year. I take this as an indication of the potential he sees in the business (in addition to him being the company's largest shareholder).

I think of Lovisa as "the Bunnings of accessories", offering the largest selection at the best prices. It's chosen a great niche to specialise in and has a good shot at dominating this area in many countries. It's what some investors refer to as a "category killer" and has an extraordinary global growth opportunity. This is a stock that our family can easily hold for the next decade or longer.

Pinnacle Investment Management

What would Rich Nan make of Pinnacle Investment Management (PNI), an incubator and supporter of funds management companies? It provides marketing and support services to a growing stable of funds managers so that they can focus on what they do best — investing their clients' money.

She'd probably appreciate the company's growth strategy, which has three key drivers. Firstly, it seeks to grow the existing businesses it has stakes in, including Hyperion Asset Management, Plato Investment Management and Solaris Investment Management. It does this via its business development team and also its ability to help funds managers create new products and funds. Secondly, it has backed the creation of new funds management ventures, with Antipodes Asset Management and Firetrail Investments being two remarkable successes in this category. Thirdly, Pinnacle has acquired stakes in existing operations that management believes it can add value to. These include Metrics Credit Partners and Omega Global Investors.

This three-pronged approach has been powerful and Pinnacle reported a 32% rise in net profit for the 2019 financial year. And that followed on the heels of an astounding 79% increase in 2018.

A company like Pinnacle is always subject to market conditions, but on a recent conference call, management seemed confident that 20% annual profit growth is within reach over the coming three years. And like Lovisa, Pinnacle carries no debt and plenty of cash, which provides a firm fiscal base for growth and protection if things get off track for one reason or another.

In my view, Australian consumers are moving away from huge, integrated financial institutions and towards Pinnacle's way of doing business via independent boutiques focused on funds management that are separate from financial planning firms. I think Nan would approve.

Both of these stocks are also run by their founders. I'm not sure if that was a factor that was on her list, but it's certainly my preference. Ambitious, capable founders find ways to grow their businesses that a professional manager on a three-year contract never could. Like Rich Nan, successful founders typically take a long-term view and patiently but passionately follow their game plans over many years.

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 LOV and PNI.

Wobbly maths, on top of a high share price, are a worry for Transurban's shareholders

Fancy deal takes its toll

STORY **GRAHAM WITCOMB**

It's an old sales trick: place cheaper items near the till, so that when customers are ready to buy their $2000 TV the $30 cable seems like a good deal. "Just chuck it in," they say. "What's another $30!"

Transurban is pulling a similar trick on investors. Only in this case, it's for $232 million.

First, a bit of background. The company has announced an agreement to purchase the remaining 35% minority interest in its M5 West toll road in Sydney for $468 million, bringing its ownership stake to 100%.

The deal itself is fine. Transurban has managed the road for 27 years, so there isn't as much operating or valuation risk as there is with green field projects. The price doesn't look bad either, with the acquisition adding around $80 million to free cash flow next year, compared with a purchase price only six times that (although this partly reflects the M5's short concession period).

The worry is in how Transurban is funding the purchase. It is raising $500 million via an institutional placement at an offer price of $14.70. It is then raising a further $200 million via a security purchase plan available to existing shareholders, who will have the option to purchase up to $15,000 worth of stock.

Spot the wobbly maths? The company is raising $700 million, despite the M5 West acquisition costing only $468 million. Management says the difference will be used for "general corporate purposes", including a cheeky disclaimer that if the acquisition does not proceed, the proceeds will be retained for future use.

The result is an unnecessary dilution of existing shareholders, with Transurban management being repeat offenders on this score.

With a $40 billion market capitalisation, an extra $200 million may seem small beer, but this is no excuse. Transurban is able to raise debt at better interest rates than almost any borrower in Australia. There's no need to flog part of the farm when a small, low-cost loan would do the job just fine.

Other than the funding blemish, Transurban had a good 2019, with average daily traffic up 2% overall and toll revenue up 10% to $2.6 billion. This does, however, mask a slowdown in the past six months, when traffic numbers were flat.

The Sydney network, which accounts for 40% of earnings, had a strong year with revenue up 10% and earnings before interest, tax, depreciation and amortisation (EBITDA) up 12% thanks to regulated toll increases. Management says major improvement works in Sydney are on track, with NorthConnex due to complete mid next year.

The Melbourne network also benefited from improving traffic numbers, which rose 3%, and there was a 6% increase in large vehicles. Revenue and EBITDA both increased 4%, with the disappointing growth attributed to congestion and disruption on the Southern Link.

Queensland was also on the tired side. Traffic numbers were largely unchanged, although toll price increases during the period pushed revenue and EBITDA up 2% and 5% respectively.

The company's North American operations performed better. Toll revenue increased 45%, although this was mostly due to last year's purchase of the A25 toll road in Montreal, Canada.

Turning to the balance sheet, Transurban's total debt increased from $15 billion to $19.4 billion, due to funding for Melbourne's West Gate Tunnel and Sydney's WestConnex projects. On the bright side, the company refinanced $6.9 billion of debt during the year at an average interest rate of 4.2%, well below the weighted average of 4.6% for Transurban's debt pile overall. Interest coverage and leverage ratios should improve in the year ahead.

Management has flagged dividends of 62¢ per share in 2020 – a 5% increase – for a forward dividend yield of 4.1%. But here's the rub: only 80% of the dividend was covered by free cash flow, once you exclude a $242 million capital release (whereby Transurban refinances an asset it already owns, similar to a reverse mortgage on your home).

Underlying free cash flow rose 6%, not 26% as the statutory result suggests. On a per share basis, the picture is even bleaker. Recent acquisitions and capital raisings have diluted shareholders – free cash flow per share fell 12% this year.

Nor is it likely to recover until WestConnex and NorthConnex are up and running. The extreme leverage employed by Transurban also exposes shareholders to significant downside if interest rates increase even marginally.

With interest rates close to record lows, investors have been flocking to steady dividend payers like Transurban, up over 30% this year alone. However, with free cash flow trailing far behind distributions and a sky-high valuation, the stock is riskier than it looks.

If you're keen on toll roads, locally listed Atlas Arteria, owner of a large French toll road, offers more bang for your buck. Either way, Transurban is one to avoid.

Graham Witcomb is a senior analyst at Intelligent Investor.

"With free cash flow trailing far behind distributions and a sky-high valuation, the stock is riskier than it looks

Rise above the noise

In an ever-changing economic landscape, investors need to consider the right questions when they review their portfolio

Excuse me if I sound flustered! There's so much going on. Companies have just reported their profits and dividends are set to flow. Interest rates are historically low and seem set to fall further. The Australian dollar is lower, exports are booming, the sharemarket hit new highs before crashing in mid August and the slump in house prices appears to be over. What could possibly go wrong?

Let me think. Brexit could be very messy for markets and unhelpful for short term activity in the UK. The US has lost some growth momentum and the International Monetary Fund has cut its global growth forecasts. Locally, economic growth remains below par and regulation is on the rise.

To navigate the ongoing mix of economic events, we need to ask the right questions. First, what does it all mean for the earnings growth of the companies I'm invested in? Second, how will central banks and interest rates respond to these varied economic events? And third, will the weaker Australian dollar hinder or help my portfolio?

Threats to earnings growth, whether they come from a slower economy, changes to regulation, poor management, technological change or increased competition, can see share prices fall. Put another way, they can lead to capital destruction.

A slower economy matters. Lower or stagnant dividends are rarely greeted with joy!

As you review your portfolio in the months ahead, ask yourself to what extent the companies you own are susceptible to swings in global and Australian economic growth. Can they ride out economic cycles? Is regulation going to impact earnings (think financials and some healthcare stocks)? How would a slower building sector impact the demand for the goods or services my companies produce?

Economies are dynamic. They never stand still. When one part moves, there's always some form of chain-reaction. Central banks, such as the US Federal Reserve and our Reserve Bank (RBA), respond to changes in the economy. The RBA reduced interest rates in June and July.

The Fed also cut rates in July. Both were responding to soft or softening economies. At the same time, 10-year bond yields have fallen in both countries and could fall further. The Europeans seem set to cut rates this month.

Lower interest rates affect company and stockmarket valuations. The lower the "risk-free" rate of interest (government bond yields) the higher the market tends to value future earnings. This is part of the reason why the Australian sharemarket has risen in recent months.

A low-inflation, low-interest rate environment should act to support the market in the months ahead. Mind you, short-term sentiment could easily head south if politics and policy in the US, the UK and China become less "market friendly".

I'm not sure if you've noticed, but the Australian dollar has slipped almost 10% in the past two years. This does wonders for the earnings of miners and global health companies. How sensitive is your portfolio to offshore or export earnings? No one knows where the Australian dollar is headed in the short term but there aren't many factors at work that seem likely to push it higher.

September will bring its usual clutch of economic statistics: economic growth figures (GDP), building approvals, jobs growth and unemployment, retail spending, population growth, tourist numbers and construction activity. Each one has the capacity to impact the outlook for earnings and interest rates.

I doubt the September statistics will show a booming economy. But they will show that some parts of the economy are doing well (miners), some are flat (retailing) and others are going backwards (housing construction).

Within this ever-active economic environment, we all do our best to make investment decisions. I wish you well as you navigate the noise.

Hans Kunnen is the chief economist at Compass Economics.

VALUE.ABLE Roger Montgomery

SECTOR GLOBAL TECHNOLOGY

How to separate winners and losers

Australian portfolios would get a significant boost from tech giants that actually make a profit

An investor who purchased the S&P500 Total Return index in April of 2012 would have generated a return of 147% from the index with an additional boost of 44% from the 30% decline in the Australian dollar.

Few investors were that successful because they are often less confident with international companies than those in their own backyard. That is, of course, why an Australian-managed global fund can help find companies with large addressable markets and long growth runways. Think technology.

If you aren't willing to employ a fund manager, however, then you'll need to conduct some serious due diligence.

Start by separating companies that dominate markets, generate large profits and trade at reasonable prices from those that are profitless. It might surprise you that Apple trades on a one-year forward price earnings (PE) of just 15.7, Google's owner, Alphabet, is on a one-year forward PE of 21 while Facebook is on just 19.

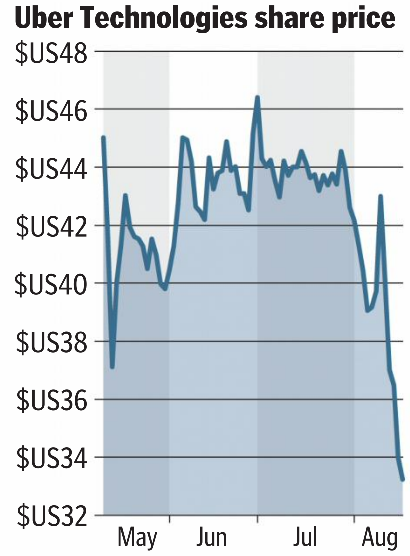
Not all US tech titans are profitable, however, and many of the ones that aren't are frighteningly expensive too. Profitless prosperity can't last forever.

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

Google share price

Facebook share price

Uber Technologies share price



❶ Alphabet

Alphabet, Google's owner, recently surprised the market with a quick reversal from its prior quarter's "deceleration", with revenue up about 20% year on year, beating consensus forecasts. EBIT was up 13%. Importantly, Google Cloud is now a significant business with a $US8 billion ($12 billion) run rate that has doubled in 18 months. An increased focus on Google Cloud raises the potential for further separate disclosures. When Amazon did this with Amazon Web Services (AWS), the value of the business delighted the market.

Nasdaq GOOGL
Price $US1179
52wk ▲ $US1297
52wk ▼ $US978
Mkt cap $US817bn
Dividend -
Dividend yield -
PE ratio 24

BUY

❷ Facebook

In the second quarter, Facebook reported revenue growth of 28% year on year. Try finding a giant, profitable business in Australia with that kind of growth! Strong growth of 33% in the number of ad impressions served in the second quarter drove the impressive result. Management has pointed to incremental opportunities to grow Feed impressions, but it noted that most of the ad impression growth in the future will be driven by Stories ad formats. Having reached a $US5 billion settlement with the US Federal Trade Commission, a material overhang has been removed.

Nasdaq: FB
Price $US184
52wk ▲ $US209
52wk ▼ $US123
Mkt cap $US524bn
Dividend -
Dividend yield -
PE ratio 19

BUY

❸ Uber Technologies

Uber generated a $US5.9billion loss in the latest quarter, including $US3 billion of one-offs associated with its float. The underlying loss extends the 10-year run of losses. Uber has raised over $US24 billion from investors over a decade to achieve 2% penetration and I maintain the view that the company's service is only popular because it is underpriced. The losses are proof that prices are not high enough, but raising them will drive customers away. Moving to driverless cars is a long way off and would disenfranchise the drivers who are Uber's source of revenue.

NYSE: UBER
Price $US35
52wk ▲ $US47
52wk ▼ $US33
Mkt cap $US60bn
Dividend -
Dividend yield -
PE ratio -

SELL

Prices as at close of business, 15-August-19.

Is it time to invest in micro-cap stocks?

YES

ERIK BERGSENG
director,
Mawson Graham

It is always a good time to consider investing in micro-cap companies. Micro-cap investors are able to isolate specific investment themes that represent high growth potential or select companies that have attractive value characteristics. Consequently, there are always opportunities to identify sectors, themes or companies that can go against a negative trend.

It is possible for a micro-cap company to have revenues climb tenfold because its total revenues will start from a smaller base. Such a trajectory would likely result in an uplift in the valuation of that company. On the other hand, it is virtually impossible for a blue-chip company to do the same. By having more market share, it will be more vulnerable to weaker market conditions.

Investors in micro-caps should look at the fundamentals of a company first before analysing broader influences that could impact performance. By doing this it is possible for a sound micro-cap company, operating in an industry with significant headwinds, to emerge relatively unscathed. It is also possible for investors to simply focus on high-growth sectors instead.

For example, it is possible that mining micro-caps and large ASX listed companies could continue to be negatively impacted by the US-China trade war. However, such a development would have a negligible impact on a micro-cap company that is developing a revolutionary technology within the booming geospatial technology market.

Micro-cap companies are not represented within the S&P/ASX 200. Consequently, poor performance in the S&P/ASX 200 may not directly translate into micro-cap companies that are thinly traded and tightly held by company insiders. It can also be difficult to short sell micro-caps.

If the underlying fundamentals of a micro-cap perform strongly, it will likely do well regardless of market conditions.

WHAT YOU NEED TO KNOW

The micro-cap segment, as defined by Morningstar, comprises the bottom 3% of the Australian market by capitalisation, or companies with a market cap up to $300 million.

NO

DALE GILLHAM
executive director,
Wealth Within

There is a widespread myth that buying cheap micro-caps means you will grab a bargain. As the name suggests, though, a micro-cap is a low-value, small-capitalised share.

Unfortunately, many investors believe that by trading micro-caps they will achieve far greater returns than if they invested in solid blue-chip companies. That's because when buying micro-caps many investors believe the share only needs to rise a few cents to double their money, and because of the volatility of these stocks that it will happen in a short time.

While this can occur, the reality for most who invest in micro-caps is they end up losing money because the chances of these stocks doubling in price in a short period is less than a few per cent. Even if the unlikely occurs and the share does double in price, the investor invariably holds onto the share, mistakenly believing it will keep rising, when more often than not it falls heavily.

Many of you would have heard the quote by Warren Buffett: "Value is what you get, price is what you pay." In my experience, investors buying low-value micro-cap stocks will pay the price for their poor decisions.

So is it time to invest in micro-cap stocks? In my opinion, the answer is no; in fact, it is never the right time unless you are an educated, informed and experienced investor.

The low liquidity of micro-cap stocks makes them a very easy target to be manipulated through rumour and speculation. Every day investors scour the internet looking for tips so they can strike it rich only to be burnt by misinformation around micro-cap stocks.

When looking to profit from the sharemarket, the first and last thing everyone must consider is the risk of the investment and not the perceived return. Therefore, smart investing is not how much you can make on any one investment, it is about how much you do not lose over time if things turn sour.

SECTOR UTILITIES

Debt is the magic ingredient

The financial leverage sausage machines keep turning out fat, juicy dividends

In these high-growth, go-go days of the so-called WAAAX tech stocks – and more than 60 ASX companies with a price-earnings ratio over 30 – is there anything less exciting than talking about utilities? These are the companies that provide the roads, pipelines, airports and communications infrastructure that our economic lives depend on. So they're important. But if they're not buy-now-pay-later dynamos, software-as-a-service innovators or choose-your-own-hyphenated-description crowd favourites, why bother investing in them?

The answer, of course, is that investing is neither about the present or the past. It's about the future. And where one investor might want to fill their portfolio with growth at any cost, another is looking for steady returns, preferably with some nice, regular dividends.

Then there's just plain diversification. A concentrated portfolio can magnify your gains ... or your losses. You don't need to be Noah, with two of everything, but a portfolio constructed without too much reliance on a single sector or growth driver is much better than betting the farm.

Plus, they can be profitable. Few people might realise that quasi-utility Telstra delivered a market-thumping 47% gain for investors last financial year.

That said, utilities really are the antithesis of many of the popular listed companies of today. The WAAAX stocks don't need to invest much additional money to grow, turn sales into profit at astonishing rates and have virtual "go anywhere" products that aren't constrained by geography or physics.

Utilities, on the other hand, invest hundreds of millions, or billions, of dollars in hard assets, often with expensive maintenance requirements. Many have government-imposed pricing constraints. And while you can take "know-how" into different jurisdictions, it's harder to transport a gas pipeline into another country.

Often the magic ingredient in these investments is debt – and lots of it. Essentially, while utilities are businesses in their own right and their operations must be well executed, they can equally be characterised as financial leverage sausage machines with a business at the end.

Their margins (the proportion of their sales they get to keep after paying the bills) are usually small – most of the projects are the result of competitive tenders and/or regulated pricing – but leverage magnifies results. It's akin to owning a house. If your $800,000 home is now worth $850,000, you've made 6.2%. But if you borrowed 90% of the purchase price, you've made $50,000 on an $80,000 investment – a return of more than 60%.

Of course, leverage can also work the other way, so it's not a slam dunk. Still, if you have a quality management team and an asset that will enjoy high, recession-resistant utilisation, you usually won't struggle to attract plenty of low-interest debt – and that's a recipe for success.

Scott Phillips is The Motley Fool's chief investment officer. He owns shares in Telstra. You can reach him on Twitter@TMFScottP and via email ScottTheFool@gmail.com. This article contains general investment advice only (under AFSL 400691).

Foolish takeaway

The quality of management and the asset are the ways in which an investor should assess a utility (along with price). There's a reason that utilities are considered "toll road businesses" – they take a small fee every time someone uses the asset. And, unsurprisingly, toll roads themselves are among the best, with Transurban being probably the greatest exponent of the art. Sydney Airport, for both ubiquity and pricing power, is another such marquee name.

Despite plenty of competition, the two reigning utility monarchs are head and shoulders above the rest. For most utility investors, dividend yield is the primary motivation. I think Transurban is the higher-quality business, but based on a better payout, Sydney Airport gets the nod in this race.

Best in Breed's tips so far

SECTOR	STOCK	ASX CODE
Banks	Macquarie Group	MQG
Resources	South32	S32
Consumer staples	Treasury Wine Estates	TWE
Discretionary retail	Premier Investments	PMV
Healthcare	Cochlear	COH
Technology	Elmo	ELO
Fintech	Afterpay	APT
Sydney Airport	Utilities	SYD

Average expectations

There are good reasons why super funds can't beat the sharemarket

In the pages of *Money* magazine you can monitor the performance of some of the biggest industry and non-industry super funds. You will see that the median big fund performance in the last financial year was around 7%, with the top ones around 9% and the bottom ones about 4%. Once again the average performance was below the total return from the All Ordinaries of around 11%.

That's the big funds, some of which are so large – there is $145 billion in AustralianSuper, for instance – that their job is not to actively manage an equity portfolio and outperform. Their main function is to provide small investors access to a mixture of asset classes and they do that very well via their expensive websites.

But by virtue of the fact that funds have billions to invest, their members need to understand that they are only ever going to deliver the average return from all asset classes, not extraordinary returns, and the total return is always going to be the average return, give or take a bit, less fees. So is it any wonder almost all of them underperform the equity market, particularly in a bull market?

But don't let that dismay you; that is the deal, and it isn't a bad one. You pay your fees, and they'll deliver the average return from each asset class in whatever mix you choose via their website.

The benefit to you? For a fee, you don't have any investment responsibilities, you can lead a life of leisure. All you have to do is open an envelope once a year, or log into your fund's website 24/7, and see its performance. All your days, evenings and weekends are yours, free of investment stress.

Not a bad deal for those who have no passion, skill or interest in investment and are happy to wear the average return less a bit.

The bottom line is that the big funds expect to underperform a compounding All Ordinaries index. It is acceptable, just so long as they don't underperform by a lot, and that is their focus: just don't stuff it up, just stay with the pack, just reliably deliver the average, and your members will not disturb you.

Now this may seem unsatisfactory to you, but let me tell you the equity market return, which the media use to set your expectations for your investment returns each year, is a very tough benchmark for you or a fund manager to match in a bull market.

This is because an index like the All Ordinaries total return is not human: it effortlessly and without emotion, without liquidity issues and without cost, compounds all dividends perfectly, effects index component changes instantly and sits 100% invested in a bull market without any doubts at all times. This cold equity optimism at all times is a state of mind that for an active fund manager is close to impossible to match.

If happiness is expectations met, then peddling total return index performance as an expectation for your returns in a bull market results in nothing but dissatisfaction, because fund managers are bound to underperform.

Here's why – and this is a useful list for any underperforming fund manager:

- Because they are not 100% invested in equities. The moment a fund – a balanced fund, for instance – is not 100% fully invested in equities, it will underperform the equity indices in a bull market. This is also why it should outperform in a bear market.
- Because they hold some cash. The moment a fund manager holds a dollar of cash they are no longer fully invested in equities and will underperform the equity indices in a bull market and, again, they should outperform in a bear market. So if a fund manager holds 30% cash at all times, they will underperform by 0.3% every time the equity market goes up 1%.
- Because they don't perfectly compound dividends at no cost. If fund managers do not perfectly compound dividends without any costs, they will depart from the index. Almost none of them can or do.
- Because they don't perfectly replicate the index changes at no cost. If fund managers do not perfectly replicate the changes in the index stocks without any costs at all, they will depart from the index. It is impossible to do without cost.
- Because they have dealing costs. If fund managers have any dealing costs at all, they will underperform.
- Because they charge fees. If a fund manager charges you a fee, they will underperform an index that charges you nothing.

The bottom line is it's almost impossible for a fund manager to perform in line with a total return index in a bull market, and if your investment happiness is expectations met, then you need to expect that.

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

DATABANK

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

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

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

Top 5 Multi Sector funds by size

Name	APIR Code	Mngmnt fee %pa	Start Date	Size ($m)	1-year Return	1-year Rank	5-year Return (%pa)	5-year Rank
Vanguard Growth Index Fund	VAN0110AU	0.36%	20/11/2002	$4,785m	9.3%	10	8.8%	12
Vanguard Balanced Index Fund	VAN0108AU	0.34%	20/11/2002	$4,223m	9.0%	11	7.7%	25
Vanguard High Growth Index Fund	VAN0111AU	0.37%	20/11/2002	$2,545m	9.6%	7	9.9%	5
Vanguard Conservative Index Fund	VAN0109AU	0.33%	20/11/2002	$1,914m	8.0%	17	6.3%	42
Schroder Real Return CPI Plus 5%	SCH0047AU	0.90%	1/7/2010	$1,855m	4.7%	68	5.2%	57
AVERAGE*		0.74%		$464m	6.5%	88	6.8%	73

Top 5 Australian Equities funds by size

Name	APIR Code	Mngmnt fee %pa	Start Date	Size ($m)	1-year return	1-year Rank	5-year Return (%pa)	5-year Rank
Vanguard Australian Shares Index Fund	VAN0002AU	0.18%	30/6/1997	$11,906m	11.2%	18	8.8%	53
Fidelity Australian Equities Fund	FID0008AU	0.85%	30/6/2003	$6,084m	9.2%	34	9.6%	38
Investors Mutual Australian Share Fund	IML0002AU	0.99%	30/6/1998	$2,936m	5.9%	67	8.3%	64
Dimensional Australian Core Equity	DFA0003AU	0.31%	3/7/2006	$2,724m	8.3%	43	9.7%	35
Bennelong ex-20 Australian Equities Fund	BFL0004AU	0.95%	2/11/2009	$2,653m	-7.0%	112	13.2%	6
AVERAGE*		0.77%		$597m	6.6%	113	9.0%	99

Top 5 International Equities funds by size

Name	APIR Code	Mngmnt fee %pa	Start Date	Size ($m)	1-year Return	1-year Rank	5-year Return (%pa)	5-year Rank
Vanguard International Shares Index Fund	VAN0003AU	0.18%	30/06/1997	$14,767m	12.1%	47	13.5%	34
Magellan Global Fund	MGE0001AU	1.35%	1/7/2007	$11,180m	20.2%	7	16.0%	13
MFS Global Equity Trust	MIA0001AU	0.77%	24/4/1997	$6,306m	17.6%	10	14.7%	22
Antipodes Global Fund	IOF0045AU	1.20%	31/7/1994	$4,129m	2.5%	107	9.1%	73
iShares Wholesale International Equity Index Fund	BGL0104AU	0.20%	31/10/1999	$4,006m	12.3%	42	13.7%	31
AVERAGE*		0.90%		$746m	9.5%	125	12.7%	83

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

Name	APIR Code	Mngmnt fee %pa	Start Date	Size ($m)	1-year Return	1-year Rank	5-year Return (%pa)	5-year Rank
Fiducian Ultra Growth Fund	FPS0014AU	1.63%	1/9/2008	$185m	3.7%	81	10.6%	1
Perpetual Split Growth Fund	PER0066AU	1.16%	31/3/1999	$48m	8.7%	13	10.4%	2
Legg Mason Martin Currie Divers Income	SSB0063AU	0.80%	30/5/2014	$17m	9.6%	6	10.3%	3
Fiducian Growth Fund	FPS0004AU	1.29%	1/2/1997	$127m	7.5%	31	10.0%	4
Vanguard High Growth Index Fund	VAN0111AU	0.37%	20/11/2002	$2,545m	9.6%	7	9.9%	5
AVERAGE*		0.74%		$464m	6.5%	88	6.8%	73

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

DATABANK

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

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

Name	APIR Code	Mngmnt fee %pa	Start Date	Size ($m)	1-year Return	1-year Rank	5-year Return (%pa)	5-year Rank
Bennelong Concentrated Aust Equities	BFL0002AU	0.85%	30/1/2009	$831m	-7.2%	113	16.9%	1
Fidelity Future Leaders Fund	FID0026AU	1.20%	22/7/2013	$327m	11.6%	12	16.9%	2
SGH Australia Plus Fund	ETL0383AU	0.70%	8/10/2013	$9m	-2.5%	110	16.7%	3
Macquarie Australian Shares Fund	MAQ0443AU	0.60%	28/11/2005	$124m	10.2%	23	15.5%	4
Macquarie WS Australian Equities Fund	MAQ0213AU	0.60%	31/1/2001	$179m	10.0%	25	13.4%	5
AVERAGE*		0.77%		$597m	6.6%	113	9.0%	99

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%	1/5/2000	$113m	12.0%	51	21.4%	1
Hyperion Global Growth Companies Fund	WHT8435AU	1.15%	1/6/2014	$155m	14.9%	25	21.1%	2
Evans and Partners International Fund	ETL0390AU	1.25%	18/2/2014	$54m	27.4%	1	17.7%	3
T. Rowe Price Global Equity Fund	ETL0071AU	1.18%	15/9/2006	$2,948m	12.9%	34	17.1%	4
Fidelity Global Demographics Fund	FID0023AU	1.15%	30/11/2012	$65m	14.5%	27	16.8%	5
AVERAGE*		0.90%		$746m	9.5%	125	12.7%	83

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%	18/2/2014	$54m	27.4%	1	17.7%	2
Yarra Australian Real Assets Securities Fund	JBW0030AU	0.85%	31/12/2005	$37m	23.6%	2	10.6%	85
Legg Mason Martin Currie Global Long-Term Fund	SSB0066AU	0.95%	1/12/2015	$11m	21.9%	3		
Vanguard Global Infrastructure Index Fund	VAN0023AU	0.49%	30/11/2007	$673m	21.7%	4	13.1%	46
Walter Scott Global Equity Fund	MAQ0410AU	1.28%	28/2/2005	$3,565m	20.5%	5	16.8%	8
AVERAGE*		0.81%		$635m	7.6%	324	9.5%	255

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%	7/7/2015	$184m	-9.9%	324		
Bennelong Concentrated Aust Equities	BFL0002AU	0.85%	30/1/2009	$831m	-7.2%	323	16.9%	4
Bennelong ex-20 Australian Equities Fund	BFL0004AU	0.95%	2/11/2009	$2,653m	-7.0%	322	13.2%	45
Orbis Global Balanced Fund	ETL3967AU	1.00%	1/2/2017	$10m	-5.4%	321		
Invesco Global Opportunities Fund	GTU0102AU	0.95%	30/9/1999	$69m	-5.3%	320	10.9%	78
AVERAGE*		0.81%		$635m	7.6%	324	9.5%	255

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**.

Best Super Funds: Top 20 MySuper – June 30, 2019

RANKED BY 3-YEAR RETURN

FUND & INVESTMENT OPTION NAME	Fund Type	Strategy	1-year Return	1-year Rank	3-Year Return (%PA)	3-year Rank	5-Year Return (%PA)	5-year Rank	Quality Rating
LGS Accumulation Scheme – High Growth	Industry	LC	7.6%	21	10.7%	1	9.0%	6	AAA
HOSTPLUS – Balanced	Industry	S	6.6%	42	10.6%	2	9.5%	2	AAA
AustralianSuper – Balanced	Industry	S	8.4%	8	10.5%	3	9.2%	3	AAA
Sunsuper Super Savings – Lifecycle Balanced Pool	Industry	LC	8.2%	9	10.2%	4	8.6%	9	AAA
Telstra Super Corporate Plus – MySuper Growth	Corporate	LC	7.5%	22	10.2%	5	8.3%	14	AAA
Media Super – Balanced	Industry	S	8.6%	6	10.0%	6	8.3%	11	AAA
Qantas Super Gateway – Glidepath Take-Off	Corporate	LC	7.9%	12	10.0%	7			Not Yet Rated
Mercy Super – MySuper Balanced	Corporate	S	7.8%	15	10.0%	8	8.3%	13	AAA
First State Super Employer – Growth	Industry	LC	7.5%	26	9.8%	9	8.0%	20	AAA
UniSuper – Balanced	Industry	S	9.7%	4	9.8%	10	9.2%	4	AAA
Cbus Industry Super – Growth (Cbus MySuper)	Industry	S	6.8%	38	9.8%	11	8.9%	7	AAA
FirstChoice Employer – FirstChoice Lifestage (1970-1974)	Retail	LC	7.5%	23	9.7%	12	7.6%	37	AAA
StatewideSuper – MySuper	Industry	S	6.8%	37	9.6%	13	9.0%	5	AAA
Lutheran Super – Balanced Growth – MySuper	Corporate	S	7.9%	11	9.6%	14	7.1%	47	AAA
Club Plus Industry Division – MySuper	Industry	S	6.5%	45	9.6%	15	7.9%	24	AAA
BT Business Super – MySuper 1970s LifeStage Fund	Retail	LC	6.7%	40	9.5%	16	7.7%	35	Not Yet Rated
Vision Super Saver – Balanced Growth	Industry	S	7.0%	33	9.5%	17	7.9%	28	AAA
NGS Super – Diversified (MySuper)	Industry	S	7.1%	29	9.4%	18	8.0%	19	AAA
HESTA – Core Pool	Industry	S	7.0%	30	9.4%	19	8.1%	16	AAA
Mercer CS – Mercer SmartPath 1974-1978	Retail	LC	7.0%	32	9.2%	20	7.5%	38	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 June 30, 2019		
	1-year	3-years p.a.	5-years p.a.
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

DATABANK

WHAT THEY MEAN

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

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

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

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

SELECTING SUPER AAA QUALITY
INDEPENDENT RESEARCH CONDUCTED BY RAINMAKER INFORMATION


FreedomLend
WINNER
Money MAGAZINE AWARDS 2019
NON-BANK HOME LENDER OF THE YEAR
WINNER
Money MAGAZINE AWARDS 2018
HOME LENDER OF THE YEAR
WINNER
Money MAGAZINE AWARDS 2017
HOME LENDER OF THE YEAR

"Many times in my life I've only had $50 in the bank"

Lisa Claes

Lisa is chief executive of CoreLogic International, the global property data and analytics company, and she is accountable for the overall business operations across Australia, New Zealand and the UK. Before joining CoreLogic, Lisa was an executive director for ING's Australian banking operations, directly responsible for its retail banking revenue, the financial performance of its commercial banking unit and for global data and digital transformation strategies. Earlier in her career she practised as a barrister and served as general counsel for Mercantile Mutual. Lisa has also been active on not-for-profit boards throughout her executive career.

What was your first job?

My first job included running a health food shop. The woman who owned it let me look after it while she and her husband had a six-week holiday for the first time in their lives. All I remember was making dreadful sandwiches and I couldn't believe how tiring it was being on your feet for 12 hours a day. I also couldn't believe she trusted a 15-year-old to run her business for six weeks.

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

Having money is far less important than having access to credit. The best money advice I've received is ensuring you're in a position to be able to leverage credit for strategic investing. Leveraging credit is one of the most important factors in building wealth.

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

My own home. I purchased it about 20 years ago and I wrote to the owner for years, asking him to sell it to me, and then he almost knocked it down and redeveloped the site. But I believed in the dream and I bought this absolute ruin on the prettiest piece of land in Sydney.

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

Selling a property that was on the riverfront in Brisbane because it had not enjoyed any capital gain for about eight years until, of course, I sold it. It was an investment property and that area is now one of the most exclusive areas in Brisbane.

What is your favourite thing to splurge on?

Fabric. I'm a self-confessed designer of everything. I design my own home, design my own furniture and my own clothes. You will see me at upholstery shops and eclectic fabric haunts in Surry Hills and looking at bolts of fabric.

If you had $10,000 where would you invest it?

In superannuation. It's the sole remaining, mainstream tax-effective frontier.

What would you do if you had only $50 left in the bank?

Many times in my life I've only had $50 left in my bank account. I would give it away.

Do you intend to leave an inheritance?

Yes, of course. I've got three adult children and I definitely intend to give them a leg-up, presumably into the Sydney property market. It will be on some dollar-matching arrangement, I'd say.

What is the best quote you've read about property?

There's a few. My mother was a real estate agent and used to say "position, position, position", so that's been wired into my psyche. "I would never invest in anything I couldn't live in myself" – that's something I live by. And, "don't mix emotion with the decision when it comes to property". You've got to be very surgical and clinical about property decisions.

Finish this sentence: money makes ...

Money makes more money.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