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Money

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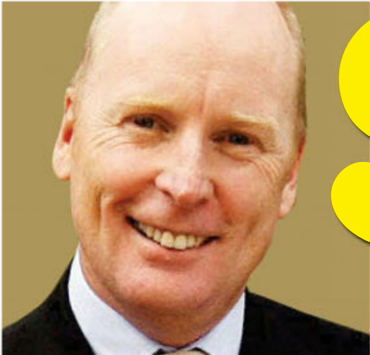
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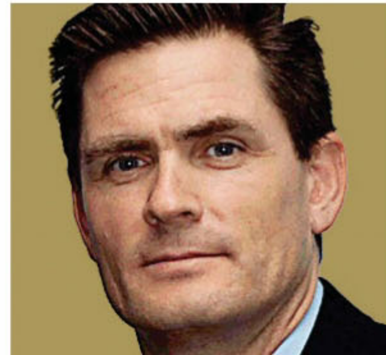
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PLUS

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THE BUSINESS OF DYING: GOODBYE FOR AS LITTLE AS $1500

HEALTH INSURANCE: YOUR 10 KEY QUESTIONS ANSWERED

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Put that $10,000 to work

If you had a lazy $10,000, where would you invest it? After Best of the Best, our awards edition that comes out in December, this issue would have to be my next favourite. Not only do our regular experts answer some of the most popular questions that our readers keep asking but they let you in on where they're investing their own cash. And as Sam Henderson points out, the advice they give their clients is not always what they would do themselves. As he says on page 41, "I'm going to go out on a limb and select a more potentially volatile investment, and one I wouldn't recommend for my clients". This year a few of them have dialled up the risk, which isn't surprising given the dismal returns earned on bank accounts.

While cash and fixed interest should play a part in any diversified portfolio (see page 70), record low interest rates and a low growth outlook are making it exceptionally hard for those living on a fixed income. According to data from comparison site Mozo, three out of five savings accounts are now paying ongoing rates under 2%. There are only three providers offering ongoing saving rates of 3% – AMP, RAMS and Australian Unity.

While one should never simply follow someone else's steps, especially when it comes to investing, this issue is a great way of starting a conversation with yourself. If you're short on cash then these strategies could easily work just as well with $2000 or so.

If you're looking for other conversation

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Feedback

Letter of the month

Take personal responsibility for debts

Your article "Tougher rules needed to tackle debt problems" (The Buzz, August) highlighted some great ideas to help reduce credit card debt. Reforms have been needed for some time and it's good to see our government looking at ways to help Aussies get out of personal debt and hopefully move forward to a brighter financial future.

I do wonder, though, where personal responsibility comes in. The article suggests governments compel credit card providers to increase the minimum repayments on debt. I can't help but wonder if perhaps it shouldn't just be the responsibilities of banks and government to fix all our financial problems. Surely the average Aussie can see that paying more than the minimum amount will get their debts paid off faster.

Good on our leaders for trying to help those who, for a multitude of reasons, have gotten into debt, but isn't personal responsibility needed, both to get out of debt and to stay out of debt long term?

Melissa, Qld

Fraud risk in police check

While I agree wholeheartedly with Paul Clitheroe's comments about identity fraud (In your Interest, August), I would like to add some further information. I have previously worked in banking and have seen the result of identity fraud and I am very concerned about this.

I was recently asked to apply for a police check to work voluntarily with children. After completing the paperwork I was asked to supply my ID and take it to the local police station for them to verify. They copied my ID and attached it to my application. I asked where my ID was going and was told it would go to police admin so my application may be assessed. I assumed my ID would be sighted only and something on the form signed but not full copies of my ID sent through internal mail and handled and sighted by many anonymous people along the way. I objected but was told there is no choice. I then phoned SA Police liaison, who told me that they get thousands of applications a year and don't have time to do anything illegal with my ID, so I was worrying about nothing. I mentioned ID fraud and privacy, etc and was brushed off as paranoid.

The ID sent with these applications is enough for someone to assume my identity and commit fraudulent transactions without requiring anything else. I don't think this system is a good one and it leaves thousands of us in a position to have our identity compromised.

Love the magazine.

Wendy, email

starters, Vita Palestrant's story on the cost of dying (page 42) is sure to give you plenty of material – $20,000 to say goodbye! Surely there are cheaper ways to move on. Greg Hoffman gets you thinking whether you're a "first-level" or "second-level" thinker. If you want sharemarket success you need to be on that second level. See page 82 to find out if you have the traits.

Don't forget to check out our Super Booster campaign. Your chance to win one of five $1000 prizes for your super fund closes on September 15. All you have to do is pledge some extra money for your super before then and describe your dream retirement in 25 words or less. See superboosterday.com.au.

Effie Zahos,
Editor, *Money* magazine

> **"If investing is entertaining, if you're having fun, you're probably not making any money. Good investing is boring."**
>
> **GEORGE SOROS**

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An expensive lesson

I recently sold an investment property for $1.1 million after acquiring it for $180,000 and decided to seek advice about investing the proceeds. I knew the capital gains tax was going to be considerable; however, I learnt from the adviser that I was also up for the budget deficit levy, extra Medicare levy and more tax on my salary sacrifice contributions to super (15% to 30%) as the tax office now saw me as a high income earner (albeit for one year).

Had I spoken to an adviser first I would have been told to hold off selling for two years until I was 60, retired and in pension phase on my super. There would be no budget deficit levy, as this would have been phased out, and a reduced CGT liability – thousands of dollars I missed out on.

Act in haste, repent at leisure!

Peter, Vic

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What is the best advice your father ever gave you?

GREG HOFFMAN
Greg is an independent financial educator, commentator and investor. Greg says: "More than advice, my father gave me confidence by always trusting my abilities. He allowed me, at the age of 19, to manage his and mum's superannuation fund. That gave me tremendous experience and he never lost faith in me."

VITA PALESTRANT
Former editor of the Money section of *The Sydney Morning Herald* and *The Age*, Vita says: "For the generation that lived through two world wars, self-indulgence was unthinkable. My father taught me self-reliance. His favourite remark was 'It won't happen on its own.' His favourite act was to help those less fortunate and keep it anonymous."

MARK CHAPMAN
Mark is director of tax communications at H&R Block. Mark says: "Look after the pennies and the pounds will look after themselves. It's not a motto I've always followed myself but it's still the soundest financial advice I've ever received!"

MARK STORY
Mark is director of Prime Strategy Media and has been a business and finance journalist for more than 15 years. Mark says: "Don't be fearful of money, leaning out of your comfort zone or the unknown. Steer clear of Bible-bashers and bigots. Life isn't a dress rehearsal so don't waste worrying about the future, live in the moment."

PHILIPPE BRACH
Philippe is CEO of Multifocus Properties and Finance. Philippe says: "My father's mantra – 'Spend some and save some' – instilled in me the need to budget and save, enabling me to purchase my own home, build an investment property portfolio and continue working towards a secure financial future."

HEIDI ARMSTRONG
Heidi is finance expert for Money to Love, and a TV and radio presenter. Heidi says: "The best advice was to consider being a small business owner. No school career counselling ever presented me with this opportunity for consideration. I have loved running my own businesses and often pass on my father's advice to my children."

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Tourism will be one of the great themes of the future – a huge generator of jobs and revenue

We all know the old saying that at times it is hard to see the forest for the trees. I am certainly guilty of this. The amount of micro detail in the world of money is growing and growing. The changes to superannuation had me well and truly in micro focus mode up to June 30, along with various pronouncements about capital gains tax, negative gearing and later trusts. Add market and currency volatility and it would be fair to say I had little time to ponder what I believe really adds value to investment returns – a long-term perspective.

So it was with some relief that I left these issues behind and, with my wife Vicki and some very old friends, headed off to the Baltic and then, even better, into the Arctic Circle for some kayaking in the sea ice. I should pause here and tell you that this was not even a vaguely brave move. First, we were in an ice-reinforced expedition ship; we had breakfast, lunch and dinner on board, as well as a nice warm bed!

Not being a fan of the potential to roll in zero-degree water at a latitude of 80 degrees north, we kayaked in full dry suits, and not at all if it was blowing a gale. So much for an adventurous life. But it was a great experience, with ice, polar bears, walruses, seals and whales. Even better, there were absolutely no communications for nearly two weeks. Without a minute-by-minute deluge of news I had a chance to mull over the long-term outlook.

I am a big fan of the simple. The simplest fact is that the world population is growing at some 90 million people a year. Despite all the bad news, some of it heart-wrenching, another simple fact is that poverty is dramatically lower. The average wealth of a global citizen is also strongly on the rise.

I have been fortunate to travel a lot and it is easy to feel the pressure of wealth and a growing population. In St Petersburg, Tallinn, Gdansk or any attractive city you care to name, it is basically standing room only at major tourist sites. I have spent a bit of time in St Petersburg over the years – it is an amazing city. There were five monster cruise liners in town, as there are every day in summer, and our Russian guide told me the port facilities would be expanded to allow for up to 15 ever-bigger liners. Outside what I would regard as a minor attraction I counted 47 tourist coaches, with more circling. Thank heavens I had been there some years earlier, so I could just watch the hordes in amazement.

But there is important information here about future investment. Clearly tourism will be a huge generator of jobs and revenue. The "owners", by which I mean the residents, of the great global attractions will have to put quotas on tourist arrivals, a most interesting new source of revenue.

It is very clear that business and investment opportunities abound. "Mass tourism" is rapidly leading to what I would call "middle class exclusive" tourism. As larger numbers of us experience more travel, I have no doubt many of us will pay a bit more for a smaller-group experience like my Arctic kayak experience.

So my radar has turned with interest to how we can invest in this obvious growth area. We can already invest in airlines, cruise ship companies and so on but tourism is going to be one of the great themes of the future, so I am going to do a bit more digging around and I'll report back. For example, big cruise ships are not really my thing but they are loved by millions of people. So just think for a minute about the food and beverages that they need as they stop and the benefits to local suppliers, restaurants, taxis, travel companies, tourist shops and so on. And they are only one part of travel. Airports, also an economic miracle, seem to me to be the new world shopping malls.

I am not in the business of travel tips but one thing firmly in my mind is the need to go to major tourist destinations in the shoulder season. And I suspect in a decade this may need to be winter. Even for the Arctic or Antarctic, where for now you at least will get peace and quiet, you'd better book early to get a small-expedition boat experience, or prepare to be on a wait list.

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

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NEWS & VIEWS

THE BUZZ

Refunds to be given for junk insurance

Add-on policies can be expensive and provide little benefit

The Australian Securities & Investments Commission (ASIC) recently announced that Commonwealth Bank and insurers QBE and Virginia Surety will repay over $26 million to people who were mis-sold add-on insurance, including consumer credit insurance. It has been a long time coming, and there may be more announcements on the way.

If you've taken out credit or finance, you may have been offered consumer credit insurance. It is typically added to your loan or credit card to cover some of your repayments if you lose your job, are injured, become sick or pass away. It's just like being asked at the fast-food drive-through, "Would you like fries with that?"

The problem is that consumer advocates and ASIC have found add-on insurance is often expensive, low value and full of exclusions and conditions that surprise people when they try to make a claim.

Consumer credit insurance has been sold to people who work casually or part time, or are self-employed, and are ineligible to claim under their policies. It has also been sold to people who have pre-existing medical conditions that would exclude a claim. And it has been sold to people who already have similar insurance, often in their super, or who just don't need the cover they are paying for.

Plus the benefits can often be much lower than people expect, and in some cases lower than the premium paid.

Add-on insurance might not be a great product but it is a boon for insurers, with $1.6 billion of policies sold between 2013 and 2015 just in car yards. This has been easy money for far too long. It's time for insurers, banks and others selling junk insurance to repay their ripped-off customers and stop mis-selling it.

Consumer Action's website (DemandARefund.com) has assisted people to claim more than $700,000 in refunds on add-on insurance (and extended car warranties) which they did not need or want. You could be one of thousands of people who can get a refund on junk insurance. To ask for a refund, head to DemandARefund.

Susan Quinn, senior policy officer, Consumer Action Law Centre

ON MY MIND

Property cycle still has life

Every property cycle I've experienced has come to a halt because of finance or difficulty getting it.

In general, the Reserve Bank increases interest rates to slow down the economy, and in the past it has been quite effective at doing this.

And over recent years, the Australian Prudential Regulation Authority (APRA) has put the brakes on investment lending, creating a credit squeeze.

Affordability is another factor near the end of the cycle. And I'm not talking about first home buyers who always seem to have difficulty with affordability, but established home buyers who tend to stay put rather than trading up (or down) because they find that high prices and excessive stamp duty are too much of a disincentive.

There's still life left in this cycle and it's not too late to buy an investment property. But at this mature stage of the cycle, careful selection will be critical for property investors as our markets are very fragmented.

Not all properties will grow in value and some of them will make very poor long-term investment choices.

Michael Yardney, CEO, Metropole Property Strategists

CALENDAR OF EVENTS

Thursday, September 7
Balance of trade

Wednesday, Sep. 13
Westpac consumer confidence

Thursday, Sep. 14
Unemployment rate

Friday, Sep. 15
Consumer inflation expectations

Tuesday, October 3
RBA interest rate decision

NEWS BITES

BUSSQ is the latest of the superannuation funds to give fund members an incentive for joining up for its retirement pension. It pays a retirement reward of up to $11,520 to new retirement pension members who have set up an account-based pension. It can be taken as a cash payment or left in the account to top up the member's balance.

The Fat Prophets Global Property Fund run by Simon Wheatley, ex Goldman Sachs and JB Were, is being listed on the ASX in September. It will invest in listed real-estate equities in developed markets around the world and make regular payouts to investors. It holds 30% in Australian REITs and 70% in international REITs.

Airtasker workers can now take out income protection insurance as the company has teamed up with insurer Roobyx Pty Ltd to offer the cover. Available through the Airtasker platform the premium is calculated weekly based on how much the worker earned in the previous week on the platform, so the cost increases and decreases based on their earnings each week.

Banks put profits first

It might seem like a distant memory but there was a time when Australian banks moved their standard variable rates alongside the official cash rate, maintaining a steady margin of 1.8%. However, in 2008 financial markets were thrown into turmoil and the cost of funding skyrocketed. Bank profit margins were squeezed and they turned to their home loan customers to help fund the shortfall.

Banks are well within their rights to make a profit. After all, they aren't charities and a strong banking sector is vital for our economy. However, when banks are forced to decide between their customers and their shareholders, more often than not homeowners are asked to step up.

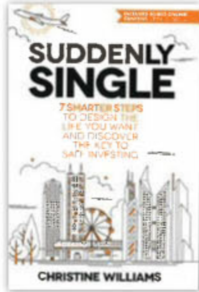
The margin between the cash rate and the bank's standard variable rate is now 3.75%, more than double what it was 10 years ago, adding tens of thousands of dollars to the repayments of mortgage holders. Yes, the banks' net interest margins have dipped slightly over this time but a 0.12% drop for Commonwealth Bank and a 0.06% drop for Westpac doesn't quite pass the sniff test.
Sally Tindall, money editor, ratecity.com.au

47.8%

That's the percentage of houses in Sydney that sold for at least $1 million over the 12 months to June 2017, according to CoreLogic. Even 21.3% of units sold in Sydney in this time period hit the $1m mark. Melbourne is next on the list with 25.9% of houses selling for at least $1 million. Other capital cities have a lower proportion of million-dollar sales.

NEWS&VIEWS

BOOK OF THE MONTH



SUDDENLY SINGLE
Christine Williams
Graphics Unlimited, RRP $27

Author Christine Williams began to invest in property when she had to start all over again at the age of 35 after her divorce. In this book she offers a seven-step guide to wealth creation through property for people who find themselves in the same situation she was all those years ago. There are plenty of useful tips for investing in property even if you're not "suddenly single". Williams looks at financing your purchase, finding the right property and when to buy, through to managing your property and building your portfolio.
MARIA BEKIARIS

Ten readers can win a copy.

In 25 words or less, tell us the first thing you'd do if you found yourself suddenly single. Send entries to Money, GPO Box 4088, Sydney, NSW 2001 or email money@bauer-media.com.au. Don't forget to include your name and postal address. Entries close October 4, 2017.

APP OF THE MONTH

PACKPOINT
COST: FREE (some in-app purchases and option to upgrade)
OS: iOS, Android

Who doesn't love a good holiday but if you're anything like me packing for the trip can be quite stressful. This app is meant to make it much easier.

You enter the important details such as where you're going, for how long and also any activities you have planned, for example hiking, swimming or a fancy dinner. Also note if you're travelling for business or if you'll have a baby with you and the app will create a custom packing list that takes into account all these factors.

There's also an option you can click if you're happy to repeat basics or if you prefer a new outfit each day and you can nominate whether you'll be doing the laundry.

The app will even check the weather at your destination to make sure you have the appropriate attire for rain, hail or shine.

All you have to do is pop everything in your suitcase and zip it up. MARIA BEKIARIS

TAX TIP

Key issue in investing for kids

It's quite common for parents or other relatives looking to give children a head-start in life to invest money on behalf of the kids from an early age. That way, a nest egg can accumulate which the child can draw on once they reach adulthood. A question that often arises is who pays tax on the income: the child or the parent?

To find out the answer, it's necessary to consider who provided the funds for the investment, who receives the investment income (regardless of who it is spent on) and who makes the investment decisions.

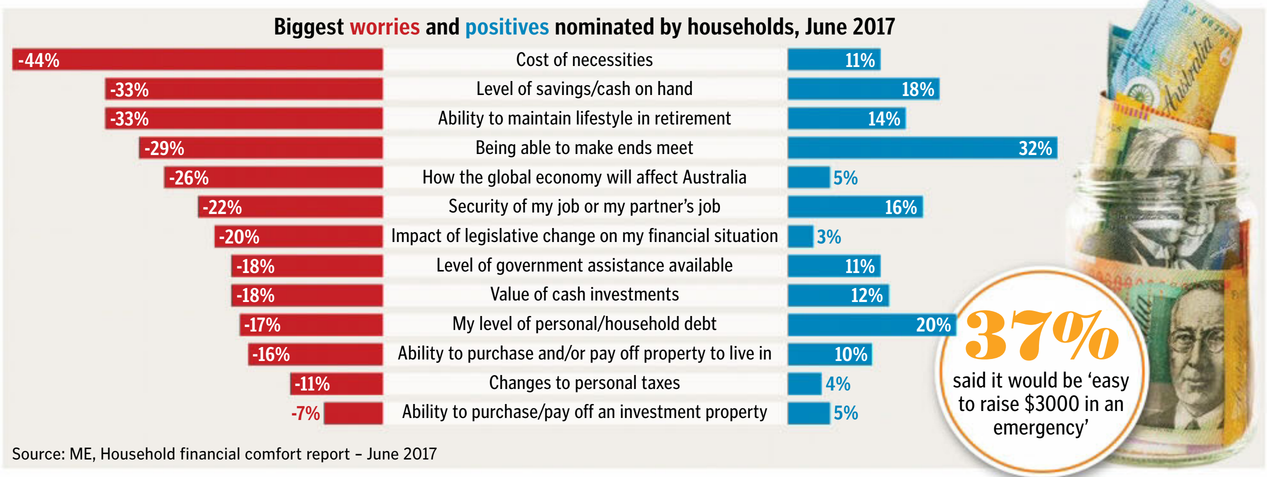
For the child to be liable for tax, the income must belong to the child and the assets that produce the income must also demonstrably belong to the child. Indications that this is the case include:

- Assets are acquired or savings accounts are opened in the child's name. A strong indicator is where the money in a savings account was actually earned by the child, for example from a part-time job.
- The child's TFN is quoted.
- The child has access to the funds and can use them as they see fit.

If the parent provides the original funds and then receives the investment income (even if they decide to use it for the benefit of the child), the income is treated as belonging to the parent and must be disclosed. Similarly, any capital gains or losses must be reported by the parent.

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

SNAPSHOT THE SHRINKING COMFORT ZONE



Source: ME, Household financial comfort report – June 2017

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MY MONEY

MORE MONEY STORIES ON P42-61

TOP 5 LOW-RATE CREDIT CARDS

My Credit Union
7.99%pa, 55 days interest free and $59pa;
Northern Inland CU
8.99%pa, 0 days interest free and $0pa;
Community First CU
8.99%pa, 55 days interest free and $40pa;
Bank Australia
9.39%pa, 0 days interest free and $59pa;
Woolworths Employees CU
9.45%pa, 55 days interest free and $25pa.
Source: Canstar as at 16-Aug-17.

ENERGY BILLS

Reforms aim to cut costs

Rising power bills are always a hot topic and it probably comes as no surprise that millions of families are paying more than they need for their electricity.

Part of the problem is lack of transparency. You might have started on a discounted plan that has since expired and you may not have realised you have been switched to a default plan that is more expensive.

But soon that should no longer be the case.

The prime minister, Malcolm Turnbull, met energy retailers in August and they have agreed to contact all customers who are on expired discounts and tell them how much they can save on a better deal.

Other measures that the energy companies have agreed to implement include:

- Reporting to the government and Australian Competition & Consumer Commission (ACCC) what they are doing to get families onto a better deal and how many households remain on expired deals.
- Developing simple, plain-English fact sheets that provide easy-to-understand comparison rates.
- Supporting a change to the electricity rules requiring them to inform customers when their discount benefits end and setting out the dollar impact of doing nothing.
- Ensuring that families and individuals on hardship programs will not lose any benefits or discounts for late payment.

"Too many families are not on the best power deal. That is why today we took further action," Turnbull said at the time, adding that these measures would help ensure families are not paying more for their power than they should.

Make sure you take action, too, and check out sites such as energymadeeasy.gov.au, energywatch.com.au and energybilldoctor.com.au to see if you can find a better deal.

Millions of dollars wasted on gift cards

Aussies are throwing away millions of dollars each year in unredeemed gift cards, according to research by finder.com.au, which indicated that 14% have let funds expire in the past two years. On average, $54 is left on gift cards, which equates to a whopping $142 million in unused funds over two years.

There's no need to let any gift cards go to waste. As Bessie Hassan, money expert at Finder says, whether Aussies are forgetting about the whole voucher or spare change left on it, they are giving retailers a free ride.

If you find yourself with a voucher you're not likely to use, then consider selling it. "Websites like CardHub are great if you receive a gift card for a shop that's totally not up your alley," says Hassan. "CardHub allows you to buy or sell your gift cards at a discount. This way you can buy a gift with a voucher that's best for you, or spend the cash." You could also try eBay, Gumtree or any local buy, sell or swap groups on Facebook.

Try to spend it all at once if you want to avoid wasting funds, says Hassan. "If you find you really can't spend the full amount on your gift card, ask the sales assistant to write the remaining total in permanent marker on the back. This way you'll know how much you can spend."

More perks, please

If you're disappointed with your salary increase this year you're probably not alone. Nick Deligiannis, managing director of Hays in Australia & New Zealand, says salary increases are sedate, which has triggered a much greater focus from employees on the benefits available to them in their current or potential new role. Flexible working arrangements, more days off, financial support for study and access to health and wellness programs are some of the perks employees would like.

COMPILED BY MARIA BEKIARIS

Location is the top priority

With property prices so high, you may need to make compromises when you're deciding what and where to buy. Research commissioned by Gateway Credit Union found that some aspiring property owners may be willing to sacrifice space for location, with 35.5% saying they would rather buy a studio apartment in their ideal location than a bigger property further away in a less ideal area.

Baby boomers are most willing to take a studio apartment in an ideal location (44.8%), followed by 18- to 29-year-olds (30.8%) and 30- to 49-year-olds (27.5%).

Paul Thomas, Gateway Credit Union CEO, warns there could be a catch, though, as many lenders have strict criteria when it comes to lending for studio apartments. If you're thinking about buying a studio smaller than 50sq m it pays to shop around to find a lender who does.

COMPILED BY MARIA BEKIARIS

MORTGAGES

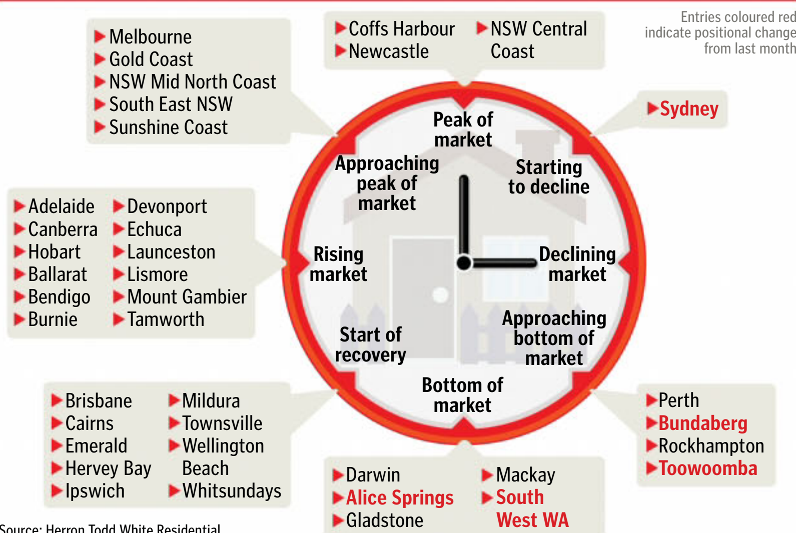
Interest-only loans come at a cost

Watch out if you are on an interest-only mortgage. Not only have banks increased the interest rate on these loans by 0.4% to 0.6%, they can cost you substantially more over the life of the loan. To save interest payments, switch from an interest-only to a principal and interest loan.

UBS banking analyst Jonathan Mott estimates that if you took out a $600,000 loan for a Sydney home with a 30-year term, paying interest only for the first five years, the initial monthly mortgage repayment would be $2320. Five years later in 2022, when the mortgage converts to a principal and interest loan, the monthly repayment jumps to $3174, an increase of 37%.

And if you rolled over the interest-only period for a further five years, be prepared for a steep increase in what you pay thanks to compounding. Mott calculates that the repayments would be $3643 a month in 2027, a step-up of 57% overall. SUSAN HELY

NATIONAL PROPERTY CLOCK - AUGUST 2017 (HOUSES)



Source: Herron Todd White Residential

▶ MORE PROPERTY STORIES ON P62-67

TOP AUSTRALIAN PROPERTY SECURITIES FUNDS, BY 3-YEAR PERFORMANCE

Folkestone Maxim A-REIT (COL0001AU), 15.05%pa 3-year return; **Resolution Capital Core Plus Prop Sec (WHT0014AU)**, 13.6%pa 3-year return; **APN Prop for Income 2 (APN0004AU)**, 12.48%pa 3-year return; **APN Prop for Income (APN0001AU)**, 12.24%pa 3-year return. Source: SQM Research as at 30-Jun-17.

INVESTING

SUPER GUARANTEE

Workers miss out on $125m

Martin Fahy, CEO, ASFA

There is currently a $450-a-month wage threshold for the superannuation guarantee (SG) and as a result an estimated 220,000 women and 145,000 men miss out on around $125 million of contributions each year.

The SG is 9.5% of an individual's salary which, by law, their employer has to pay into their super fund.

It should be part of everyone's work-related entitlements, particularly low-income earners, who need SG to help put them on the road to comfort in retirement.

The $450 threshold particularly affects women, who often work in casual or part-time jobs for more than one employer at a time.

It also impacts young people in casual jobs and delays them embarking on the super journey.

Having young people engaged in super, saving as early as possible, makes more sense than excluding them from a super start in their first job.

Compounding of investment returns can turn small initial contributions into substantial amounts at retirement.

Casual and low-paid workers in retail, hospitality and nursing are reportedly the hardest hit by being left out of super due to the threshold.

For a student aged 19 years, working part time for five years and earning $4000 a year, a $1900 super guarantee would apply. For a woman aged 37, working part time and earning $5000 a year, a $1425 SG would apply. These are significant amounts.

As more and more people build portfolio careers around the gig economy, we need to move with the times and recalibrate the SG to meet their needs.

Everyone needs super. It's time to level the field, give everyone the entitlement of super and strengthen the super system by removing any impediment to providing a fully universal means to build wealth.

Greenest of the green

Which investment companies have the best environmental, social and governance standards when it comes to investing? The Responsible Investment Association Australasia (RIAA) assessed 99 Australian and New Zealand investment managers and gave 16 asset managers, representing $557.1 billion, a score of 80% or more. They are: AMP Capital, Amundi Asset Management, ATI Asset Management, AXA Investment Managers, BlackRock, Celeste Funds Management, Colonial First State Global Asset Management, Dexus Property Group, IFM Investors, Investa Property Group, Lendlease Investment Management, Perpetual Investments, QIC, RARE Infrastructure, Robeco and Solaris Investment Management.

Three funds did even better as they had outstanding core values as well as ESG standards. They are Australian Ethical, New Forests and Stewart Investors. SUSAN HELY

Money keeps flowing into ETFs

Exchange-traded funds had a record $30.1 billion under management in July 2017, according to the BetaShares Australian ETF Review.

In a month when the Australian sharemarket was flat, 100% of the growth came from net inflows rather than asset appreciation, says BetaShares.

$30bn
This is the total funds under management in Australian exchange-traded funds as at the end of July 2017.

▶MORE INVESTING STORIES ON P68-81

TOP MULTISECTOR FUNDS, BY 5-YEAR PERFORMANCE

Australian Ethical Diversified (AUG0019AU), 15.83%pa 5-year return; **Fiducian Ultra Growth (FPS0014AU),** 15.12%pa 5-year return; **BT Classic Inv Split Growth (BTA0012AU)** 14.93%pa 5-year return; **Perpetual Wholesale Split Growth (PER0066AU)** 14.65%pa 5-year return. Source: Morningstar as at 30-Jul-17

COMPILED BY MARIA BEKIARIS

SHARES

TELECOMS

Telstra faces a big challenge

Brain Han, analyst, Morningstar

Telstra's shock announcement of a 22¢ a share dividend guidance for next year – down 29% from the 31¢ in fiscal 2017 – was clearly too much for investors to stomach judging by the stock price reaction.

Contrary to the prevailing sentiment, we do not see this share price discount as warranted. Granted, the magnitude of the dividend cut (from 90% of earnings to 70%) and the abrupt fashion in which it has been executed was a surprise, especially as we had previously anticipated a more gradual decrease to 25¢ by fiscal 2021. However, a dividend cut was inevitable, as was a move to a more sustainable capital structure in the face of proliferating changes brought on by the NBN, mobile competition and relentless changes in the converging telecom space.

Indeed, the rising competitive intensity in mobile and the accelerating NBN impact in broadband have led to a 4% reduction across Morningstar's forecast EBITDA (earnings before interest, tax, depreciation and amortisation) for the next three years. This has resulted in a cut to our fair value estimate to $4.60 a share, down from $4.80.

Equities lag over the decade

Australian residential property beat Australian shares as the top-performing asset class over the 10 years to June 2016, according to the Russell Investments/ ASX long-term investment report. Residential property returned 8.1%pa followed by global fixed income (7.4%), Australian bonds (6.1%), Australian equities (4.3%), hedged global equities (5.5%) and Australian listed property (0%).

Equity markets posted double-digit returns for 2016 and many alternative asset classes (high-yield debt, emerging market debt, listed infrastructure and property) performed strongly but year-on-year 10-year returns fell compared with 2015. This is because 2006 was a stronger year than 2016 and the negative impact of the GFC moved closer to the beginning of the period.

Russell says that while residential property overall has achieved strong positive returns over the past 10 and 20 years, it would be a mistake to blindly rely on the upward trend continuing.

It recommends investors take a nimble approach, shifting between asset classes and sub-asset classes in real time as market conditions change, rather than a set-and-forget approach.

▶MORE SHARES STORIES ON P82-88

HOLD RPMGLOBAL

The Intelligent Investor. Analyst Alex Hughes

The country's pre-eminent mining software business, RPMGlobal (ASX: RUL) is only just scraping the surface of its future potential. Let's hope a takeover doesn't snatch the opportunity away from us.

RPMGlobal (the new name for RungePincockMinarco) is uniquely positioned to take advantage of the trend in the mining industry towards utilising driverless trucks and remote operational centres.

It has no equal on the ASX or any other exchange. That gives it scarcity value but it is hard to define the size of the opportunity. What we do know is that the use of technology is very low in the mining industry.

RECOMMENDATION

BUY	HOLD	SELL
below $0.55	up to $1.00	above $1.00

HOLD at $0.62

Source: Intelligent Investor; price as at 26-Jul-17 close of business

The holy grail of investing is owning companies that can compound earnings over long periods. RPMGlobal has the ingredients to do that.

The risk is that this could be cut short by a takeover from a large multinational, with the lion's share of the long-term gains being exchanged for a small premium. We hope they stay away for now.

The share price recently dipped below 55 cents, and we hoped this may have been the precursor to a weak year, offering a buying opportunity. Unfortunately, we'll need a little more patience for now. HOLD.

TOP AUSTRALIAN EQUITY ETFs RANKED BY ONE-YEAR RETURN

BetaShares FTSE RAFI Australia 200 (QOZ) 14.28%; **UBS IQ MSCI Australian Ethical (UBA)** 10.85%; **SPDR S&P/ASX 50 (SFY)** 9.56%; **iShares S&P/ ASX 20 ETF (ILC)** 9.44%; **Vanguard MSCI Australian Large Companies Index (VLC)** 9.42%

Source: ASX as at 30-Jul-17.

COMPILED BY SUSAN HELY

Magic in marketing

STORY
ALAN DEANS

Fact file

Lauren Fried

Owner of marketing agency Pulse Collective and former panellist on the ABC's *Gruen* TV show; age 37.

Commutes between her Sydney business and home in the Adelaide Hills where she pursues wine, tourism and food opportunities; professes to being a gun at tennis; and says she loves her German shorthaired pointer Aggie "like a human". Her first job, at age 12, was waitressing in an Italian restaurant.

Disruption is one business trend overarching most others right now. Retailers are threatened by the looming arrival of Amazon. TV and print media are being savaged by Facebook and Google. Batteries are the death knell for the internal combustion engines in the cars we drive, and fintech start-ups are unleashing technologies to cannibalise banks. The opportunities are enormous for those embracing the trend.

Marketing is no different. Lauren Fried is an adviser and business strategist who describes her agency, Pulse Collective, as dedicated to growing entrepreneurial businesses. Those causing all this upheaval need help, and there's no doubt those suffering at the hands of disruption do too.

ROB SHAW

Fried is perhaps best known for her sharp insights as a panellist on the ABC's advertising-focused TV show *Gruen*. "There is confusion," Fried says of the new marketing world. "Chief marketing officers most likely are dealing with a PR company, a content company, a social agency, a creative agency, a marketing agency and might be offshoring some work with digital and a media buyer. Their role is to keep all the balls in the air. Imagine having to do eight meetings each week with different agencies just to update you about the same thing. It is chaos. Being in a marketing role is really hard. You are meant to know a bit about everything. If I went on holidays for six months, there would be so much change in the digital landscape that I would have to get back on top of. It is changing rapidly."

Advertising agencies once dominated – think Don Draper in the TV series *Mad Men* – but their creative work is now increasingly handled offshore or outsourced. Fried's job is to manage this milieu while rolling out king-hit strategies. She says all her clients want to grow but they may not know how. They want to innovate, bust into new markets with killer products or services. But this still requires a smart marketing plan, a team to deliver it and partners to produce the creative messaging and execution. There's not much different in the recipe but there are important new tricks.

"Every marketing campaign should be based on data – it has to be," says Fried. "I talk about this a lot. I am passionate about it, the role that data plays. People want to be more creative and have big campaigns but the definition of marketing is getting the thinking down. That is the foundation that lasts for years and years. If you are making assumptions, you could be going off only slightly in the wrong direction. But that 1% you are off compounds over time. If there is no data to tie your thoughts to and to prove them, then the marketing strategy should not be signed off.

"Businesses need to use their own data, and they also need to buy the right data to understand what a high-value customer looks like – what are their behaviours? If I asked 'Would you buy a hybrid car?', you might say 'yes'. But would you really buy one? Maybe not. We use actual behaviours, not what people say they will do. They are very different things. The quantitative research tells us about people's behaviours and what influences them.

"For example, one of our clients, a family-run business, was adamant it was 16- to 24-year-old men and boys buying their vitamin supplements. All of the data told us it was 50- to 54-year-olds with an average household income of $150,000 or more. You couldn't get more opposite. Even then, you can't make assumptions about what a 50-year-old earning $150,000 does. But the data told us they were four times more likely than the population to go to Bali. They were more likely to buy at online discount stores. They were premium wine buyers. This gives us deep detail. So we did a promotion which offered a prize of a trip to Bali. You would have thought that a 50-year-old with that sort of income would be going to Europe. It's the data that tells the story. It's a no-brainer."

There's an aspect of George Orwell's Big Brother about this. Data reveals what products people buy at the supermarket, what they spend on their credit cards and much, much more. Australian Bureau of Statistics information can also be added. "When you merge it all together it is magic," says Fried.

Her career started in the marketing department at McDonald's. She left school for a career in journalism via a BA in communications. But the course didn't offer much on how to write. McDonald's paid handsomely and, importantly, it was "a huge machine that was used for training and mentoring and coaching. It was the ultimate launch pad for my career". Five years on, Fried quit for a small, family-owned, quick-service restaurant chain but left after three weeks because "they didn't like that I was woman".

Then came Pulse.

That was accidental. It was meant to be a bridge to something bigger in her career but she enjoyed the work because clients gave her more control of their marketing. She hired staff, and after four years jagged a major client in gas distributor Jemena. That transformed the business, supported its growth and taught

Shared passions ... Lauren Fried with husband Jock Zonfrillo, a chef.

her skills she didn't have. Then in 2010 came a NSW Telstra Young Business Woman of the Year Award. "That gave us a great reputation but clients wanted me. It was tricky to manage."

The next boost came from the national spotlight on *Gruen*.

Now another pivot is happening. Fried recently married Scottish chef Jock Zonfrillo who owns two noted South Australian restaurants. Fried is still invigorated by marketing but wants someone else to run the business so she can focus on advising clients and pursuing new passions in South Australia for food, wine, tourism and produce. She is now chair of the McLaren Vale Grape Wine and Tourism Association and a director on the Rundle Mall Management Authority.

One priority is the work that Zonfrillo's Orana Foundation is undertaking to catalogue the thousands of native natural food ingredients in Australia. His fine dining Restaurant Orana in Adelaide is known for foods such as zig-zag wattle, sandalwood nut, kutjera (desert raisin), gubinge (plums) and Geraldton wax. He spends considerable sums of his own each year on toxicology testing and researching native plants, and has documented up to 500 varieties. Recently the South Australian government granted $1.25 million to his foundation and its partners, University of Adelaide, the Botanic Gardens of SA and the SA Museum, to develop a laboratory and build an open source database anyone can use.

> "At the moment native ingredients are so mysterious. We are trying to make the food more accessible"

"At the moment native ingredients are so mysterious," says Fried. "We go out and spend time in Indigenous communities. My husband had been doing it for 16 years. Much of the food seems inedible but they show you how to make it edible. We are trying to make it more accessible. We want Geraldton wax on supermarket shelves along with rosemary, thyme and coriander.

"It is a big challenge to say we are going to preserve the sophisticated cooking methods of Australia. Normally you would start with fine dining restaurants and it would permeate through. But at the moment you can't get a cookbook with native ingredients in it because you can't buy the ingredients."

Another passion that Fried shares with her husband is travel. She says her financial goal is "to buy freedom to have wonderful experiences in life. To go to Europe and see Jock in the Highlands for a month or go to Canada, that is what financial freedom looks like to me. Not necessarily building up assets. That is part of the mix but that does not drive me. I sit down at the end of the year and say, 'Wow, wasn't that month we had in the Highlands fantastic!' "

Property investment plays a part. Fried owns one investment property and, with Jock, plans to buy more residential and commercial property over the next two years. There is also the notion of buying a castle in Scotland. On a trip there this year, their eye was captured by one place while walking in the Highlands.

"Having a piece of the Scottish Highlands that is ours would be extraordinary. To have something that our kids go to and their kids go to. I am sure it's not the best investment. We would probably be there several times a year. But that is the pinnacle. We are going back in several weeks and the conversation will come up. Jock will be into it in no time."

LEADERSHIP MATTERS

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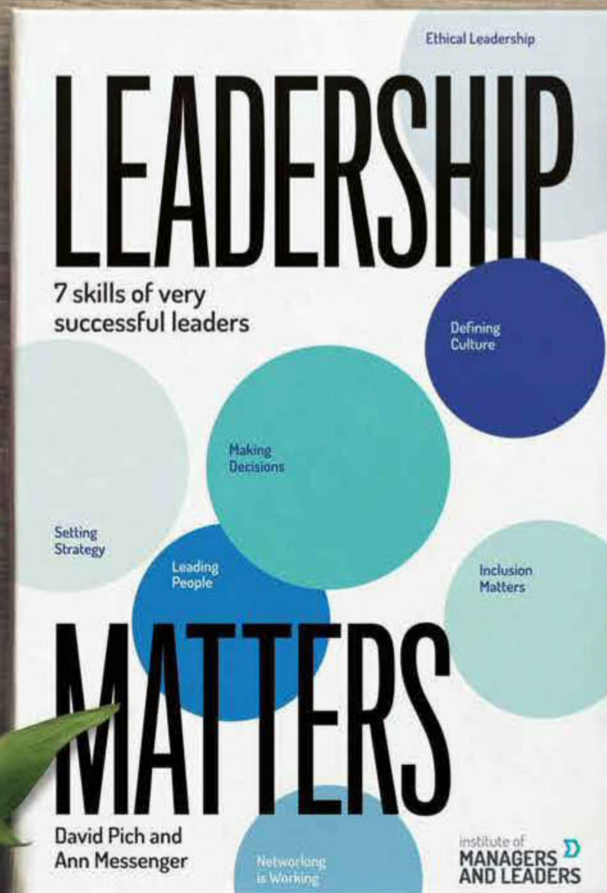

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CASE STUDY

Sailors keep it simple

A couple who spend their lives on the high seas need a safe harbour for their investments

NAME: Jody Bedson
STATUS: Married, retired and sailing around the world.
QUESTIONS: Where do I invest $100,000 in a conservative but high-return portfolio? Should I cull or add to my existing shares?
ANSWERS: Keep your investments simple and place your extra money into AustralianSuper, where investment earnings are tax free and you can draw it down when you need it. Sell your shares and invest the money in AustralianSuper so you won't have to keep an eye on how they are performing. But if you want to keep the shares, consider cutting back on banks and retail stocks.

Seven years ago, Jody and her husband flew from Melbourne to Florida and bought a 13-metre ketch built in 1980. "In two weeks we bought the perfect boat," says Jody. The couple, in their early 50s, named it Blue Pelican and set sail for the Bahamas. After 30 years in corporate life, they decided to sail the world while they were still young and able. "Over the past seven years we have lived a simple life on our sailing vessel and are continuing our circumnavigation this year," she says.

How can they afford to stop working? It is a clever strategy of not needing too much money and living off the rental income from their apartment. "We just don't spend much and we are very content. We used to spend so much money but now our priorities are different," says Jody.

They sailed throughout the Bahamas, in the Caribbean, up the east coast of the US into New York harbour past the Statue of Liberty, past Guatemala, Jamaica and Cuba and backpacked through five Central American countries. They transited the Panama Canal and for 39 days saw no one at sea before reaching French Polynesia, then sailed across the Pacific to Brisbane.

They sold their apartment and built up their account with AustralianSuper, drawing down a pension of around $4000 a month. "We are really happy with AustralianSuper. You can see it all online and usually talk to someone pretty quickly," she says. They are now setting sail for Asia and then Suez and the Mediterranean. Jody has inherited shares worth about $50,000 that include BHP, CBA, Centuria Industrial REIT, Healthscope, NAB, Origin, Sonic Healthcare, Telstra, Wesfarmers and Woolworths. Do they need culling?

They have around $100,000 to invest. "I was going to buy more shares but the world is so volatile, I thought I would sit on them and watch a while," says Jody. "It's important to me not to take on too much risk."

They would like a set-and-forget investment but be able to access the funds within three months if necessary. "We may retire in Asia or Mexico. We don't know."

SUSAN HELY

Set and forget through super

SAM HENDERSON

Sam is the CEO of financial planning firm Henderson Maxwell and host of Sky News Business's *Your Money Your Call – Super*

Jody, it sounds like you're truly living the lifestyle and financial dream. You're not paying a cent in tax from your super and you have plenty of money to supply you with an income stream, most probably for life.

Having spent a lot of time surfing my way around the Indonesian archipelago, I can attest to the beauty of the place and many others just like it, so good on you!

The other important aspect to your situation is that because you spend a lot of time away from home, your request for a set-and-forget strategy plays nicely into the hands of investing most of your hard-earned dollars in superannuation.

I think this is good idea because in AustralianSuper it's well invested, has performed well and is a low-cost option. Let's not fix what ain't broke!

I manage self-managed funds for clients with similar amounts and they enjoy the transparency and flexibility of the SMSF structure, not to mention the potential to invest in property. You're probably even not an Australian resident for tax purposes if you spend so much time overseas so an SMSF won't be recommended, as central management control needs to stay in Australia.

Your needs are really simple. Despite having five times the average amount in super at retirement it doesn't mean you have to have more complexity. I'm a big fan of keeping things simple. The same applies to your share portfolio. If I were you, I'd probably sell it down and make a non-concessional contribution to super (of up to $300,000) and potentially use a concessional contribution or part thereof if you have a capital gain on the sale – this will keep the CGT to a minimum. Alternatively, you can sell progressively across a number of financial years to lower your taxable gain. It's important to seek advice from an accountant on this point.

Leave an amount you feel comfortable with as a cash buffer for emergencies and put the rest into super, where it will be managed by AussieSuper. Managing the shares yourself will require more work and expertise and your lifestyle sounds more like a priority than sitting in front of a screen trading shares.

One final point I'll make relates to the $1.6 million pension balance transfer cap. I'd suggest ensuring that the super is split between you fairly evenly so that one partner doesn't hit that cap.

This can be easily done given your age and the contribution levels available, and because you've already attained a condition of release you can take money out of one person's account and put it into the other's (up to $300,000 each as a non-concessional contribution using the three-year bring-forward rule) to rebalance the amounts.

Just make sure your binding death nominations are kept up to date, your wills and powers of attorney are complete and available to each of you and other family members. Apart from that, let's keep it as simple as possible and keep the wind in the sails.

Diversify to reduce risk

JAMES CARLISLE

James is research director at Intelligent Investor and author of *Value: Intelligent Investor's Guide to Finding Hidden Gems on the Sharemarket*

It's great that you're making such good use of the wealth you've built up but remember that it's got to last. Life expectancies are increasing and you could be in for a lot of sailing! I'll leave the overall wealth advice – including the vehicles through which to invest – to others and stick to the share portfolio.

It's generally best to have at least a dozen stocks (probably more) to provide diversification, so on its own this portfolio will probably be a bit too concentrated. It's not just about the number of stocks but their percentage weighting. Held equally, they'd each be 10%, which is high, but if any are well above this then it could bring in a lot of risk.

There might also be significant sector concentrations. For example, we recommend keeping your overall bank exposure below 20%, or closer to 10% for conservative investors. With both CBA and NAB, you could be well above this. Having both Wesfarmers and Woolworths might also leave you overexposed to retail.

However, you have to consider all this in terms of your overall wealth. If the portfolio is only a 30th of your total net worth then even a 30% weighting in this stock portfolio would only translate to 1% of everything taken together. Bear in mind, though, that your other equity investments could have similar concentrations, particularly in the banks. You should think about it altogether to get an idea of your overall exposures.

It's also worth noting that all these are Australian stocks. Given that you're considering retiring abroad, it will probably make sense to have plenty of international exposure, so check to see that you're getting this from your other investments.

You could use the extra $100,000 to fill in the gaps and broaden your diversification. It's true that stocks can be volatile but over the long term they tend to provide higher returns than bonds and cash. Having retired early, you need to keep a long-term focus. Property may also be a good option for getting specific exposure to a particular country if you're serious about finally settling there.

In terms of the actual stocks, we have "hold" recommendations on them all, except Centuria, which we don't cover. Sonic Healthcare, Wesfarmers and Woolworths are close to our buy prices, while Telstra is getting towards a point where we might sell.

Bear in mind that price and value will move about, and our recommendations will change over time. That needn't worry you unduly. Good investing is generally lazy investing – too much activity often does more harm than good.

The less balanced your portfolio is to begin with, though, the more quickly it could get more unbalanced. If you're going to go months without looking at it, then you'll probably want to consider either a fully passive strategy or finding someone to manage your portfolio actively.

For Stalla, too much debt could put ...

Dream home in danger

Q My husband and I bought our first owner-occupied home 16 months ago in our dream location. It's a lifestyle property on two hectares in a regional Victorian town. Although it's our first home we plan on staying in the property long term and want to renovate the kitchen and bathrooms to make it into our dream home as well.

The renovations would be to our own taste as it is our owner-occupied property and we have had no regard for the other houses in the area, as we have no plans to sell or use it as an investment property.

We put all our savings into the deposit and got a loan at an 80% loan-to-value ratio (LVR).

Our plan was to refinance and access equity to complete the renovations. However, a desktop valuation was recently obtained from one of the major banks and it came in $25,000 lower than what we paid for the property. This could be due to one of the major power stations nearby closing down and there being limited comparable sales in the past three months for properties on acreage. We are now currently sitting at about 81% LVR based on the desktop valuation.

Our question is, should we obtain a personal loan or other unsecured finance to renovate and try to refinance again after the renovations are completed? Or should we wait and build up equity by making extra repayments to the loan? Or do you know of any other options that may be available for this scenario?

Desktop valuations, in particular in regional areas with acreage, are more guesswork than science. They also tend to be super conservative.

So I think your first step is to seek a second opinion. I'd be talking to a local lender such as a building society or credit union. If that confirms the recent valuation, then I agree you have to look to other options.

The biggest issue for me is something you did not mention: your incomes. I do get your point that this is a lifetime property for you, so a new kitchen and bathrooms will not only add value but will bring lasting pleasure. If you have relatively high incomes a lender will be more inclined to make a loan extension work for you, or at least a very low-cost personal loan.

If, however, money is tight, I really cannot encourage you to take on potentially high-interest debt to renovate. It could put your dream home at risk. If this is the case, I would recommend that you bide your time and build your savings.

NEED PAUL'S HELP?

Send your questions to: Ask Paul, *Money* magazine, GPO Box 4088, Sydney NSW 2001 or money@bauer-media.com.au.

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

Kevin's investments can do …

Better than term deposits

Q My wife and I are in our mid and late 70s and we have sold our home, which was getting too much to maintain at our ages. We are both age pensioners and now have about $50,000 in shares with dividends of about 5.2%, plus about $450,000 that is currently invested in term deposits, which struggle to reach deeming rates. We now live in a rented apartment with a superb lifestyle.

Can you please suggest a better investment plan for at least some of our funds considering our life expectancy. All of our term deposits are inside 12 months in time and about 75% of the funds are held in government-guaranteed bank term deposits.

Hi, Kevin. First up I am delighted to hear that your lifestyle is superb! With both of you in your mid to late 70s you have plenty of life in front of you, so unless you both have a serious health issue, your investment approach can be for the medium to long term. With investments of some $500,000, I feel that $50,000 in growth investments such as shares and the rest in a term deposit paying around 2.7% needs a re-think.

Sure, shares will have ups and downs but the dividends are likely to be twice those of a term deposit. Things are clearly going well for you, so I can't see much point in changing if you were to lose sleep over it.

But I would be inclined to consider something like $200,000 in shares and $300,000 in term deposits. The risk on your portfolio would go up but so would your income, and over time it is realistic to expect better overall returns.

Simon already has three properties, so …

It's now time to diversify

Q I am hoping you can guide my wife and I in the (fortunate) situation we are in. We are both 45 with two children, aged 8 and 11. I earn $120,000 a year and my wife earns $88,000. We have been lucky enough to pay off our home over 15 years and it is now worth $1.4 million.

We have two investment units: one worth $500,000, on which we owe $160,000, and the other worth $350,000, on which we owe $275,000. We have $20,000 in an offset account on one of those loans. We also have a $30,000 loan against a $180,000 share portfolio.

We have been putting money into ASG for the children's education since they were born. This will largely cover their school fees but we realise there will be other costs associated with their education. I have $280,000 in superannuation and my wife has $130,000, both in industry funds.

We realise we are in a good situation but would really like to make sure we don't tread water. Ideally it would be great to create enough wealth so we can work for enjoyment rather than feeling as if we have to do it.

We had been thinking about investing in another residential property but have also had the idea put to us of creating a self-managed super fund to perhaps invest in a mix of commercial property and shares. Is there a strategy you would recommend?

I do like the "quiet achiever" approach, Simon, but I don't think luck has much to do with your situation. You have saved hard over the past decade and a half and deserve the success you have achieved to date.

With a home and two other properties, I do think the time has come for some diversification. Yes, you could keep buying properties and this may work out well, but I just don't like seeing people with all their eggs in one basket.

So I quite like the self-managed super fund with exposure to commercial property and shares. But I do want you to check the costs of establishing and running an SMSF. I have one, and it is not cheap to run, but it does give me the ability to make my own investment decisions.

The ability to gear into a small commercial property with a long-term view and then add some decent quality shares appeals to me, as it really does improve the diversification in your portfolio.

Congratulations to you both. You are in a great position and capitalising on this by continuing to save and invest, while spreading your risk, has got to be a good plan.

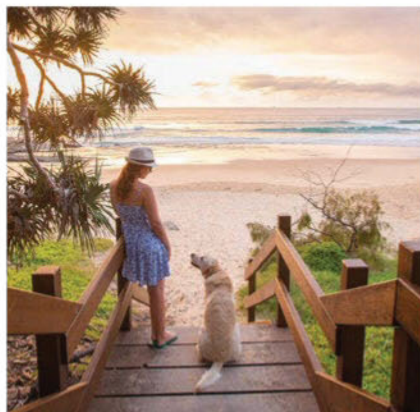
Q&A

While living cheaply at home Keegan is in a good position to ...

Take the property plunge

Q I am 22, live on the Sunshine Coast and earn $60,000, with an expected pay rise in 18 months. I have $160,000 in cash just sitting in a savings account earning quite low interest, and $4000 in shares.

I would consider myself a pretty good saver, saving about $1400 a fortnight, as I have very few expenses due to living with my parents and having a company vehicle. I plan to move out in the next three or four years. Would my best strategy be investing in a property now or investing in other areas, such as managed funds, for the next few years, then buying a property.



You certainly are a great saver, Keegan!

I am super-impressed. But I agree with you that low-interest bank savings are just for a short-term holding plan while you look at longer-term options. Here I am quite happy with low-cost managed funds: exchange-traded funds (ETFs) would be a good option for you.

But if property is your long-term goal, then I would get out and do plenty of research and consider buying now and renting it out while you live at home. Then in time to come you could move in, or continue to rent it if you go overseas or interstate.

Cath could top up super or buy another property but ...

Remember more debt means more risk

Q I'm a 49-year-old female earning $113,000. I work for the federal government and contribute 10% to the PSS scheme. I currently have $510,000 in super. I had more but I lost $158,000 when I got divorced. My house is worth $750,000, I owe $290,000 and I have $41,000 in savings. My house is currently rented out at $600 a week, as I have been working overseas. My repayments are interest-only to reduce my taxable income and I have no other debt.

I will return home soon and I find myself completely independent for the first time in many years. I have been thinking of buying an investment property. However, I worry about being able to manage two mortgages on my own if the property has periods with no rental income.

Am I in a good position to invest in another property, or should I add more to my super?

At 49, Cath, you are in a really solid financial position. You are on a good salary, are topping up your super and own a valuable property. The real decision for you now really depends on your attitude to risk. Gearing accelerates wealth but destroys it if asset prices fall.

Gearing into another property is very realistic for you. With the equity in your home, along with your savings and a solid income, you are a most attractive customer for a lender. While it is critical that you do your own research, if you were to buy in a growth area with public transport, entertainment and so on, and providing you do not overborrow, I am pretty relaxed. Even if you had a period without a tenant, your good salary, with the security of a government job, does help to lower the risk of more debt.

On the other hand, topping up your super to the maximum level, which is now $25,000pa, is a low-risk way to create wealth. It would also save you plenty of tax thanks to the concessional nature of contributions to super and tax on investments in your fund.

Given you already have an excellent super balance and a home, I am broadly comfortable with either strategy. Clearly, more debt means more risk, with potentially greater upside. If in doubt, topping up your super and paying down your mortgage is a great option with low risk.

Anna and Graham want to help as ...

Son's super takes a hit

Q Our 22-year-old son attends university and has a part-time casual teacher's aide job with a school during term time. He doesn't get paid much and his super contributions are paid to the fund that the school promotes. An account summary reveals that at February 5, 2016 he paid $300.92 into the super fund; net investment earnings were $4.78 and funds taken out (taxes, fees and premiums) were $154.52 – leaving him with the grand total of $151.18! I notice that a deduction of $37.53 was in respect of death/total and permanent disability insurance (which has now been cancelled).

Given that he is left with a pittance after the deduction of fees (and wanting to encourage him to start seriously saving for superannuation), could you suggest any other fund or way he can optimise his contributions. He has two years remaining at university. We could help financially if this would bring about a better outcome for him.

Anna and Graham, you have highlighted one of my main grievances with our compulsory super system: insurance for those who don't need it.

I need to start by saying that most of us just don't give insurance enough thought and we are generally underinsured or not insured at all. But this is not a good reason to give young Aussies, often in low-paid part-time work, a financial flogging through insurance that most just don't need. In time to come I have no doubt he will need insurance, in particular death and income protection, but I fully understand why he has cancelled it for now.

This issue, though, is the super system, not the funds. In terms of the $4.78 in investment earnings, the period from July 1, 2015 to February 5, 2016 is as about as bad a period as you could pick. Growth or balanced-style funds, where most members' money is invested, hold a lot of shares and in this period the market fell from around 5500 to 4800, so I am a bit surprised he made a profit.

What I would do is take a look at the earnings up to June 30 this year – the fund should have done well. Do compare it with other major funds; you may find the school's recommended fund is doing well. If not, I agree with changing to another low-cost, good-performing fund.

Keith is keen to buy now but ...

Beware the dreaded mortgage insurance

Q I am 30 years old and currently have close to $50,000 saved. I am expecting another $50,000, hopefully before the end of the year. Would you suggest I get a mortgage now with the first $50,000 and then get another mortgage with the second $50,000, or wait until I have the full $100,000 and get a more valuable property? Maybe even one with the chance to develop, as I am in the construction industry.

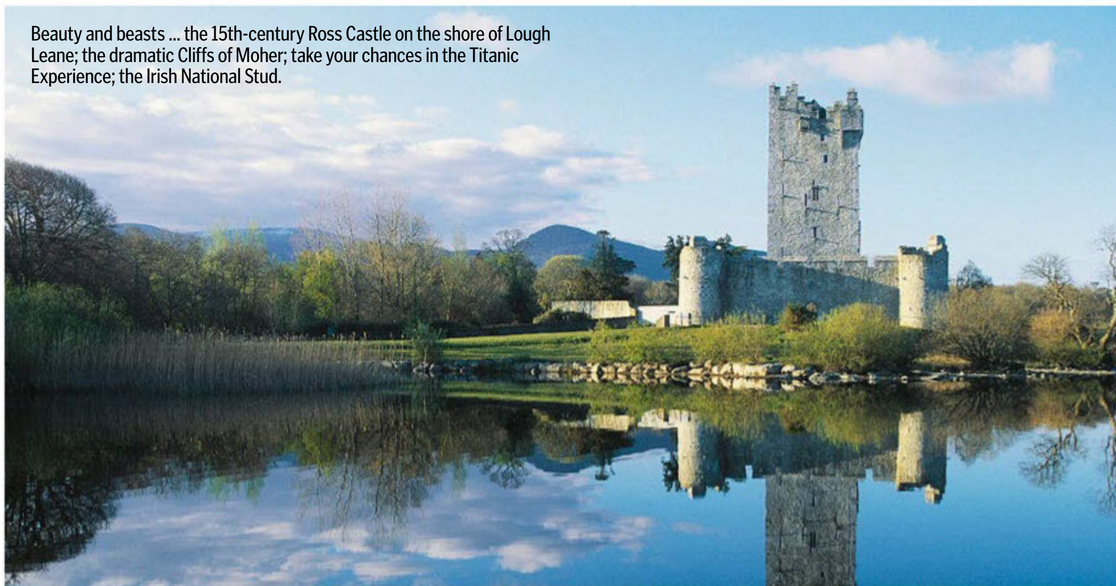
Good job saving $50,000, Keith, and the additional $50,000 will certainly help. Providing you are sure it will arrive in your bank account either this year or early next year, I don't think it will make much difference in terms of the value of any property you might buy. It is already September and if you bought and found a property immediately, it is unlikely you would settle before late October or November.

Where that extra $50,000 would be really handy is in creating a deposit of over 20% to avoid the dreaded lenders mortgage insurance (LMI). I say dreaded because you pay for this to protect the lender, not you.

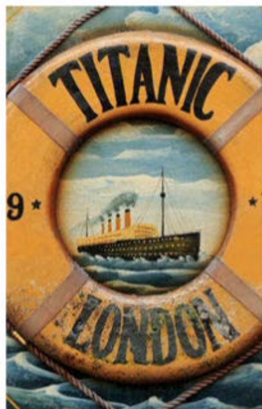
So provided you are certain that you will receive the extra $50,000, I would plan to buy a property on the basis that you have it already. Do discuss this with your lender, though. It would be silly to proceed in haste and find you get hit with mortgage insurance.

SMART SPENDING

Destination Ireland



Beauty and beasts ... the 15th-century Ross Castle on the shore of Lough Leane; the dramatic Cliffs of Moher; take your chances in the Titanic Experience; the Irish National Stud.



Five things to do

1. Listen: to traditional music (known locally as the craic) at Murphy's Bar in Killarney Town in County Kerry. Renowned as an Irish music pub, Murphy's has live music every night in the summer and every weekend in the winter. It's been run by the Murphy family since 1955, offering great pub food all day plus accommodation.

2. Stroll: through the Irish National Stud in County Kildare. Make sure you see the stallion Invincible Spirit, sometimes billed as the "daddy of all daddies" because his stud fee of €120,000 ($180,000) for each service brings in about 80% of the facility's revenue. And visit the surrounding Japanese gardens, reputed to be the finest in Europe.

3. Pretend: to be a passenger on the Titanic in the Titanic Experience at Cobh (pronounced Cove), housed in the original White Star Line ticket office. Cobh was the last port of call for the ill-fated ship before it hit an iceberg and sank on April 15, 2012. Your ticket has your passenger name (123 people embarked at Cobh) and at the end of the tour you discover whether you survived! Take time to visit the nearby promenade and if you're lucky, as I was, there will be a band playing.

4. Take: a jaunting car ride through the beautiful and wild Killarney national park to Ross Castle. Keep an eye out for red deer as the park is home to the country's last native herd. Gaze out at Lough Leane, against a backdrop of distant mountains, and see if you can make out Carrauntoohil, one of Ireland's tallest peaks. Ross Castle is a 15th-century tower house and was the last to be defeated by Oliver Cromwell and the English in 1652. Also enjoy a cruise on Lough Leane from Ross Castle.

5. Walk: on the mystical Cliffs of Moher in County Clare. Ireland's most-visited natural tourist attraction, the cliffs have been carved by ocean and weather into fantastic shapes. On a clear day you can see the Aran Islands, Galway Bay, the Twelve Pins and the Maumturk mountains in Connemara as well as the Dingle Peninsula and Blasket Islands in Kerry. PAM WALKLEY

DRIVING PASSION

Workhorses get the luxury treatment

The idea of a Mercedes-Benz ute would have once been the subject of an April Fool's gag. But such is the growing demand for luxury utes (or pick-ups) that when the German car maker recently launched its X-Class dual-cab ute everyone knew it was deadly serious.

One of the X-Class's primary markets will be Australia, where Ford has had great success with the upmarket XLT and Wildtrak versions of its big-selling Ranger ute.

Priced around $60,000, both models account for more than 62% of all Ranger registrations, demonstrating the demand for luxury vehicles that can still put in the hard yards.

There are premium versions of most 4x4 dual-cab utes, including the Toyota HiLux SR5 ($57,990), Mitsubishi Triton Exceed ($48,000), Holden Colorado Z71 ($57,190) and Volkswagen Amarok V6 TDI 550 Ultimate whose once-unthinkable $67,900 price will be topped when the X-Class arrives.

DAVID BONNICI, WHICHCAR.COM.AU

$80,000+

Mercedes-Benz X-Class Power

The X-Class, based on the Nissan Navara, will come in three variants, topped by the Power. Expected to cost beyond $80,000, the Power will feature a 190kW/550Nm 3.0-litre V6 turbo diesel engine with seven-speed automatic transmission and large 1587mm x 1560mm tray. It will also have active safety features and luxury trim.

Pros: Quality; an established platform.

Cons: Cost; unproven as a workhorse.

mercedes-benz.com.au

$67,900

Volkswagen Amarok V6 TDI 550 Ultimate

The range-topping Amarok's 165kW/550Nm 3.0-litre V6 turbo-diesel and eight-speed auto powertrain provides significant grunt. Its 1584mm x 1620mm tray is a little wider than the Merc's, though its 846kg payload is around 150kg less. The permanent all-wheel-drive adapts between on- and off-road conditions.

Pros: Comfortable, car-like handling.

Cons: Lacks active safety and rear airbags.

volkswagen.com.au

$59,590-$61,790

Ford Ranger Wildtrak

The flagship Ford ute is powered by a gutsy 147kW/470Nm five-cylinder turbo diesel with a choice of six-speed manual or automatic transmissions. It can ably carry up to 950kg on its 1549mm x 1560mm tray. The active safety features include adaptive cruise control, forward collision alert and lane-keeping assist.

Pros: Good to drive, great off road.

Cons: Bouncy when unladen; lacks some refinement.

ford.com.au

EXTRAVAGANCE

Ride in style

Enjoy chilled champagne in the Orrefors crystal flutes that come with the Volvo XC90 Excellence.

How much: Starts at $172,200 plus onroad costs

WINE SPOTLIGHT

2016 Trentham 'The Family' Vermentino $15

Nestled on a gentle bend in the Murray River, just near Mildura, this family-run winery offers great value in a wide range of varieties. Vermentino is the most popular Italian white and the Trentham example shows why – it's bright, fresh and lively with intense, pristine flavours and a crisp, refreshing, dry finish. Delicious.

SPLURGE

2015 Shaw + Smith Adelaide Hills Shiraz $46

The cool Adelaide Hills has produced some of the most exciting shiraz in the country in recent years with its savoury flavour profile and plush texture. Shaw + Smith is among its finest producers. In 2015, the wine has a vitality and freshness that delights, with brambly, briary blackberry flavours and succulent, fleshy texture before a fine, lingering finish.

PETER FORRESTAL

SMART SPENDING

SMART TECH

Nostalgic gamers have a field day

We've reached something of a tipping point when it comes to video games. While most consumer interest lies with the latest generation of home-entertainment consoles – the Xbox One, PlayStation 4 and Nintendo Switch – there's been a strong resurgence of interest in classic video games that first graced living rooms back in the 1980s and 1990s.

Nintendo's runaway success with last year's Classic Mini NES has shown that there's huge demand among older gamers for retro gaming done right. The Classic Mini NES was a limited edition sporting 30 included games from the NES's 1980s heyday, and its near immediate sellout everywhere means it now commands huge prices on eBay.

Not to be outdone, manufacturers of other gaming systems are also getting in on the act, and Nintendo has now announced a SNES successor console too. These retro remakes don't offer cutting-edge 3D graphics, online play, social features or VR capabilities but they've got it where it counts: timeless pixel art, mind-bendingly addictive game play and plenty of "game over" screens just begging you to try again. What's not to like? PETER DOCKRILL

What is it? Nintendo Classic Mini: SNES
How much? $119.95
Pros: Scheduled for launch on September 30, this Super Nintendo remake takes the iconic '90s console, squeezes in 20 classic games (plus one never-released title) and shrinks it to a hand palm size. It is regarded by many as the best Nintendo system ever, so you couldn't hope for a better gift.
Cons: The biggest problem may be getting your hands on one. Pre-orders have sold out, meaning you'll need to keep your eyes peeled come the official release date.
nintendo.com

What is it? Atari Flashback 8 Gold
How much? $149.95
Pros: Well before Nintendo was a household name, another brand ruled the '70s and '80s gaming roost. The Atari 2600 with its faux wood panelling introduced millions of players to joysticks and *Pitfall!*, and the company is now back with the Atari Flashback 8 Gold, which ships with 120 built-in games, two wireless controllers, 720p output and save support.
Cons: If you can wait, Atari's upcoming Ataribox console will offer the above plus new content.
atari.com

What is it? Sega Mega Drive Flashback
How much? $149.95
Pros: Once upon a time Sega and Nintendo were bitter gaming rivals, before the former lost out in the hardware business and began producing software only. The Mega Drive Flashback revisits the company's '90s peak, with 85 built-in games, two wireless game pads and an actual cartridge slot in case you've amazingly managed to hold on to any original cartridges.
Cons: 85 games sounds like a lot but not all of the included titles are Mega Drive originals.
atgames.net

GIVE IT UP

Stroke Foundation

What is it? Strokes are Australia's second single greatest killer (after heart disease), with over 60,000 occurring every year, and the Stroke Foundation aims to raise awareness. The goal is to ensure every household has someone who knows the signs of stroke and to call 000.
Where your money goes: The Stroke Foundation delivers a number of important prevention, support and treatment programs and also has a research program. These include things such as free health checks, stroke-safe education sessions, supporting health professionals by offering training in the latest treatments and best practices, and supporting stroke survivors by offering vital information and connecting them with care services.
How to donate: You can donate directly to the Stroke Foundation at strokefoundation.org.au or call 1300 194 196 for more details.

You could also start your own fundraiser linked to events such as National Stroke Week (September 4 to 10) or Stride4stroke in November. You can get more information on the website.
MARIA BEKIARIS

WEBFIND

WANTITNOW.COM.AU

Buying something online but don't want to wait a few days, or even overnight, to get it? Then check out this site. You can get goods from a number of retailers delivered within three hours – for a premium, of course. Only available in Sydney and Melbourne. MARIA BEKIARIS

Dad wants to invest for his young son

I am a 45-year-old medical practitioner. I am looking at investing about $500 a month for the next 10 years so that my 12-year-old son gets a lump sum when he's at uni.

Currently I have some shares and exchange-traded funds (ETFs) in a family trust. I am happy to take risk.

Do you think investment bonds would be a good alternative, or should I stick to ETFs only? I am confused as bonds will have lower returns than ETFs but will be totally tax free.
Nitin J Chavan

Thinking ahead ... Nitin and Rakhi with Dev, 2½, and Lohit, 12.

FRANK REDWARD

Excellent question, Nitin. Investment bonds always strike me as a pretty ancient investment vehicle and are not my preferred option. The big issue is that they are not "totally tax free". The correct term is that they are a "tax paid investment". What this means is that the returns they earn each year are taxed at the current company rate of tax of 30%.

Clearly, a salesperson or supporter of these bonds could fairly argue that a bond paying 30% each year has a lower tax rate than you would pay if you invested in your own name.

Investing in the name of your son is not going to be a great idea as minors (those under 18) pay very high rates on "unearned income". I suspect that this is why you may be looking at an insurance bond. In your situation, investing in an insurance bond to provide an after-tax payout for your son's education in a decade or so is not the world's worst idea but I don't think it is the best either.

I do appreciate that as a doctor you are likely to be in the maximum tax bracket. We should also consider that if you are married it may be that your wife is a lower tax payer and the investment could be held in her name as trustee for your son. But let's go with the higher taxed scenario and look at investing the $500 a month in your name as trustee for your son.

Paul's verdict: With a 10-year horizon, shares can provide good growth

An exchange-traded fund offers tax benefits as well as flexibility

I agree that an exchange-traded fund is a good way to go, as also would be a low-cost indexed fund offered by a firm such as Vanguard. You will pay brokerage fees each time you buy and sell ETF units so may be worth directing your monthly savings into an online account and buying once a year.

There is little argument that with a view of at least 10 years you should opt for a growth-style investment. This type of investment would be mainly international and local shares. These assets tend to generate lower income, and in the case of international shares this would be close to zero. Local shares tend to pay franked dividends with a 30% tax credit attached to the income. So my view is that even if the shares are held in your name the tax liability would be low.

There would be no tax on capital gains as I can't see any reason to sell the investment until it passed to your son. And this is an important point. Providing you invest in your name "as trustee" for your son, he is the beneficial owner. When he turns 18 you can transfer the investment to him without any capital gains tax liability as he has always been the beneficial owner.

So in my view this is the way to go. You would pay some tax on income received but this is not the main game. That is capital growth, which would pass to your son untaxed until he chooses to sell. I expect his income, as a university student, to be nil or very low, so selling this investment, in particular if he did so over a number of years, would be most unlikely to see any tax liability.

All in all, in my opinion, this is a better and more flexible option.

ASK YOUR QUESTION

If you have a question, email money@bauer-media.com.au or write to GPO Box 4088, Sydney NSW 2001. Questions need to be 150 words or less and you must be willing to be photographed. Readers who appear on this page will receive a six-month subscription.

WHERE TO INVEST $10k EXPERT PICKS

PLUS The experts provide answers to some of the top questions *Money* gets from our readers.

Paul Clitheroe

Paul is chairman of the Financial Literacy Board and author. He is also chairman and a shareholder in AWI, which owns InvestSmart and Intelligent Investor.

WHERE I WOULD INVEST $10k

If $10,000 landed on my doorstep today, I would invest not in today's companies but tomorrow's. So for me that means smaller companies. But I don't have the time to do the research necessary, so I'd go with a smaller companies exchange-traded fund, managed fund or listed investment company. I hold shares in the LIC Monash Absolute Investment Company (ASX: MA1), which is no great surprise as I am chairman.

It holds shares in a range of smaller companies with excellent future potential and at its current share price is trading at a discount to its net asset backing.

FINANCIAL BREAK-UP

What's the best way to invest the proceeds from a divorce settlement?

The very best advice I can give when it comes to investing the proceeds from a divorce settlement is to take your time. The best investment you will make after a divorce is not property, shares or super. It is an investment in time to build a future plan for your life and your money. This will be one of the best investment decisions you have ever made.

Divorce is inevitably a time of high emotion, stress and uncertainty. I know that once a financial settlement is reached and there is money to invest, there is a new sense of being in control of your own money and the desire to "move ahead" and make decisions. But there are so many variables. Will you reduce your mortgage, buy a home or an investment property, top up your super or buy shares? Then there are far more important things. Will you keep working, or go back to work? There are complex issues relating to children, other family members, your age, where you want to live now and in the future and, more broadly, how you want to live your life.

If you listen to all the advice from family, friends, the media and people like me, you may well feel under pressure to make decisions. But these can go badly wrong. I have seen people take a divorce settlement and rush into buying a property, without the time and thought put into the right location and also enough research to ensure a purchase is made at a sensible price.

Others have paid off their mortgage. Now that sounds great but then they have found that a job was harder to get than they thought, meaning they needed access to the money. As you can imagine, this trip to the bank goes badly. The bank can't set up a new mortgage if you have no source of income.

Here, though, there is a piece of simple advice. If you have a mortgage it may have an offset account, or your lender can set this up for you. Putting your divorce proceeds here is a good "holding" plan. It means you are in effect earning risk free and tax free the rate of interest you are paying on your mortgage. And you can access your money.

I've seen others put the maximum possible into superannuation – and then realise they can't access it until they retire. Others have raced out to buy shares without enough thought, or made an emotional decision to buy a beach house they really can't afford.

So my advice is very simple. Do not do anything until you have invested enough time to create a plan about your own future. Once you have this personal framework worked out, investment becomes a lot simpler.

HOT SPOTS

What suburbs should I be watching if I want to invest?

If ever a country was seeing a many-speed market, it's Australia! Media reporting might have you believing we have been experiencing a nationwide boom, but while Sydney and Melbourne property owners have been enjoying a much-needed (and long-awaited) price surge, other cities such as Adelaide and Brisbane have been taking only tiny forward shuffles and Perth and Darwin have been suffering the pain of a post-resources-boom price recession with little sign of a bottom just yet.

Depending on which data you read, there's an interesting story to the past 12 years that might surprise you. Sydney's median house price was reported in 2005 as being $505,000 and in 2017 was sitting at $880,000, which is a 74% increase. Adelaide, on the other hand, showed a 2005 price of $278,000 and a July 2017 median of $585,000 – that's a 110% increase! These figures show that while some cities sit flat for years and then boom for a while, others just enjoy year-on-year growth that adds up to be quite impressive.

Of course, median prices are greatly inaccurate as a measure of performance, as they depend on too many variables and can swing wildly from month to month. But a review of them over a period of years does show us that it's less important to follow the crowd into overheated, frenzied markets, and far more important to seek out areas that show the potential for sustainable growth from the existence of measurable factors – such as population growth, improving wealth, infrastructure development and the diversity of employment opportunity.

If you stop and think about people who have made good profits from property investing, it's always the ones who got into an area before anyone else really saw the potential. For most investors, though, their buying decision is very much influenced by the behaviour of those around them and what they read in the media. And by following the crowd in this way, the potential to make a good gain on property is at best going to be limited (since the property prices will already be inflated) and at worst non-existent, as the purchase was made too late into the boom and the price paid – in a market where the seller dictates how much they will accept – was likely to have been far too much.

And so the key to being a successful property investor lies not in just buying property with the potential to grow but buying that property before it even begins growing. It lies not in buying in blue-chip areas but in recognising a blue-chip area before it actually becomes one!

The potential to make a significant gain in Sydney is, for the foreseeable future, behind us. However, as many parts of Melbourne heat up, it's easy to follow the population growth and see where the gains will be made in the future. Melbourne is full of family areas where the buy-in price is low, the public amenity is in place, the schools are in demand and public transport is readily available for that work commute. This includes areas such as Werribee and Hoppers Crossing to the west and Dandenong South and Cranbourne to the east, an area where the population is the fastest growing in Australia.

The affordable middle ring of Adelaide, around Semaphore near the coast, and Modbury and Highbury to the north-east, is quietly heading into boom territory as demand picks up and the areas become more affluent.

And let's not leave out Brisbane – with massive road infrastructure improvements, those affordable northern suburbs in the Moreton Bay Shire are absolutely an area that is set to provide lasting growth for years to come.

Margaret Lomas

Margaret is founder and director of Destiny Financial Solutions (destiny.com.au) and a best-selling author of seven property investment books.

WHERE I WOULD INVEST $10k

In such a low interest rate environment, $10,000 off your mortgage may not be the best place for you to invest right now, unless you truly feel that reducing your payments by $8 a week is critical to you. Instead, diversification into a property trust or even a share fund may well provide you with the capacity to grow those funds (especially if you reinvest the dividends) and end up with a larger lump sum in a few years, which will make a difference to your mortgage.

If you don't like the thought of investing in the sharemarket, then spruce up your own home in practical ways and see if you can manufacture some value. By labouring yourself (if you have the skills), or by calling in some favours from friends you might know with any kind of trade skill, you might achieve a cosmetic renovation worth much more than the $10,000 you put into the materials, which could add enough value to help you raise a deposit to invest in another property.

RETURNS

What shares or other investments can give me a regular income of $10k-plus a year?

When it comes to earning an income from an asset class, you cannot consider returns, or yield, without considering risk. The scar tissue from the GFC is still visible and generally speaking income-hungry investors have become more cautious about equities. Many would prefer to earn a risk-free return in bonds of around 6%-7% but that is no longer available unfortunately, so many have come out of the woods and have reluctantly had to buy equities and take risk.

Their tendency is to gravitate to "safe" equities as bond proxies, which means that "big" income stocks get the most attention. We can debate whether "big" equals "safe", of course, but after the falls and volatility in the banks and Telstra over the past few years it is clear that big is not safe. Big stocks may be safer but they are not safe. For example, both Wesfarmers and Telstra have been going down and underperforming on every level. Woolworths has underperformed 33% in three years.

So I think you have to accept that there is no "safe" in equities, whether you are focused on income or not. Equities come with volatility. So if you are really income focused and have been dragged out of low-yielding asset classes such as bonds and term deposits, your focus should not be on size but on reliability of earnings and therefore dividend.

So let's look through the stocks in the top 100 that have a yield over 6% and, on first pass, let's eliminate stocks rather than choose them. I am going to eliminate: Telstra – no growth; NBN – uncertainty, horrible trend; Wesfarmers – sector under siege; Fortescue metals – too volatile; Aurizon – geared to resources, not reliable; Crown – earnings too volatile; Coca-Cola – horrible trend, one day it will turn but currently in the sin bin; regional banks – if you already have the banks you can pass on these, they are more volatile and need timing; Harvey Norman – too cyclical, can be traded but not an income stock.

That leaves us nine stocks: Commonwealth Bank, Westpac, ANZ, NAB, Macquarie, Suncorp, AMP, Vicinity Centres and Tabcorp. Not really enough there to diversify a conservative income portfolio, so let's now look at the 6% yields in the next 100 stocks – let's call them "the best of the rest". These include smaller market cap stocks at the conservative end of the scale: a couple of REITs and a few financial stocks including fund managers Platinum Asset Management, IOOF and Perpetual.

That's 15 big stock picks for risk-averse income investors. This list achieves an average yield of 6%, which grosses up to 7.7% including franking. On that basis to achieve a $10,000 annual income you will need to invest $167,000 equally across all of them.

15 STOCKS FOR INCOME

ASX CODE	COMPANY	PE	YIELD	FRANK	GROSS YIELD	DPS	ROE
CBA	CWLTH BANK	13.3	5.5%	100%	7.9%	+1.7%	15.6
WBC	WESTPAC	13.2	5.8%	100%	8.3%	+0.0%	13.3
ANZ	ANZ	12.8	5.3%	100%	7.6%	+0.6%	11.9
NAB	NAB	12.6	6.3%	100%	9.0%	-0.6%	13.2
MQG	MACQUARIE	12.8	5.4%	45%	6.5%	+2.2%	14.4
SUN	SUNCORP	13.1	5.9%	100%	8.4%	+5.0%	11.2
AMP	AMP	14.0	5.7%	90%	7.9%	+3.1%	14.2
VCX	VICINITY STAPLED	14.2	6.5%	0	6.5%	-1.8%	7.2
TAH	TABCORP	16.1	6.1%	100%	8.6%	-3.7%	13.9
PTM	PLATINUM MAN.	20.0	5.3%	100%	7.6%	-20.1%	46.4
CMW	CROMWELL PROP	11.9	8.7%	0	8.7%	-0.9%	8.9
IFL	IOOF	17.4	4.9%	100%	7.1%	+6.0%	14.3
PPT	PERPETUAL	17.0	5.2%	100%	7.4%	+2.2%	22.2
CQR	CH. HALL REIT	12.7	7.1%	0	7.1%	+1.6%	7.6
GOZ	GROWTHPT PROP	13.8	6.7%	0	6.7%	+5.6%	8.5

PE price earnings, FRANK franking credits, DPS dividend per share, ROE return on equity.

WHERE I WOULD INVEST $10k

Marcus Padley

Marcus is the author of the daily stockmarket newsletter, Marcus Today. For a free trial of the Marcus Today newsletter go to marcustoday.com.au

If I know anything about the stockmarket, then the goal is to achieve long-term consistent returns, not gaze at your screen looking for a stock going up tomorrow. It is about quality with an element of growth. At this moment I would also be looking for a company with international businesses that will benefit out of something I believe could happen from here: a fall in the Australian dollar. It has done its dash.

So I pick Janus Henderson, an investment manager. It is UK listed and will directly benefit through the translation of the UK price into Australian dollars from a fall in the Australian dollar. It is also a play on a successful Brexit, which I think will happen less painfully than currently expected.

The stock is in an uptrend. It has a $9 billion market cap so is reasonably large (read safer). It yields 4.2%. Results were out on August 8 so the stock is de-risked for the next three to six months. If the dollar falls this is one of the best leveraged stocks on the market.

SPENDING & SAVING

What is your failproof budgeting technique?

My failproof budgeting technique is (drum roll, please) ... to not use budgets.

The truth? I've never been able to stick to something as rigid as a budget, and I don't expect you to either.

Look, I've helped thousands of people with their money and I can tell you that the conventional wisdom espoused by finance experts – "Get on a budget! Track your spending" – is dead wrong.

Using willpower to force yourself to stick to a rigid budget, day in day out, just doesn't work. In fact, it's the opposite.

If you really want to win, you should ditch tracking everything and instead keep things simple.

Couples who bank together, stay together

According to Relationships Australia, the No. 1 cause of break-ups is fighting about money.

If you're married you should share the same bank account – and the financial decisions that go with it. How do you get your partner on board? Well, money talk goes better with garlic bread and wine!

Schedule monthly date nights devoted to making money decisions together so that you can make regular progress and stay on the same page.

Set up your money buckets

As I've said, budgets suck. Instead, you should simplify things and focus on three money "buckets": Blow (your spending), Grow (your long-term investing) and Mojo (your emergency savings).

The deal with the Blow bucket is spending more money on the stuff you love and less on the stuff you don't. Better yet, I want you to actually allocate some of your pay packet to guilt-free splurges for stuff that'll put a smile on your dial.

Here's how to set up your Blow bucket. Whip out your phone and apply for:

- 2 × everyday transaction accounts – call them "Daily expenses" and "Splurge" and get a fee-free ATM card for each (it's easier if you get your "Daily expenses" card first, then simply open another account for "Splurge").
- 2 × online savings accounts – call them "Smile" and "Fire extinguisher" and link them both to "Daily expenses".

Then calculate 60% of your take-home pay and keep this in your "Daily expenses" account. This is how much you should be spending on bare-bones living expenses (think mortgage/rent, groceries and bills). If it's more than 60% look at ways to cut costs.

Next I want you to put your money on autopilot so you'll never have to worry about it again. Set up an automatic transfer of 10% of your take-home pay from your "Daily expenses" account to your "Splurge" account (for short-term splurges like shoes, booze and lattes).

Then set up an automatic transfer of 10% of your take-home pay from your "Daily expenses" to your "Smile" account (for longer-term splurges like weddings and holidays) and 20% to your "Fire extinguisher" account (for paying off credit card debt, saving for a home deposit or making extra mortgage repayments).

Mojo, baby

If there's one thing that will act like a financial firehose it's having savings on hand. We Barefooters call it Mojo – a high-interest online savings account with three months of living expenses. To avoid temptation, keep it away from your day-to-day banking – I even have it with another bank altogether.

When you open your separate Mojo account, set it up with an initial $2000 deposit. And if you don't have a spare $2000, look around your house and see what you can flog on Gumtree.

◆ This is an edited excerpt from Scott Pape's best-selling book, *The Barefoot Investor: The Only Money Guide You'll Ever Need*. Available now.

Scott Pape

Scott, AKA The Barefoot Investor (barefootinvestor.com), is an investment adviser, author and radio commentator.

WHERE I WOULD INVEST $10k

If I had $10,000 – and I do – I'd buy more shares.

Here's you: "Which ones?"

Here's me: "None of your business!"

Here's you: "Dude, I think you're missing the point of this breakout box: people want stock picks."

Well, my view is that the Barefoot Investor steps are more important than stock picks. OK, so here goes ...

If you've got debts, use the money to pay them off.

If you're aiming to buy a home, put the cash towards saving for a deposit.

If you've already got a mortgage, put your retirement planning on autopilot by tipping extra into super.

If you're already boosting your super contributions, use the cash to build up your Mojo (savings) account to three months of living expenses.

If you've already done all that, buy some shares. Just don't ask me which ones.

MONEY SKILLS

How do I get teenagers interested in investing?

Ross Greenwood

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

WHERE I WOULD INVEST $10k

$10,000 ... one shot ... or maybe two. Buy media stocks. Why? Because expected changes to media ownership laws are going to see a rush by big media companies to buy up smaller rivals. Some of the companies in play: Fairfax Media, Prime Media and Southern Cross Austereo are foremost among them. The other benefit is that the sector, finally, is seeing an uptick from the overall improvement in the economy, notwithstanding the continued weakness in the retail sector, which generates a big chunk of the advertising dollars.

One of the greatest sources of pride for a parent is to teach their children a lifelong skill. And seeing that parents spend so much time, money and energy protecting their children, educating them, ferrying them to sport or dance classes, there is one blindingly obvious thing I have often pondered.

Why do parents spend so little time teaching their kids money and investment skills?

Perhaps, and maybe this is also obvious, the parents doubt their own abilities in these matters. In many families, I know, there is an inherited problem in that money issues are barely discussed – not the income of the household, the expenses or the net worth.

Granted, idle playground gossip is a risk you run by letting the kids in on too much information (a little like employees, where the boss's tactic is never to let the staff compare salaries).

But surely if you want to protect your children, and their assets, then the sooner you teach them the merits of compound returns, the advantages and dangers of debt and the need for investments with cash flow the better off you and they will be.

Just one small example. Start salting away around $50 a week for a kid at the age of 15 ($2500 a year). Once they start to earn, say at 20, encourage them to lift it to $100 a week ($5000 a year). When they turn 30, $200 a week ($10,000 a year). It's not a massive ask.

Let's assume the interest rate (or dividend rate, even better) is a constant 4% – which you will now get from many cheap index funds or exchange-traded funds – then at age 65 the person will have $1.17 million.

Here I am being very conservative, only accounting for the income – not the increase in the capital value. If I assume an average 4% capital growth as well (still conservative) that figure would jump to $2.83 million.

Just one small question ... if you waved that sort of maths under the nose of even a non-numerate teenager, do you imagine they might listen – even if for a few moments?

Now take a person whose parents decided not to encourage them to save, and who only came upon the idea themselves later in life when their income picked up. Here I'm assuming they start saving around $200 a week from the age of 30. Using the 4% return, they end up with around $776,000 – or about $394,000 less than the person whose savings started earlier.

If I add 4% capital growth to that equation, the 30-year-old ends up with $1.87 million. It's certainly still worth having but the compounding effect has not had as long to work. It's close on $1 million short of the family and the kids who started salting away the money much earlier.

The other education I think parents and kids should engage in is to invest through their kids' eyes. A younger person might have spotted Facebook as an investment before you. Or Nintendo (Pokemon Go) or any one of the young fashionable labels that emerge from the pack while you are still listening to music from 20 years ago. Again, it might pique their interest that there's money to be made by spotting trends early.

The truth is that all investment needs vision and imagination, along with the fundamentals of cash flow, yield and gearing. And understand that the motives for teaching these concepts to your children are not completely altruistic. The sooner a child can financially stand on their own two feet, the less likely it is that they will come and tap the bank of mum and dad, like so many are doing today.

Good for you ... good for them.

PROPERTY

How do I make rentvesting work?

Playing the property game isn't that easy for gen Ys in our two global cities, Sydney and Melbourne. We have watched prices surge on the back of lower interest rates and years of undersupply. The net result is that more locations than ever before are beyond the reach of most gen Ys.

What's more, for the past 10 years or so these professional gen Ys have rented in cosmopolitan areas, enjoying the benefits of being close to "everything" to live, work and play. So they can't bring themselves to the idea of moving "out wide" and dealing with extended daily commute times, on top of their long work hours, or the lack of variety in the local amenity that they now have come to expect.

Our global cities come with global price tags for houses with any land content, as this limited supply is swamped by excessive demand. The harsh reality is that this trend will not stop as the population of our two biggest cities is forecast to double in size over the next 34 years to 8 million each. But all is not lost for gen Y or others who choose to rent where they want to live but still want to get onto the property ladder via a "rentvesting" strategy.

Rentvesting works best where the differential is greatest between the repayments on a home loan compared with what it would cost to rent a similar property in the same location. This is best illustrated by way of an example. Let's look at properties in Essendon-Moonee Ponds in Melbourne, where you can find family homes worth around $1.5 million.

Let's assume we borrow 80% of its value, meaning our loan would be $1.2 million. At a long-term interest rate estimate of 6% (principal and interest loan over 30 years) our monthly repayments would be $7195, or $86,340 annually. Yet there are similar properties available for rent in this area, and the rental yield is only 2% for a standard but functional place. That yield equates to an annual rental commitment of $30,000.

So many of these gen Y and other couples simply couldn't afford to buy a house in this upmarket location. However, with a potential saving of over $55,000 a year in cash flow, this additional money could be used to start, or add to, a family – say $20,000, leaving over $35,000 a year available to invest. This surplus could buy at least one or possibly even two investment properties. That ensures they are getting their own money working harder for them in building their own equity and wealth story.

If you are after high capital growth, focus on areas with high demand and low supply, preferably houses, townhouses or villas with some land. You might even buy in the same location where you are renting that bigger property!

Let's be conservative and use only $30,000, saving $5000 a year for repairs and maintenance. If we buy a duplex or townhouse for $900,000, assuming an 80% loan to value ($720,000 loan at 6% principal and interest over 30 years) our annual interest and principal repayments would be $51,800.

On the income side, let's assume that with a yield of 3% our annual rent would be $27,000. Overall, and without factoring in any negative gearing benefits, the shortfall of $24,800 ($27,000-$51,800) is well covered by the $30,000 we had set aside.

The bigger the difference in out-of-pocket cash flow between owning versus buying, the more it makes rentvesting worth considering. A good rule of thumb is a differential of greater than 3% between the costs to buy versus the costs to rent.

It's not a perfect outcome for all gen Ys or others in this situation but it does enable you to live where you and your family want to live and also put your money to work to build a portfolio of properties to provide you with greater wealth and income for retirement.

WHERE I WOULD INVEST $10k

Ben Kingsley

Ben is the founder of Empower Wealth, a property advisory firm, co-host of The Property Couch podcast and co-creator of locationscore.com.au, a property research website.

Depending on the condition of the property I buy in my rentvesting strategy, there are two options I'd consider.

First, if the property was in a sound condition, whereby it may not look brand new but rather is clean and tidy for any tenant to enjoy, then the $10,000 would go straight into the offset account to reduce the interest I was paying on the loan. The benefit of this strategy is that the interest saving is technically tax free, as you are not generating income, which would be taxable with other types of investing. In the case of an offset account you are saving interest, and you don't get taxed on saving on an expense such as interest.

If, however, the property was in need of a tidy-up, you can get the biggest bang for your buck by painting it. This is by far the best way to transform any property. If it's a freestanding property $10,000 would more than likely get both the full interior and exterior painted, giving rise to improved income in the form of higher rent and potentially an uplift in the valuation.

Nerida Cole

Nerida is managing director of the financial advisory division of Dixon Advisory (dixon.com.au). She is an expert on super, including self-managed funds, retirement planning and wealth-building strategies.

WHERE I WOULD INVEST $10k

Traditional business models across many sectors – retail, media, banking, health – are under a lot of pressure. In my view, investing in the companies leading this disruption is a good way to benefit from the new developments and hedge against traditional blue chips. That's why I'd be putting the $10,000 into the Evans & Partners Global Disruption Fund, which listed on the ASX on August 1, 2017 under the code EGD.

Even though you are buying one investment through the ASX, in turn the fund invests in major global companies that have a proven ability to disrupt and continue to disrupt existing markets and businesses, and will also look at a selection of smaller positions in potential disruptors. The investment committee guiding the fund has deep insight and experience investing in this theme.

It is a long-term investment, focused on capital growth rather than income, so consider your own circumstances and the risks before investing.

RETIREMENT

How do I structure my portfolio at retirement to maximise income?

Record low interest rates and a low-growth outlook are making it very tough for retirees to fund a comfortable lifestyle. But there are plenty of options to help meet your income needs, and while picking the right investments is important don't underestimate the importance of strategic planning and risk management.

1 Analyse and position your goalposts

Separating your annual living expenses into core and discretionary expenses can help to set boundaries around what you are aiming to achieve from your retirement nest egg. Listing one-off lumpy capital requirements, such as renovations, is also vital. If the cash needs to be available at a certain time, it may change how much of your retirement nest egg can be invested in medium- or long-term investments.

2 Agree plans for bad weather

It's a good idea to consider how much risk you are comfortable taking on because, unfortunately, unexpected outcomes are a fact of investing. So plan for the bad weather that will inevitably turn up at some point. If you can't bear volatility or the risk of capital loss, it may be prudent to stay away from the more volatile growth investments.

3 Diversify, diversify, diversify

Holding cash may not feel attractive but it's a good buffer against volatility and provides flexibility. Dixon Advisory recommends that retirees hold three years of annual expenses in cash to protect their ability to meet expenses and reduce the risk of having to sell investments at a low point.

To produce income from the part of your portfolio that can be invested for the long term, consider alternative yield-focused investments such as infrastructure and commercial property. Big investors have been buying up in these areas for a number of years now, so do your due diligence on pricing before jumping in.

Because of the long-term nature of infrastructure assets, they tend to be more defensively positioned than share investments. A key feature of infrastructure can include highly predictable future cash flows.

The unlisted New Energy Solar for example, invests in large solar power stations that generate emissions-free power, producing positive social impact while you invest. Set up in 2015, it targets assets that generate returns of around 7% to 10% (before tax and borrowing costs) but fund performance will depend on the actual investments selected and future performance, so may be less.

Returns from commercial property have historically been underpinned by high income yields. The difference between commercial property yields and official cash rates remains close to 10-year highs. For most self-funded retirees, it can be difficult to access quality investments due to the amount of capital required. The Australian Property Opportunities Fund series allows long-term investors (including SMSFs) to invest as little as $2000 in a high-quality portfolio of assets in this sector. The investment targets properties with yields (net rental return) in the range of 5% to 8% but actual returns will depend on market conditions and other circumstances, and may be lower.

Lastly, beware of FOMO – the fear of missing out. Focus on your total returns (income and capital growth) after accounting for how much risk you are taking on. Your neighbour or friend may generate a higher return than your portfolio but they may be taking on a lot more risk. It's important to consider the risks and disadvantages of these opportunities, such as the ability to get into them, and cash out, and if it's right for you.

Disclosure: Nerida Cole owns the investments listed and is on the board of related entities.

SELF-MANAGED SUPER

How do I invest in property through my super?

On the back of the recent property boom, I'm often stunned that not enough people are aware that you can buy property in your super fund. And you can gear it, and you pay less tax or no capital gains tax, and you can renovate it. It's one of the best-kept secrets in wealth creation!

If property is your thing, it's truly a no-brainer for the right investor. That right investor is ideally a high income earner who may bring in more than $100,000 a year and has more than $200,000 in super and the ability to maximise their concessional super contributions of $25,000pa to repay the debt.

But don't worry, the next best thing is that you combine your super with up to four family members, including your spouse, although most self-managed funds have just two members, and you can combine the balances and contributions to pool the assets and pitch in to buy a property.

Most banks will lend up to 80% of the value of a property, although I like to see properties being cash flow positive so I recommend a loan to value ratio of 70% or less. This means that the rent and super contributions can be lowering the debt, so by the time you retire you can repay the loan and either sell the property free of capital gains tax (if you're over 60 and in pension phase, and under the $1.6 million pension transfer balance cap).

Now you're all excited, let me help you get a grip. It's important to point out that you need expert advice in establishing the structures and making the purchase. Importantly, you need to establish a self-managed fund with a corporate trustee, which will cost you around $1760 – the market rate – at my firm.

You'll also need a second structure called a limited recourse borrowing arrangement (LRBA), also with a corporate structure that will cost around the same price – so about $3520 in total. For example, your super fund name will read Henderson Pty Ltd as trustee for the Henderson Family Super Fund, and you'll have another company perhaps called Henderson Super Property Pty Ltd ATF (as trustee for) Hendo Property Trust.

Your fund will then buy the property in the name of the second trustee, or Henderson Super Property Pty Ltd. Simple, right? Well, sort of ... but it's really important to select an SMSF expert who has done many of these and won't mess it up when it comes to purchasing the property and talking to the bank.

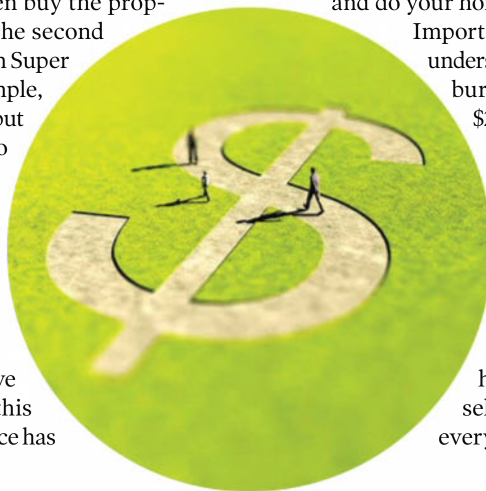
While the banks have lending products for this purpose, my experience has been that they are kind of useless to deal with. It is therefore more important to have a good accountant who can tell your lender how to structure the deal.

Anyway, don't lose faith because it's worth the effort and extra cost because we're going to help you repay the debt with super contributions taxed at only 15% instead of your normal 19%, 32.5%, 37% or 45%, and the tenant is going to pay off the rest of your debt if you structure things correctly.

As with all property, you need to do your research thoroughly, you need to understand we are very deep into (if not at the tail end of) a very positive property cycle, and you need to think long term. Avoid the spruikers and do your homework on cash flow.

Importantly, you also need to understand that you carry the burden and cost (around $2500-$3000pa) of compliance in running an SMSF and you might pay around 1% more on the loan.

Notwithstanding, for the right investor this can be a terrific wealth builder, as it has been for me and select clients (it's not for everyone) over the years.



WHERE I WOULD INVEST $10k

Sam Henderson

Sam Henderson is CEO and senior financial adviser at Henderson Maxwell (hendersonmaxwell.com.au) and can be seen as host of Foxtel's Sky News Business program, Your Money Your Call – Retirement. He is also the author of three best-selling books.

I'm going to go out on a limb and select a more potentially volatile investment, and one I wouldn't recommend for my clients. But it's one I'd put my own money into – and have. I'd wait patiently for the right market conditions, and then I'd pounce!

So if the Aussie sharemarket drops to around 5400, I'd buy the Geared Australian Equity exchange traded fund (ASX: GEAR) from BetaShares. It's geared by 250%, meaning you can make 2.5% for every 1% move upwards in the sharemarket. The opposite is also true, which is why I don't recommend it for my clients.

If the market fell further to around 5100, then I'd go again and top up my investment. But this strategy isn't for the faint-hearted.

For contrarians there's the BetaShares Australian Equities Bear Hedge Fund (BEAR), which is handy if you think the market is due for a fall.

I'd buy these in my SMSF to lower tax and give the market time to recover because I can't access my super for many years.

Hidden costs mean grieving families can be ripped off when organising a funeral

Parlour games

STORY VITA PALESTRANT

Without meaning to sound ghoulish, there's good news on the funeral front. A number of reports and comparison websites have recently emerged to lift the lid on the industry and help consumers navigate this costly and complex world.

It's a welcome development given that funerals are often organised when bereaved family members are still reeling from their loss, unsure of what to do and under pressure to have the body removed for burial or cremation as soon as possible.

For too long opaque pricing has made it difficult for consumers to shop around. Often the only way to get to grips with the true cost of a funeral is face to face with the funeral director, by which time the exhausted family finds it's easiest to just accept what's on offer.

Consumer groups such as Choice want funeral homes to itemise their pricing on their websites so that consumers can research their options and compare prices beforehand and make an informed decision. This way they can avoid being lumbered with a hefty financial burden.

Funerals come with a significant price tag. A cremation

costs about $6000 while a burial, including the monument and cemetery fees, can amount to close on $20,000.

A recent study entitled "It's your funeral: an investigation of death care and the funeral industry in Australia" found funeral homes inflate the pricing of individual services and products by offering them only as part of a bundled package.

"Details of the individual components of the funeral service was not often disclosed," noted the report, "Instead a 'packaged' or 'bundled' total price was generally supplied." It said this made it difficult to put together cheaper alternatives and it also stifled competition.

PACKAGES LIMIT CHOICE

The report noted that a lack of national regulation provided opportunities for predatory pricing and recommended a standard product information statement be introduced with itemised pricing so people could buy only the items they wanted.

It also recommended funeral homes be required to offer a basic, or essential services, funeral (see breakout, page 44). A direct committal or "no service, no attendance" option costs as little as $1500. The family can always celebrate the deceased's life with a wake at home.

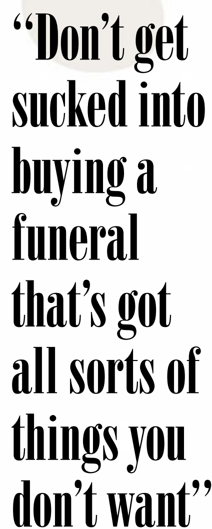
Lead author Sandra van der Laan, a professor of accounting and associate dean at the University of Sydney Business School, says bundled products limit people's ability to do some things themselves and keep costs higher than they need to be.

"Funeral homes bundle the celebration of life, or the memorial ovation of life, with the disposal of the body. If you go to a funeral director those decisions are taken away because they offer one package of a bundle of products and services. You can negotiate within that a little bit but you are still having things bundled."

That's not to say that people aren't appreciative of the one-stop-shop service provided by funeral directors, says van der Laan. "But make sure you understand your choices and try not to be making decisions when someone you are close to has just died. It's what most people do and I think that's what disreputable funeral directors prey on.

"Only buy the services that you want. Don't get sucked into buying a full-service, packaged-up funeral that's got all sorts of things you don't want. You can pay twice as much for flowers or a couple of 100% more for a coffin. Find out what it is you want to do yourself."

Difficulty obtaining pricing for the report were consistent with findings of a Choice investigation last year. But help is finally at hand. The situation has been improved by the website GatheredHere.com.au, says van der Laan. "If you put in your postcode, it will give you some indicative prices of what it will cost for a funeral in your local area."



"Don't get sucked into buying a funeral that's got all sorts of things you don't want"

Launched earlier this year, GatheredHere is Australia's largest funeral home comparison site. But some operators in the $1 billion industry are less than enthusiastic about it and have threatened to sue.

Its founder, Colin Wong, anticipated the pushback. "What we're doing is at its core pretty disruptive to the industry. As a whole, it [the industry] basically benefits from a lack of transparency," he told *The Guardian* online newspaper.

Industry giant InvoCare, which owns well-known brands such as White Lady, Simplicity and Guardian, has also launched a website, TheFuneralPlanner.com.au. The company operates 270 funeral locations and 16 cemeteries and crematoria in Australia, New Zealand and Singapore. It has a 40% market share in Australia and up to 80% on the east coast.

Its website lets consumers compare InvoCare's different brands and their prices but it is not immediately obvious the site is not an independent comparison site, so users may not realise they are dealing with only the one company.

RELIABLE, TRUSTWORTHY

Spokesman Fergus Kelly says the site was launched in response to consumer research that showed there was a need for online information.

"Funerals need to be planned in a very short period of time and customers were saying they wanted to be able to look up a funeral location and get a better understanding of the costs involved in planning a funeral," says Kelly.

He says the site allows for a certain amount of customisation. "If they use the site they will see the price changing if they use a different coffin or different flowers – it will automatically recalculate it for them. They will be able to see that straight away.

"If they choose some of the other elements, like catering, they need to speak to a funeral provider who can guide them as to those other costs. Our priority is to make sure it is very transparent." Additional options can be added, ranging from limousine hire to choirs.

Kelly's advice to consumers is to look for a funeral provider that is experienced, reliable and trustworthy. "You need to know they are fully connected to the

No fuss and no frills: the David Bowie way

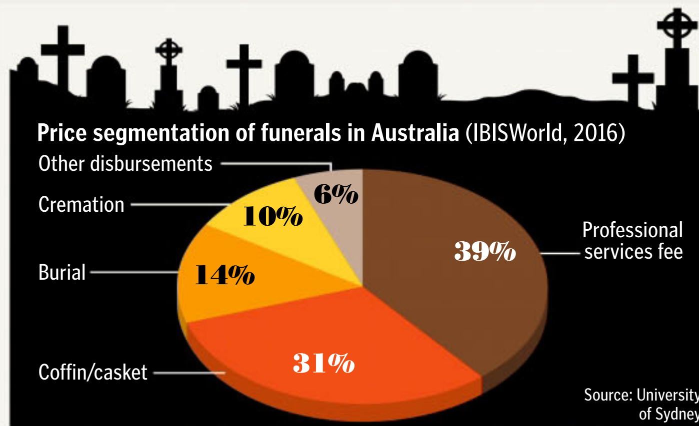
When the singer songwriter David Bowie died last year he had the ultimate no-fuss, no-frills funeral with a "direct cremation". The body is sent directly for cremation from the hospital with no attendance or ceremony. Ashes are scattered or returned to the family afterwards.

A direct committal or cremation costs about $1500 in Australia. The memorial, or celebration of life, can be held at home, at a park or on a beach afterwards. In Tasmania's north-west a community coffin club meets at the Ulverstone Community Shed to make coffins for themselves or family members for as little as $200.

Typically, the biggest cost of a funeral is the professional service fee at 39%, followed by the coffin at 31% (see graphic). The funeral director relieves the bereaved from having to organise the funeral themselves within a few days.

For many people that is a big relief. The funeral director organises the transfer of the body to a mortuary or funeral premises, provides the coffin, arranges the ceremony and committal, organises floral tributes and newspaper notices, gets the medical certificate, registers the death, arranges a viewing, organises the hearse to the ceremony and committal, and makes all the payments for costs such as clergy fees, flowers, notices, cemetery/crematoria fees and grief counselling.

Choice is important, including the option of having an affordable, basic funeral. Always ask for an itemised price list (in writing) before you meet any funeral director. Fair trading departments in most states require it.



community and can turn that event around for you in a relatively short period of time."

Most people don't want to burden their family with their funeral bills and will look at different financial options. Some are better than others.

A pre-paid, pre-arranged funeral can be cost effective. "It's basically a financial product you are buying so it's heavily regulated," says van der Laan. "If you want to lock in a price in today's money for a particular set of services, that's probably the way to go if you don't want your family to worry about it."

It usually requires a deposit and regular instalments over time. The Australian Securities and Investments Commission (ASIC) says this can be a lot cheaper than a funeral bond or funeral insurance if you live another five to 10 years.

The only drawback is that some pre-paid funerals can be inflexible if you move interstate. Exclusions may also apply if you change your mind, as you may not be able to get your money back, so it's best to check the terms and conditions carefully beforehand.

ASIC says you should ask for a full description of the items and costs involved to see exactly what you are paying for. Funeral providers that don't reveal these costs are in breach of regulations. The watchdog also suggests you shop around to compare packages.

Funeral insurance is another product on the market. However, a 2015 ASIC investigation found it was dogged by high cancellation rates and other problems, "not only with cost but the design, marketing and sales of funeral insurance".

Specifically, it was referring to policies with stepped premiums that rise as policyholders age just as their income declines, trapping people who may have paid thousands of dollars into keeping up a policy they can no longer afford (see case study, right).

ASIC found the number of policies cancelled in 2014 was 80% of the number of policies sold. Nearly 55% of cancellations occurred during the first year of the policy.

PAY UP OR LOSE POLICY

Philippa Heir, a senior solicitor at the Consumer Action Law Centre, says the insurance product is typically designed to cover the cost of a funeral between $6000 and $15,000. "The premiums can increase quite quickly. You might start paying for it when you are still working at age 65 and then are still paying it when you've retired at 70 but your income is less and your premiums are

more. The problem is if you stop paying you generally lose it all."

She says some insurers have taken steps to improve their products. "Some have level premiums and also might have a cap on how much you might pay. But the cap may still be double what the payout is.

"The ASIC report of a couple years ago found that even when they are not stepped they might have what is called inflation protection, which means they will increase your premiums and your benefit quite significantly each year." For more information see moneysmart.gov.au/insurance/funeral-insurance.

Policy exclusions also apply, says Heir. "For the first two years you are only covered for accidental death. So if you think you are going to die in three or four years' time funeral insurance is a good idea but you have no way of knowing that."

The policy's cash payout can be spent on your funeral or left to your next of kin.

Josh Callaghan, general manager, wealth, at Canstar, says insurers get their biggest return from policy lapses. The research house recently rated policies that have level premiums and guarantee you will never pay more in premiums than the sum insured. See canstar.com.au/star-rating-reports/funeral-insurance. "The product has a fixed sum insured – it's capped at that sum insured so the policyholder will never pay more than that amount," says Callaghan.

But be careful of others that sound the same. "There's a product that has a fixed sum insured but policyholders keep paying until they reach an age cap, so you can end up paying far more than the sum insured.

"Then there are another two products that don't have caps in place. The one is where you fix the sum insured upfront but you keep paying in perpetuity. With the other you have the fixed sum insured but continue to pay premiums. Once you reach that amount, you get the excess back. Your sum insured increases by that amount."

Affordability is the key, he says. "If premiums are registering as 20% of your income, it's obviously not sustainable. There's the potential you'll stop paying and everything up to that point is a donation to the insurer. If that's going to be the case, just put the money in a bank account – it's going to be better than a lapsed funeral policy worth thousands of dollars that goes nowhere."

Finally, one of the simplest, most effective forms of finance lies with your super. Using part of your savings to cover your funeral expenses is perfectly OK. *M*

A struggle to keep up premiums

Some funeral insurance policies will allow you to stop paying your premiums once you have reached the amount you need for your funeral. Not all policies work like this.

Alice was 58 and still working when she took out funeral insurance costing $20 a fortnight. She wanted to have funeral cover so her family did not have to worry about paying for her funeral.

But by the time she was 71, Alice's stepped premium had doubled and cost her more than $40 per fortnight. It had gone up every year as she aged and to cover inflation.

She struggled to pay the higher premium on her much lower, post-retirement income. She also knew it would continue to go up each year.

Alice added up all the premiums she had paid over the past 13 years and worked out that it had cost her more than $10,000.

Source: ASIC. See money smart.gov.au/insurance/funeral-insurance

For body & soul

Private health cover is a complex issue but it pays to look closely at the detail

THE EXPERTS

Josh Callaghan, general manager, wealth, Canstar

Laura Crowden, spokesperson, iSelect

Daniel Graham, finance journalist, Choice

Abigail Koch, spokesperson, comparethemarket.com.au

10 MOST-ASKED QUESTIONS

Q When should I take out health insurance?

There isn't a hard and fast deadline. Many people chose to take it out when their life stage or health needs change, such as turning 25 and coming off their parents' policy, deciding to try for a baby or experiencing a health issue that comes with growing older.

But there are a couple of government policies that encourage people to take out private cover at particular times. The lifetime health cover loading (LHC) means that if you don't have private hospital cover by the time you turn 31 you'll have to pay more if you do decide to take it out down the track (anywhere between 2% and 70% extra depending on how long you wait). The Medicare levy surcharge (MLS) means that if you earn over $90,000 and don't have hospital cover you'll have to pay extra tax (minimum of $900). So if you are approaching 31 or have just started earning more than $90,000, now is a good time to think about taking out private cover.

LAURA CROWDEN

Q It's so expensive – should I just self-insure?

The cost of treatment in a private hospital can be prohibitively expensive for most people, and it's not something anyone should consider self-insurance for. If you're worried about costs, consider taking up a higher excess or shopping around for a cheaper policy. Our analysis has found that families with top-tier hospital cover with an excess could save up to $1400 a year by getting a cheaper policy that offers the same level of cover.

Many people don't get value out of their extras cover – they spend more on premiums than they get back in claims. That's a waste of money, and you should consider taking out a more suitable policy or just dropping it. Take a night to do some personal accounting to figure out whether your extras policy is working for you or for your health fund.

DANIEL GRAHAM

Q Can I choose to be treated as a public patient in a public hospital if I have private cover?

All Australians have the right to be treated as a public patient at a public hospital under the Medicare system, including those with private health insurance.

The benefit of being admitted as a public patient is that you may avoid the excess, co-payment and other costs associated with your hospital cover. On the other hand, the benefit of being admitted as a private patient has always been that you would get a choice over who treats you and how soon the treatment comes. However, that's unlikely to matter in an emergency where regardless of whether you're a public or private patient you would be seen by the next available doctor as soon as possible.

So in many cases presenting as a private patient in a public hospital may not provide any real difference.

JOSH CALLAGHAN

Q Will a pre-existing condition affect my insurance policy and will I pay more for cover?

Private health insurance is community rated. This means that anyone is entitled to buy or renew a health insurance policy at the same price as anyone else. Someone young and healthy pays exactly the same for a policy as an elderly person with numerous pre-existing conditions (unless a lifetime health cover loading is applicable).

Unlike other types of insurance, health cover is not risk rated – that is, you don't pay more if you're considered more likely to make a claim.

However, if you do have pre-existing conditions then you will need to serve a 12-month waiting period before you can claim when purchasing private cover for the first time or upgrading your policy.

Community rating is important, as it means those people who are reliant on their health cover don't have to pay more or find their health insurance prohibitively expensive because of their underlying health issues.

ABIGAIL KOCH

> In many cases presenting as a private patient in a public hospital may not provide any real difference

Q Why are there waiting periods and will I need to start a waiting period again if I change insurers?

Once you know why waiting periods exist then they do make sense, even though they can be frustrating if you weren't aware you had to serve one before making a claim. The government sets waiting periods for hospital cover to ensure people don't join a fund, make a claim and then leave, as this would push up the price of private cover for everyone. Waiting period lengths change depending on the hospital treatment but you'll never have to wait longer than 12 months for anything, including pre-existing conditions and pregnancy. When you've served your waiting period, you won't need to serve it again if you move to another fund, as long as you've chosen the same or a lower level of cover.

ABIGAIL KOCH

Q Am I better off having couples cover or just cover on my own?

For couples without dependent children, there is no real benefit to a couples policy. Generally, a couples policy will cost the same as two singles policies (assuming they are otherwise exactly the same policy). It can actually be better to have separate policies, particularly if you have different health needs. For example, a couple trying for a baby could save by only upgrading the female to a more expensive policy that includes pregnancy cover while the male stays on a cheaper policy. Keeping your policies separate also allows you to tailor your own policy to your specific health needs.

That said, while there isn't a financial benefit to having a couples policy it can be less hassle from an administrative perspective as you'll have just the one policy with the same fund and just the one premium to pay. And remember, if you have kids that changes everything. If you have a child you'll need

to move to a family policy, which is always cheaper than a single-parent policy and a single policy.
LAURA CROWDEN

Q What is ambulance cover and do I need it?

Ambulance insurance covers the costs of being treated by paramedics or transported in an ambulance. If you are weighing up whether or not you need it, then here are a few facts to consider.

More than three million people across Australia were helped by paramedics in 2015-16, according to a recent Productivity Commission report.

Given that Australia's population is roughly 24 million people, then arguably one in eight required ambulance assistance over the past couple of years.

Not all states require you to pay an ambulance callout fee, but if they do then these fees range from $372 in NSW to $1174 in Victoria. People living in Queensland and Tasmania have their ambulance costs covered by their state governments.

For ACT and NSW residents, ambulance cover is often included as part of your private health insurance policy. Residents in all other states may organise cover through their state-based ambulance authority or rely on their health insurance policy.
ABIGAIL KOCH

Q I've just moved to Australia and I'm over 31. Can I avoid the lifetime health cover loading?

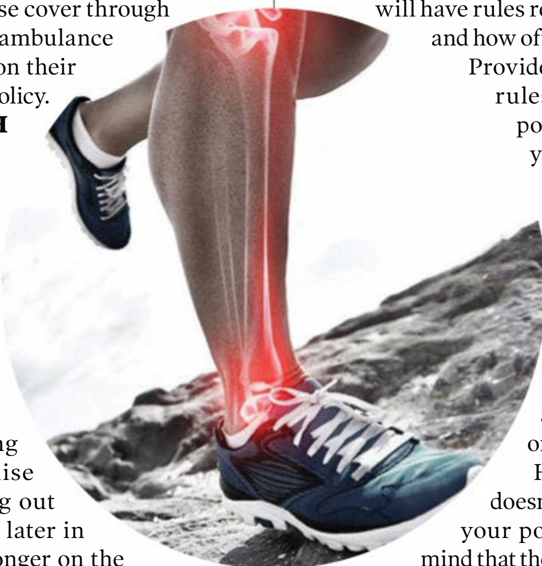
The LHC loading is there to penalise people for taking out health insurance later in life and relying longer on the public system. Migrants face the same penalties, even though they weren't a burden on our healthcare system – they weren't even living here!

> Once your kids are adults, encourage them to take out their own policy before they turn 31 or they will have to pay the loading

New arrivals have one year from the day they get full Medicare benefits to take out private health insurance, otherwise they will have to pay the premium loading if they eventually do take out cover. If you missed the date and do take out cover, your premiums will be 2% higher for every year you're aged over 30.

The rules don't take into consideration when you came to Australia, or whether you held private health insurance in your former country. The only way to avoid it is to take out a hospital policy before the one year is up, or never take one out at all.
DANIEL GRAHAM

Q I am going overseas for a few months. Can I put my health insurance on hold?



If you're heading overseas you can put your health cover on hold. However, each provider will have rules relating to how long and how often you can do this. Provided you stick to the rules relating to your policy, it won't affect your lifetime health cover (LHC) loading. For a short trip of just a few months your health insurer will most likely agree to suspend your policy for those few months and then reinstate it on your return.

However, if your fund doesn't agree to suspend your policy then keep in mind that the LHC scheme does allow an individual to go for up to three years without cover before applying any loading to premiums, so an option may be to consider cancelling your policy and reinstating it (perhaps with another provider who may be inclined to say yes next time) on your return.

If you are looking to cancel your private health insurance while travelling overseas, another important consideration is that you may be liable to pay the Medicare levy surcharge (MLS). It's a good idea to contact your health fund to work out the amount of premium you expect to save by cancelling or suspending your cover and compare that with the surcharge you may have to pay.
JOSH CALLAGHAN

Q When does my child come off a family policy and need to get their own cover?

This really depends on your fund, as it varies a lot between policies and insurers. Some policies only cover adult children up to 18, while others will cover any dependent children until 21, 22, 23 or even 25 as long as they are a full-time student or apprentice. With some funds you'll need to pay a dependent extension of around 25% to cover any adult kids who aren't students.

Make sure you check your own policy as otherwise your children could find themselves uninsured (and with no ambulance cover) without even realising it! Once your kids are adults, encourage them to sort out their own policy before they turn 31 as otherwise they'll have to pay the lifetime health cover loading if they decide to take it out later in life.
LAURA CROWDEN

For the answers to more health insurance questions – such as the difference between an excess and a co-payment, whether you should have hospital and extras with the same insurer, how to reduce gap fees what to do if your insurer won't pay a claim and more – visit moneymag.com.au/health insurancequestions. **M**

On home ground

STORY
EFFIE ZAHOS

It's a big challenge building a deposit and securing the finance to buy a property – this quick guide can help you get going

1 THE DEPOSIT

Cash rates are 1.5% and term deposits pay around 2.5%. Your net returns (after tax) would mean your money would be going backwards as the Reserve Bank is expecting inflation to be around 2% over the next year. Your options for putting together a deposit include online savers, which pay as much as 3%. But while your money is certainly safe, it will be a slow journey.

If you're happy to dial up the risk then there's certainly a case for saving in line with the asset you want to buy, in this case property. The ASX Russell Investments Long Term Investing Report shows cash grew 2.8% in the 10 years to December 2016 compared with residential property at 8.1%. Fractional funds such as BrickX, where you can invest in property with just $100, are one option, as are property exchange-traded funds (ETFs). Best to get some independent financial advice here.

2 BORROWING

Bank or broker? A good mortgage broker can be worth their weight in gold. But just remember that they don't offer every home loan in the market. Always do some research yourself first, then see a broker. A broker's fee or commission for arranging a loan is often paid by the credit provider whose products they sell. When it comes to increasing your borrowing power, you really only have two levers to play with. You either need to increase your income or lower your expenses. If you've got a limit of $10,000 on your credit card be aware that it will reduce your borrowing power for a home loan by around $40,000.

SLASH YOUR INTEREST BILL

	MONTHLY	FORTNIGHTLY (mth/2)	FORTNIGHTLY ([mthx12]/26)	WEEKLY (mth/4)
REPAYMENT	$3222pm	$1611pf	$1487pf	$806
TERM	25 years	21yrs 1mth	25yrs	21yrs
INTEREST PAID	$466,452	$380,334	$465,027	$379,280
SAVING	—	$86,118	$1425	$87,172

On a $500,000 loan at 6%pa interest.

3 FORTNIGHTLY OR WEEKLY

When it comes to slashing your interest bill by a good $86,000 or so (see table), there is no better strategy (and it's easier too) than paying fortnightly. To get these savings you need to take the minimum monthly repayment, halve it and then pay that amount every two weeks. This way you get 13 monthly repayments in the year rather than 12. Minimal savings are made if you make the monthly repayment, multiply it by 12 and then divide by 26.

4 EQUITY

Your home equity is the difference between the value of your family home and the amount you owe on your mortgage. Equity is usually built up from a combination of paying down the mortgage and the increase in the value of the property over time. Let's say, for example, your home is valued at $800,000 and you have a mortgage of $350,000. The difference between the two is $450,000, which is your home equity. As a general rule you could use up to 80% of this equity, so $360,000, to help fund the purchase of investment property. Be aware that tough rules now apply around investment lending with increased rates and tightened up policies, or lenders are even saying no to investment lending altogether.

5 EXTENDING YOUR HOME LOAN FOR A RENO

If there's enough equity (see point 4) in your home to fund the renovations, then the simplest way to set up a refinance is to increase your loan size and place the funds in an offset account. That way, in effect you're not paying interest on the renos until you use the funds. Whatever you do don't put it on your credit card. On a credit card charging 17% you'd pay $20,441 in interest over seven years even if you were making repayments of $609 a month. If you had added it to your mortgage and paid an extra $672 a month you'd have $6929 in interest, assuming a rate of 6%pa and a monthly fee of $8. *M*

STORY RICHARD SCOTT

If a major appliance breaks down, there could be a way to extend its life

Repair v replace

Not until they start coughing and spluttering do we realise just how much we take our whitegoods for granted. While the price of replacements is ever cheaper, are we throwing away money by throwing away perfectly salvageable household appliances?

"In a way, retailers have tricked people by giving the impression that if a machine breaks down that we must rush out and buy a new one immediately," says John Moody, owner and operator of John Moody's Appliance Service. "But a smoking washing machine doesn't necessarily mean anything serious. It might look bad, sure, but it may simply indicate that the pump's failed, which is a fairly common complaint and a pretty minor and inexpensive repair."

Moving into our first home last year, we noticed our 11-year-old washing machine (Samsung 7kg front loader) was on the blink. It made strangulated noises before displaying an error message and refusing to continue. Online, we discovered it was a drainage issue; a replacement machine would cost upwards of $499.

Pulling it out, we found the hose had cracked during the move, and after my father-in-law's abortive attempts to fix it (with electrical tape, no less) we called in the pros. A new hose ($41) plus flat-rate service call ($110) saved us $348. Our washer has been running happily ever since.

However, repairing older whitegoods is always a gamble. An American study (by the National Association of Home Builders) found that the average life of a washing machine is 10 years, 13 years for a fridge or clothes dryer and nine years for a dishwasher (see table).

But such numbers should be taken with a pinch of salt, warns Steve Rayner, a 31-year veteran of Wilson's Washing Machines & Refrigeration in Goonellabah, NSW. "I tell my customers there's no use-by date on the back," he says. "I work on the assumption that you'll get 10 years out of most washing machines but that will differ by brand, frequency of use and level of maintenance."

The most common complaints he comes across are frazzled electronic boards and blocked pumping systems in dishwashers.

"Unblocking a pump is an easy fix, just a service call [and] labour," he says. "But a new board can cost upwards of $400, depending on the brand. So if the dishwasher's got a bit of age on it, I'll try and talk [the customer] out of patching it up. I can guarantee the new board but if the rest of the components are over 10 years old, I can't and won't guarantee those."

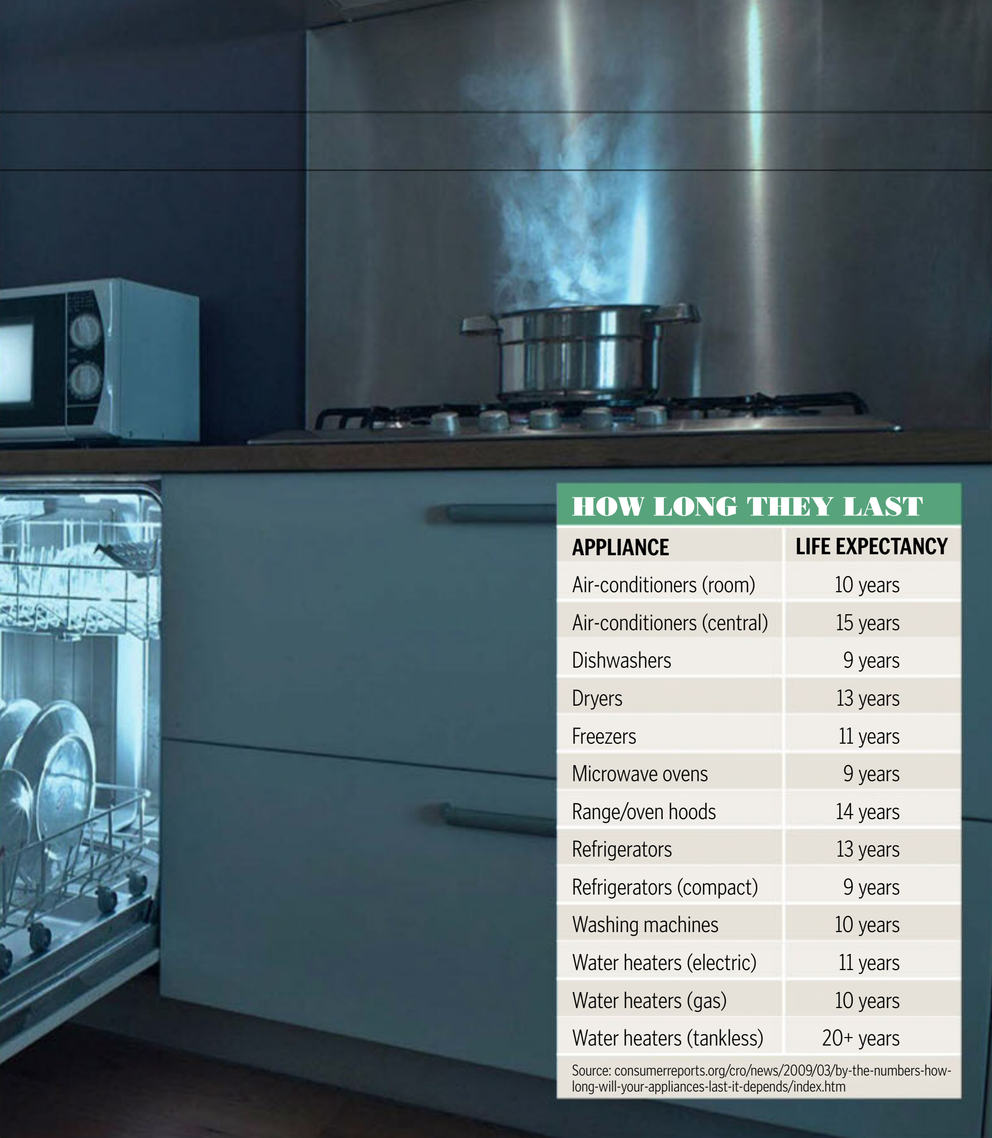
Refrigerators, once the most troublesome item in a household, are now built to last between 15 and 18 years, says Rayner. "So if you're spending $3000 on a modern side-by-side fridge, putting a $400 board in and extending its lifespan up to 18 years is just good economics."

Are there any telltale signs that an appliance is completely dead? If a dishwasher emits a burning smell, it can either be the electrical board, which is fixable, or the whole harness has burnt out, which is not.

Furthermore, should the compressor go on your fridge, a new one can cost up to $1000. However, says Rayner, a broken compressor is classified as an electrical burnout and may be claimable on your home and contents policy.

So what should you do if an appliance breaks down?

The first thing is to check whether your



HOW LONG THEY LAST

APPLIANCE	LIFE EXPECTANCY
Air-conditioners (room)	10 years
Air-conditioners (central)	15 years
Dishwashers	9 years
Dryers	13 years
Freezers	11 years
Microwave ovens	9 years
Range/oven hoods	14 years
Refrigerators	13 years
Refrigerators (compact)	9 years
Washing machines	10 years
Water heaters (electric)	11 years
Water heaters (gas)	10 years
Water heaters (tankless)	20+ years

Source: consumerreports.org/cro/news/2009/03/by-the-numbers-how-long-will-your-appliances-last-it-depends/index.htm

machine is under warranty. Most manufacturer's warranties last between 12 and 24 months – although some "parts-only" warranties can last up to 10 years – and then you've got extended warranties, sold through the retailer, on top of that.

There's a good chance you purchased an extended warranty when you first bought your appliance – a recent Choice survey found 65% of Aussies who were offered an extended warranty ended up buying one and 33% felt pressured into doing so. Whether you actually need one, however, is another matter entirely (see box).

"Calling your manufacturer or retailer [in the case of extended warranties] is your first port of call – they can authorise a job and appoint an agent," says Moody.

If there's no warranty, you'll need to call your local service agent, giving a brief description of what's wrong with the appliance, and see if you can work out a rough cost.

"The benefit of using a qualified repairs specialist is that they can often provide an accurate cost estimate over the phone," says Moody. "A larger appliance repair firm may slap you with a service charge for sending a technician to your house only to tell you they can't fix the thing."

Have you considered doing it yourself?

Guido Verbist runs Australia's first Repair Cafe in Marrickville, Sydney, where visitors can take their broken goods (from electronics to furniture and bicycles) and learn how to repair them.

"Today items are deliberately manufactured so that they are not easily repaired," says Verbist. "Many electrical appliances have special screws that are designed to be thrown away, or require special tools that aren't readily available and prevent people from fixing their own things. It's cheaper, of course, to build electrical appliances this way but it leads to a one-off use."

Furthermore, he says that fundamental repairs knowledge has been lost over the years, contributing to mountains of electrical waste. "Not only is [making your own repairs] significantly cheaper than the cost of replacing household items but it's a far less wasteful approach."

While his repairs cafe offers free advice and assistance, he doesn't recommend novices taking apart machines at home without the proper knowledge, confidence and tools. Rayner concurs: "Anyone working with electrical components should really be a licensed professional. A customer might put a green wire where a brown wire should be and light themselves up. There's no getting around that."

Ultimately, if you want to avoid shelling out for new appliances, you really should take better care of the ones you have.

While many newer washing machines have self-cleaning filters, your dishwasher filters need a regular clean. Rayner recommends paying special attention to any shards from broken wineglasses, which can be troublesome should they find their way into a pump.

It pays to use a vacuum on your dryer's lint tray, along with AC filters and fridge units with fans at the base. If you've got cats and dogs, do it every six months, or annually in a tidy, well-kept home.

"Regular cleaning and care are essential," agrees Moody. "Maintaining your appliances before they break down can significantly extend the life of any household appliance and drastically reduce the likelihood of either repair or replacement." *M*

EXTENDED WARRANTIES

When we purchase new whitegoods, our machines are automatically covered by a basic manufacturer's warranty for the next 12 to 24 months. Often your retailer will offer you additional cover for roughly 10% of the purchase cost. But do we really need it?

According to the Australian Competition & Consumer Commission (ACCC), you are already protected by the Australian Consumer Law (ACL) for as long as your machine can "reasonably" last. "Most people don't realise that they may still have rights to a repair, replacement or refund even after a manufacturer's or extended warranty has expired," says ACCC deputy chair Delia Rickard.

Some extended warranties may allow you benefits not covered under the ACL, such as accidental damage cover or providing "courtesy" products during repairs. But don't be browbeaten by pushy sales staff. Be sure to check exactly what benefits you will get.

"The ACCC advises consumers to ask the retailer to explain what the extended warranty gives you over and above the Australian Consumer Law, otherwise purchasing an extended warranty might mean that you are paying for rights you already have for free under the ACL," says Rickard.

Brokers in the firing line

Upfront fees, trailing commissions and other perks add to mortgage costs

Are mortgage brokers overpaid? It's a valid question and one that was asked by the investment bank UBS in its report into the mortgage broking industry back in May. On a $500,000 loan a broker would on average receive an upfront commission of $2700 from the lender (this doesn't include the aggregator's cut). Typically a broker would also receive a trailing commission of 0.14% from the lender over the life of the loan. This would be $700 in the first year and decline each year as the loan is paid down. Too much? Maybe but I could also ask the same question about real estate agents. Commissions on a $500,000 property can be $10,000 to $15,000. Not bad given properties in a hot market can sell in less than 31 days.

I personally don't care what mortgage brokers get paid. After all, it's not coming out of my pocket. This may sound naive and probably is, as somewhere down the line somebody is paying.

According to UBS, commissions paid to brokers exceeded $2.4 billion in 2015, adding 0.16%pa to the cost of every mortgage.

Would consumers see savings on their home loans if commissions were cut? I highly doubt it. Would I pay a broker $2700 to secure me the best home loan? Probably not, as it now sounds a little too steep.

But here's the real problem: it's not how much they get paid but how. Both the ASIC and Sedgwick reviews into mortgage brokers found some serious conflicts of interest and are now calling for broad changes.

As well as upfront and trailing commissions (which ASIC says could encourage brokers to place consumers in larger loans), aggregators (they act between brokers and lenders by providing technology and administrative support) can also receive bonus commissions from lenders which can be passed onto brokers.

CASE FOR REFORM

ASIC's six proposals to improve consumer outcomes and competition:

1 Change the standard commissions model (upfront and ongoing trailing commissions).

2 Get rid of bonus commissions and bonus payments.

3 Get rid of soft-dollar benefits.

4 Clearer disclosures of ownership structures.

5 A new public reporting regime.

6 Governance and oversight.

It's hard to believe that volume-based commissions and campaign-based commissions still exist today, along with soft-dollar benefits. As Choice's financial policy adviser, Erin Turner, says: "Some things are so clear that they have to go and soft-dollar commissions are one of them."

ASIC also found broker-originated mortgages were larger, had lower property values and higher loan-to-valuation (LVR) ratios, were more likely to be interest only and, despite broker claims that they negotiated better rates, were the same rates as consumers would get if they went direct.

Mortgage Choice CEO John Flavell says there are some very good reasons why broker-originated loans differ from direct lender loans. "This trend can be attributed to the types of customers that the broker channel attracts," he says.

Flavell, whose brokers are paid the same rate of commission regardless of which product a customer chooses, says people using brokers tend to be first home buyers (who often don't have a big deposit and require a loan with a higher LVR) and investors (who require an interest-only loan).

"Australians are savvy. They understand that a mortgage broker is in the perfect position to find them the right home loan for their needs, especially if their financial situation is slightly unusual," he says.

There's no denying the value that brokers add in this market but as ASIC reported: "Remuneration and ownership structures can, however, inhibit the consumer and competition benefits that can be achieved by brokers."

Rice Warner believes consumers' interests would be best served by reclassifying mortgages as financial products in terms of the *Corporations Act*. This, it says, would address the issues relating to remuneration.

It also suggests outlawing commissions and instead allowing brokers to charge an establishment fee. Trailing commissions "make no sense."

I tend to agree on the trailing commissions – what other industry gets paid each year on the assumption that you will use their services again? As for brokers charging an upfront fee, I'm in two minds.

The UBS report may have compared broker advice to "simple" financial advice, which costs between $200 and $700, but when you're going for a home loan (unlike seeking financial advice) you're already paying out a heap of money, so I'd hate an upfront free to prevent homeowners from seeking third-party help. If it was to be the answer, then consumers should not be faced with a lender establishment fee in addition to a broker establishment fee.

Here's to some sound solutions for all homeowners.

Finance expert and author of The Great $20 Adventure, Money*'s editor Effie Zahos, appears regularly on TV and radio. She started her career in banking.*

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Who gets your savings?

A binding death nomination will ensure the right people benefit

It is worth taking the time to understand where your superannuation goes when you die, particularly as balances grow and because life insurance is often held through your fund.

You may think that your super is part of your estate and would be covered by your will. But this isn't the case. Super is held in a trust and is not part of your personal wealth. "That's why you need a separate document. You need a death benefit nomination. It's like a little will to decide who gets your superannuation," says Brian Hor, special counsel, superannuation and estate planning, at Townsends Lawyers.

Checking on who you have nominated as a beneficiary when you die is important and needs to be kept up to date. You can either have no one nominated, a non-binding nomination or a binding nomination.

"Binding death nomination is an issue that affects everyone these days," says Hor.

The advantage of having a binding nomination is that it instructs your fund how to pay out superannuation if you die. As long as it is valid, your nomination is legally binding and the fund must follow your wishes. If you haven't nominated who will receive your super or the nomination is out of date, the fund will make the decision.

If your circumstances change – for example, you have a new partner – you should consider changing or cancelling your earlier binding nomination so that your superannuation will be paid in line with your most up-to-date wishes.

If you are in an employer fund, typically you must update your binding death nomination every three years or it will lapse. "Three years comes around reasonably regularly," says Hor.

This means that you might think you are up to date with the arrangements but you are not and it will be at the discretion of the trustees of the super fund to determine who gets your balance.

Remarkably, some super funds don't offer binding death nominations, so if having one is important to you then it is worth moving funds. Plenty of funds offer binding death nominations and the forms can be found on their websites. Self-managed funds do not have lapsing nominations, which Hor says is a big attraction.

Who you can nominate

With a will you can decide who can inherit your home and other assets but with your super you are limited as to who can get your money directly. It goes to your spouse (including de facto and same sex) and your children (including step, adopted or ex-nuptial of any age), anyone financially dependent on you or an interdependent.

This means that if you have non-dependent grandchildren, they can't directly receive your super, says Hor. If you want to leave it to someone apart from your spouse and children, you have to make sure that your will and your super work together, he says. "You need to make a binding nomination to your estate and then in your will give it to your grandchildren."

You need to think of both your will and your binding nomination. "They have to go hand in hand," says Hor.

Even if you don't have a lot of personal wealth or super, you may have life and total and permanent disability (TPD) insurance worth hundreds of thousands of dollars. There have been legal cases involving young people who have died with little wealth but valuable insurance that is left to their family.

As the population ages, there is a danger that fund members will lose capacity and not be able to make a nomination. It could be because they have dementia or they have had a stroke or serious accident.

There are plenty of contested death benefits among families, particularly with the rise of blended households, second spouses and children from first and second marriages. "If people don't get along, they will potentially take advantage of any little loophole," says Hor.

It is another reason to have put your enduring power of attorney in place. It gives the trustee the power to act for the person in case they are unable to.

Susan Hely has been a senior investment writer at The Sydney Morning Herald. *She is author of the bestseller* Women & Money.

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The dog ate my tax deduction

If a four-legged friend guards your business, even the pet food may be a write-off

The late Kerry Packer famously told a House of Representatives select committee in 1991: "I don't know anybody that doesn't minimise their tax." He added: "Of course I'm minimising my tax. And if anybody in this country doesn't minimise their tax they want their head read. As a government, I can tell you you're not spending it that well that we should be donating extra."

It is one of the best and most inclusive political sledges ever, and Packer's frustrations with our political masters are still shared by many of us 26 years later. Nonetheless, Packer knew there are sensible and legitimate strategies for minimising the taxes we pay on our business profits.

That's not to say the political class has given up on seducing small business. In May the current government announced an extension to the 2015-16 budget measure providing an instant asset write-off for small businesses. They can immediately deduct the business portion of most assets if they cost less than $20,000 and were purchased between May 12, 2015 and June 30, 2018, according to the tax office. The only proviso is that the SME must have a turnover of less than $10 million, which was increased from $2 million.

Innovative thinking

This deduction can be used for new or second-hand assets and is a tax break that small business owners would do well to consider. Indeed, MYOB's June SME Snapshot found business owners have been following government policy changes closely, resulting in 43% of SMEs planning to use the write-off this financial year. "The asset tax write-off is such an important policy for business wanting to kickstart their growth. We're seeing a real buzz around this policy in the small business community," says Tim Reed, CEO of MYOB.

As an example of an innovative use of the write-off, if you travel to remote locations to work for extended periods you may be able to claim the expense of buying a caravan or Winnebago, says James Solomons, head of accounting at Xero. "Full-time builders sometimes spend weeks or months on a job site and run their operations out of a Jayco. It's no different to renting a hotel room. If you use the caravan for holidays that portion won't be tax deductible but the rest will be. Take advantage of the $20,000 instant write-off, or depreciate the cost of the vehicle over time. Don't forget to claim maintenance expenses too."

Moreover, if you have a dog that safeguards your small business site you can claim food, vet bills and the cost of buying the animal, says Solomon. If you carry your work laptop in a designer handbag it's effectively a laptop bag – and that's tax deductible. "You should use the bag primarily for work, and its cost should be a reasonable proportion of your business revenue," says Solomons. "While there are no ATO thresholds, claiming a $3000 Prada on yearly turnover of $100,000 might look unreasonable. But a $200 handbag would likely be fine."

Travel deductions

Most business owners recognise petrol costs are tax deductible but don't forget to claim the ever-increasing number of motorway and highway tolls when travelling to a client's workplace, as well as the costs of parking once you get there. Train, bus or taxi fares are deductible if they are incurred in meeting a client. "If you travel via Uber, create a business profile in the app and track your work trips easily," says Solomons.

Stay up to date

Education and training are tax deductible, even if they're seemingly independent of your nominated profession or trade. "Independent lawyers can take acting classes to improve their courtroom performances and claim the cost of tuition," says Solomons. "A plumber can take a TAFE course in marketing to learn about expanding his business. If the training will help run the business better, you can likely claim the cost."

Home office

If you're running your business from home, you can claim some of your electricity, water and gas bills and even your insurance, provided the policy covers business use. The amount claimed is often based on floor space of the home office, says Solomons. It is possible to deduct some of your council rates and mortgage interest. However, this can have capital gains tax implications when you sell the property.

Look for deductions even if you don't work from home. Many self-employed tradies store their trucks and tools in a garage at night. If those take up 10% of the home's floor space, you may be able to claim a similar percentage of the home's running and occupancy costs, such as a mortgage or rent, while being mindful of the potential capital gains implications if you are the homeowner, says Solomons.

Finally, don't forget that your accountant's fees are tax deductible, as are the costs incurred travelling to meet them. Likewise, you can deduct the subscriptions of any accounting software packages such as Xero, Reckon or MYOB.

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

Car insurance

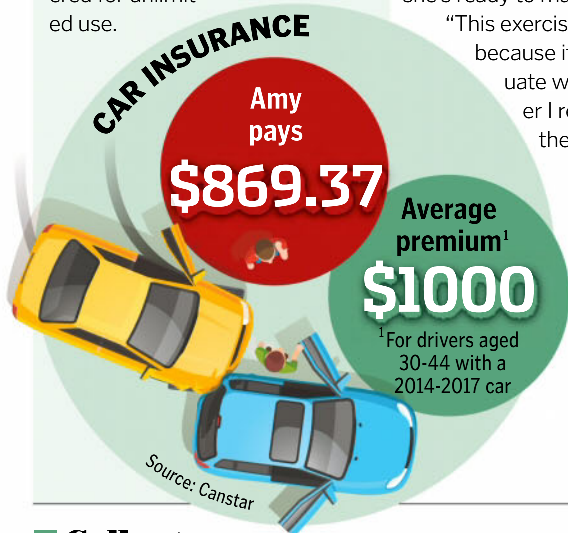
LIFE'S BUSY SO IT'S HARD TO SHOP AROUND

Name: Amy
State: NSW

Sydney woman Amy says it's been more than 12 months since she last compared prices on car insurance. She and her husband are busy, balancing work and three children, and don't always find time to look for better deals on their policies. "I know I should do it every time a renewal comes up, but there's never enough time," says Amy. "With the other bills, it's hit-and-miss when I shop around for better deals."

1 What is she paying?

Amy and her husband currently pay $869.37 a year for comprehensive insurance through NRMA for their 2016 Mitsubishi Lancer. All drivers are aged over 30, with clean records, and the car is covered for unlimited use.



2 Can she do better?

We took Amy's case to the team at iSelect.com.au, who found she could save about $300 a year by changing policies. But insurance is not just about price, so we're leaving it in Amy's hands until she's ready to make the switch.

"This exercise was useful because it made me evaluate what type of cover I really need for the car," she says.

3 How you can do it

Tips from Laura Crowden, iSelect

- The renewal notice should be a reminder to review your policy and make sure it's still the best value for your needs and budget. Policies and discounts can change from year to year so it's always worth taking the time to speak to an expert and compare your options.
- One of the simplest ways to cut your premium is to increase your excess. It's a trade-off: you'll pay less each year but it will cost you more in the event that you need to make a claim.
- Limiting certain age brackets from driving your car will bring your premium down. Some insurers enable you to limit cover to drivers aged over 30, 40 or 50 and the higher the age bracket the lower your premium.
- Make sure you are getting the maximum discount you are eligible for based on your driving and claims history. Your rating should move with you even if you change insurer or policy type.

MONEY'S TIPS

- Have more than one car insured at your address? Combine cars on one policy to receive a multi-vehicle discount.
- How much do you drive? Reducing your mileage – or how often you drive the car – can save you money.
- Driving an older, less valuable car? Consider dropping comprehensive insurance in favour of third party property cover, which will pay for damage to someone else's car if you have an at-fault accident. Use the savings to self-insure – put the money away to repair or replace your vehicle in the event of an accident.
- How often are you paying? Ask whether your insurer offers a discount for paying annually rather than monthly. Remove extras such as windscreen cover for more savings.
- Any bonus discounts? For example, Shannons offers a 10% discount for named drivers with a Confederation of Australian Motor Sport licence. Others offer a discount for buying online. SHARYN McCOWEN

Callout

Have you optimised part of your budget and want to share it with *Money* readers, or maybe you need some help cutting costs? Email money@bauer-media.com.au. We'll be covering eating out, internet, home and contents insurance and financial planning.

WHAT IF? Annette Sampson

Crackdown on family trusts becomes law

The Labor proposal aims to limit the ability of families to minimise tax by splitting income

WHAT'S ON THE TABLE?

Labor is planning to tax distributions from trusts at a minimum rate of 30%. Currently distributions are taxed in the hands of the individuals who receive them at their marginal tax rate, which theoretically means they could be taxed at anything up to the top marginal rate of 47% plus the Medicare levy.

In reality, however, many people use trusts to minimise tax by directing trust income to non-earning or low-earning beneficiaries. This is why Labor argues that trusts give the wealthy (who presumably can pay accountants to set them up and run them) an unfair advantage over pay-as-you-earn workers who don't have the option of directing their income to someone else.

HOW TRUSTS WORK

A trust is a legal entity set up to hold assets, usually within a family or extended family. So instead of buying a business or an investment portfolio in his own name, Fred Nerk might choose to set up a trust to own those assets.

A trust can be either fixed, which means the beneficiaries have a specific entitlement to trust assets and income, or discretionary, which means the trustee decides who benefits from trust assets. Because of their flexibility, most family trusts are structured as discretionary trusts.

There are several advantages to this. First, if the trust is properly structured, Fred doesn't own or control the assets, so they should be protected from his creditors if Fred should be bankrupted at some time in the future. They should also be protected from legal claims against Fred if he is sued for negligence.

But that's not what has them in Labor's sights. The trustee of a discretionary trust also has the ability to decide from year to year which beneficiaries will receive any income or capital distributed by the trust. So if Fred is on a big salary, he may receive no distributions from the trust. Instead, they may be distributed to lower tax paying family members such as Fred's non-working wife, his retired father and his daughter, who is studying full time at university. All will pay much lower rates of tax than Fred would have if he had received the trust income.

If, later on, Fred retires but his daughter takes on the family business and earns more income, the trustee may decide to distribute the income to Fred and his wife to minimise the tax payable.

Note, however, that penalty tax rates

THE CHALLENGE Maria Bekiaris

Sell your mobile phone

First, do your research to find out what it's worth

With the latest iPhone line-up expected to be released in early September, you might be thinking about upgrading your mobile phone. The question is, what do you do with the old one? You could pass it on to someone who needs it or you could recycle it but it is definitely worth trying to sell it.

According to eBay, even old, broken and used phones are worth money. eBay is one option to consider if you want to sell your phone. How much you're likely to get will depend on the make and model and of course the condition.

"If history repeats itself, your precious iPhone will drop in value the moment Apple announces a newer model," says Alex Angove, from the communications comparison site WhistleOut.

If you want to figure out how much your

apply to trust distributions received by minors, so it is not tax effective to split income with children.

WINNERS AND LOSERS

Despite some of the commentary, trusts will not lose all of their advantages if Labor's plan is adopted. They will still be able to be used for asset protection and to pass on assets within the family.

Farmers have also been promised an exemption from the proposed tax changes on the basis that their income is highly variable (and they carry a lot of political clout). The small business lobby has asked for a similar exemption but so far has received no joy on this front. So the main losers will be people using trusts to split income. Even beneficiaries with no other income will be taxed at 30% on their trust income, while those on marginal rates above 30% will still be taxed at their personal tax rate.

Jonathan Philpot, wealth partner at HLB Mann Judd, says trusts have grown in popularity in recent years, as the federal government has moved to limit superannuation tax concessions. But if the changes come in, he says super will become more important and families will need to look for ways to maximise tax-concessional super contributions for younger family members.

He said some families might need to look to other structures to hold their assets, though this will depend on their circumstances. For example, he said a couple nearing retirement may be better off holding assets in their joint names if they have $1 million or $2 million (outside the family home) as splitting income in retirement could be more tax effective.

He says a family with $2 million to $5 million in assets could still do better with a family trust, depending on their circumstances. For example, if mum and dad were both earning high incomes but other family members were not working, the trust could still be more tax effective than the parents holding the assets directly. The trust could also be used to pass on assets without triggering capital gains tax.

Later, as they near retirement, Philpot says the parents might be able to withdraw money with little tax consequences to use in retirement when their personal tax rates would be lower. However, he says some families, particularly if they have wealth of more than $5 million, may be better to consider other vehicles such as companies to hold the assets.

DID YOU KNOW?

This is far from the first time that a trust crackdown has been mooted. In 2011, his own party slapped down then treasurer Joe Hockey when he said trusts should be taxed as companies. Peter Costello also mooted this in the late 1990s.

BEST-CASE SCENARIO

If you have a trust, Labor may not win the next election.

WORST-CASE SCENARIO

For people using trusts, this could be a bipartisan commitment to restricting their tax benefits.

WILD CARD

The next election.

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.*

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phone is worth on eBay, you can enter your details at ebay.com.au/s/phone and you will be given an estimate based on similar items that recently sold or completed.

For example, at the time of writing eBay estimates I'd get $338 for my gold iPhone 6 which has 64GB, is in good used condition and has no accessories.

"To maximise your phone's selling potential, do your own search for other models of your type currently being sold and price your device accordingly," says Angove. "Try your best to pack it up as you originally bought it, and if you still have the box, use it. If possible, include all the original accessories; if you don't have them, you'll probably need to lower your asking price."

You could also try sites such as Gumtree or use Facebook. Another option is to sell through a phone resale site. These include Boomerang Buyback, Cashaphone, Fonebank, Mazuma and Mobile Monster. You'll probably get less money using one of these sites than eBay but it's slightly less hassle as you won't need to list your phone and take photos etc.

"You select your phone model, answer some basic questions about the condition of your device and the website gives you a quote," explains Angove. "The company then sends you out a box to safely post your phone back. Once they have inspected your handset and ensured it's in the condition you described, you receive your money via cheque or direct bank transfer."

He adds that, essentially, these businesses work like pawn shops so you'll probably need to send them a photocopy of your ID before they can take your old phone.

You need to protect your private information before handing over your phone. You absolutely must strip your iPhone of its personal content, says Angove. "Before wiping your phone's memory, make sure that you have all your content backed up either on iCloud, Google, or on your home PC or laptop."

Try the bait but keep your mind on the job

'LIKES' BRING OUT THE SPAMMERS

● No doubt you read *Money* magazine because you want to make money. And there are so many terrific illustrations of how you can do this. If you're doing your homework, you're probably "liking" many of the personalities and companies on Facebook, and because of that I'm guessing you're getting spammed by all and sundry! Here's what you can do if your Facebook has been over-run by spruikers.

One of the beauties of Facebook is that you can get instant gratification with a variety of money-making samples such as tips from property investors, small business experts and digital marketing gurus, and a plethora of miscellaneous social goop that seems to get stuck all over your social media pages.

It happens to me all the time. I'll like a few posts and then BAM! Those people are everywhere in my Facebook feeds, Facebook ads, Google search ads and Google ads on other pages I visit. It's called "retargeting", and while it's a wonderful marketing tool if you're on the other side of the equation as a consumer it can get a little overwhelming at times.

Retargeting is when a marketer tracks your visit to their site by using a "pixel" embedded into its site or ad, and then tracks you everywhere you go on the internet like a bit of chewing gum on your inter-web shoes.

The easiest way to get rid of these ads is to click on the little down-arrow on the top right of the ad which will open a drop-down box, and then click the button that says "see less of these posts" or simply "unfollow". The alternative is to sample a few of the posts and products you see to find something that might float your boat in a risk-free manner.

One of the best things about marketing on the internet and Facebook is the art of reciprocation. Advertisers have to give away some of their best information as click bait such as a "free" piece of content in exchange for your email and potentially other details. This clickbait can either educate you or just sign you up to countless communications across social and email spruikers.

> The marketer tracks you everywhere you go, like a bit of chewing gum on your internet shoes

This is one of the most common types of marketing around at the moment. In fact, if you look at my home page, I have a free download, "15 strategies to reduce your tax and boost your super". This is an ebook designed to give away some of the best strategies we use with our clients to attract new clients, and it works a treat. We collect an email address in exchange for the book and this permits us to communicate directly with a pre-qualified audience. Sounds sensible, right? And it mostly is.

But there are a few rules around these types of communications. One of the most important is to offer recipients the option of unsubscribing, which is simply providing them with the opportunity to opt out at any time and stop receiving the communications. I'll often clean up my mailbox by unsubscribing to all those emails I don't read from marketers. A clean-up of your inbox is good for you and good for them if you're no longer interested in what they have to offer.

In this age of information overwhelm and high anxiety, these emails can add to your problems and detract from your solutions. Anxiety, distraction and indecision are a big problem in our money-making world and it's probably one of the greatest reasons people don't become wealthy.

So clean out your inbox, tidy up your social media and maintain your focus on how you plan to achieve financial independence and peace of mind. After all, that's what we're all searching for.

Sam Henderson is CEO and senior financial adviser at Henderson Maxwell and is host of Foxtel's Sky News Business program Your Money Your Call – Retirement. *He is also the author of three best-selling books.*

Join the dream team

As households evolve, there are big benefits in living with family

Family units look very different in today's society. Gone are the days where practically every household had a patriarchal structure with a male breadwinner and female homemaker.

Now it's not uncommon to have two working parents, a single-parent household or even a stay-at-home dad. Certainly these cultural changes have had a direct impact on our lives, including our finances.

With household debt increasing while wage growth remains at record lows, families need to do everything they can to stay afloat. For many parents this means working longer hours or taking on a second job.

Earning more to battle the rising cost of living is one solution. However, it's not always practical, particularly as underemployment continues to be a challenge. Consequently we're now seeing a shift towards living situations similar to those in collectivist cultures where family members work together to achieve their goals. An extended family buying property is a great example of this in action.

Indeed, with house and rental prices so high, many families can no longer afford to operate alone. According to the latest census data, there has been a surge in households consisting of five or more people. While not all of these are multi-generational households, it certainly indicates that a greater number of parents, kids and grandparents now live under the one roof.

Pay together, stay together

New information from the Household, Income and Labour Dynamics in Australia (HILDA) report confirms that raising a family is becoming more expensive than ever with childcare costs, for example, up by 75% for couples and doubling for single parents since 2002.

While there are undoubtedly pitfalls to living with your extended family, when it comes to financial arrangements generally the pros outweigh the cons. And not just with childcare.

> The family can provide more personal and financial support

With energy rates having increased from July 1, households are set to pay up to 20% more per year. That's an additional $600 for the average customer, representing a huge increase for families already facing serious financial pressures. Splitting these bills as a family could be one way to ease the pain.

Buying in bulk is another smart way that multi-generational families can save. While these savings might seem small, they could be the difference between home ownership and renting for adult children and could seriously reduce the financial pressures for parents and grandparents.

Homes to suit households

As our households change, so too must our homes. The rise of multi-generational living is beginning to alter the way we build.

Architects are responding to the needs of this market by designing homes that tackle the cons associated with multi-generational living. Some of their design features include homes with increased privacy, separate living spaces and adaptability to accommodate more or fewer people.

Genliving and Sekisui House, for example, offer custom-built homes for multiple generations. But other more price-effective solutions, such as granny flats or the tiny house movement, also exist to make these arrangements work.

Personal benefits

Apart from the obvious financial benefits, living as a family can also provide each member with an opportunity for greater personal and emotional support. Whether this comes in the form of assistance with child rearing or adult children helping their own parents, having more hands on deck can only be a positive thing.

While our family structures are changing all the time, the one thing that still stands is the power of unity. If we want to be successful, both financially and in our personal lives, teamwork is key and there's no greater team than family.

Heidi Armstrong is finance expert for Money to Love, a TV and radio presenter and a thought leadership award winner.

Investment property owners will end up in the sin bin if they don't play by the rules

STORY MARK CHAPMAN

Taxman is watching

With steadily rising prices in many Australian cities, particularly Sydney and Melbourne, it might seem as if there's never been a better time to buy into residential investment property. With the generous tax regime that applies to property investment still largely intact, despite promises of change from the Labor party, many people are taking advantage of the combination of rising prices and tax breaks to generate healthy returns.

Generous it might be but the Australian Tax Office goes to great lengths to police the tax system for property owners and every year thousands of Australians find themselves audited by the taxman for questionable claims or dodgy deductions. Tax law is complex so whether you have already dipped your toe into the property game or are considering making a future investment, it pays to understand the basics.

Income

The rent you earn on your investment property is assessable income and must be declared on your tax return each year.

Expenses

The expenses you incur in running your investment property are (mostly) tax deductible, either immediately or over time.

The biggest expense you are likely to incur is the interest on a mortgage taken out to finance the purchase of the property. That interest is generally tax deductible straight away. You can also potentially look to claim the following expenses where you incur them:

- Repairs to the property.
- Advertising for tenants (including costs passed on by letting agents).
- Cleaning at the end of a tenancy (including rubbish removal).
- Estate and letting agent fees (including management fees).
- Gardening and lawn mowing (including felling or pruning trees).
- Secretarial and bookkeeping fees.
- Bank charges on the account used to receive rent and pay expenses.
- Council rates and land tax.
- Insurance, whether for the building, contents or public liability.
- Credit checks.
- Pest control.
- Strata title/owners' corporation fees.
- Bank or solicitor fees for keeping title documents safe.
- Taxation advice relating to the property.
- Legal expenses to eject a tenant for non-payment of rent.
- Hiring a debt collector to collect rent arrears.
- Getting new keys cut.
- Servicing items such as hot-water heaters, smoke alarms, air-conditioning systems and garage door mechanisms.
- Water supply charges (to the extent that they aren't paid by the tenant).
- Quantity surveyor for assessing depreciation claims.
- Security patrols and security system monitoring and maintenance.

You can also claim lenders mortgage insurance (insurance paid by you but which protects the lender from your default) over the term of the loan or five years (whichever is the shorter).

You can only claim expenses for the period the property was actually available for rent so you may need to apportion costs accordingly.

Two types of expenses that used to be tax deductible can no longer be claimed (since July 1, 2017). These are:

- Travel costs incurred in visiting your residential investment property.

- Depreciation on items of capital equipment which were already part of an existing property where it was purchased after May 9, 2017 (such as air-conditioning systems, furniture, carpets or kitchen equipment).

Where can it all go wrong?

Each year, the ATO highlights those areas it will be devoting significant compliance resources to policing, and while some of those focus areas change year to year residential investment properties are on the list every year. So what are the main pitfalls that can land you in trouble with the taxman?

The ATO pays close attention to excessive interest expense claims, such as where property owners have tried to claim borrowing costs on the family home as well as their rental property.

It also looks closely at the incorrect split of rental income and expenses between owners. If you own a property as a joint tenant (for example with your spouse), you should each declare 50% of the rental income and claim 50% of the deductions. Some taxpayers try to divert deductions towards the owner with the higher taxable income; that isn't permitted.

The ATO looks closely for evidence that investment properties are not genuinely available for rent. Rental property owners should only claim for the periods the property is rented out or is genuinely available for rent. Periods of personal use can't be claimed. This is particularly important for holiday homes, where the ATO regularly finds evidence of a homeowner claiming deductions on the grounds that it is being rented out when in reality the only people using it are the owners, their family and friends, often rent free.

Recently the ATO issued a list of four questions investment property owners should ask themselves. Consider your answers to these to determine whether you have anything to be concerned about:

- How do you advertise your rental property? If your property is advertised on a widely seen online site, that's a good indication that it is genuinely available for rent. If your only form of marketing is a tatty card in your front window, you might need to be concerned.
- What location and condition is your rental property in? If it is in good repair, tenants will want to rent it. If it's a hovel, chances are tenants will give your property a wide berth, particularly if you are charging rent that's on a par with much more desirable rentals in the same area.
- Do you have reasonable conditions for renting the property and charge market rate? If you set conditions that will deter a reasonable potential tenant, such as rent significantly above market rates or clauses such as "no children", your property may not be regarded as genuinely available for rent.
- Do you accept interested tenants unless you have a good reason not to? If you're unreasonably fussy, the ATO might conclude that you don't really want to rent to anybody and that your property isn't actually available for rent.

The ATO keeps a close eye on incorrect claims for newly purchased rental properties. The costs to repair damage and defects existing at the time of purchase or the costs of renovation cannot be claimed immediately. These costs are deductible instead over a number of years or are added to the cost base of the property for CGT purposes. Expect to see the ATO checking such claims, typically made within the first 12 months of ownership, and pushing back against those that don't stack up.

If the property is rented out to friends or family at a discounted rate, this will be regarded as a non-commercial rental. The income will still be taxable but you'll only be able to claim deductions up to the amount of rent you've received. You won't be able to make a loss.

The ATO has access to numerous sources of third party data including popular property rental listing sites, so it is relatively easy for it to establish whether a claim that a property was "available for rent" is correct.

The key tip is to ensure that you keep good records. The golden rule is that if you can't substantiate it, you can't claim it, so it's essential to keep invoices, receipts and bank statements for all property expenditure, as well as proof that your property was available for rent, such as rental listings. *M*

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How flippers succeed in the real world

STORY PHILIPPE BRACH

Ignore the hype and plan your project carefully, because it's not as easy as it looks

The term "flipping" relates to the action of buying, renovating and reselling a property, all in a relatively short period. For some this is a valid and effective way of making money. But is it as easy as it sounds and what should you consider before going down this route?

The increasing popularity of flipping is in no small part attributable to the success of TV shows about res-

idential renovations, and it seems that they keep getting more popular over time. Mind you, they make it look like any average person with a bit of personality can make heaps of money in no time with limited outlay and no specialised skills.

Channel 7's *The Aussie Property Flippers* recently featured a property in Sydney's eastern suburbs that was bought for $780,000 in early 2016, renovated for $80,000 and sold for $1.065 million, all in 10 months.

Of course, the key to success is more about the numbers than the hype of the TV shows. Don't get me wrong – it may be a worthwhile strategy but there are many variables to attend to before you can make it a profitable venture.

Let's consider what is involved in the process: the physical and mental effort, the length of time renovating can take, financing, participating in and maintaining a family at the same time, probably working full time and so on.

Here are factors that should be resolved before embarking on a full-scale project:

Set up the finance

- Unless you have several hundred thousand dollars lying around you will need bank finance to purchase the property. Even if you have sufficient funds for a healthy deposit it's likely that at least part of the initial acquisition amount will need to be financed. This raises the matter of how that finance is to be repaid when there is no income from the property during the renovation period. So you need to consider where these monthly repayments are to come from and ensure that cash flow is sufficient to cover the entire length of the makeover.
- If you own your own home (mortgaged or not), is there enough equity to extract for the initial purchase, or even for the deposit? If you have only the deposit, then the loan repayment scenario will still apply.
- Once the purchase is completed and work is ready to commence, how will the renovation be financed? It is extremely important to create a budget and time-line plan in advance, detailing when the major parts of the renovation will take place and funds will need to be paid. Discovering, part of the way through, that you have to pay large sums of money for materials or tradesmen simultaneously can create a cash flow problem and add unnecessary stress and worry, possibly even causing the project to stall through lack of immediately available funds.

Find a property

- Most people think that they need to target the right type of dwelling in a given suburb. In Sydney's Paddington, terraced houses are likely to be successful candidates and older apartments would be the main target in Potts Point. However, the exact type of dwelling you buy – whether it's a freestanding house, townhouse, unit or duplex – isn't as important as the property's potential. You need to assess each property on a case-by-case basis. Of course, strata-titled units have more constraints to deal with, as you need approval from the strata/body corporate manager, but they can still be rewarding to renovate.
- Analyse your own skill set. Do you have the knowledge and experience to assess an older property and understand what needs to be done to successfully add substantial value to it? Renovations and property make-overs stretch from cosmetic improvements – bringing only small returns on investment – to full-blown overhauls. Assess where your level of expertise sits and be realistic with what you can achieve when sourcing a likely property.

To make good money in renovating, you really need to know which option to take in which areas. For example the closer you are to a CBD, the more involved and expensive a renovation will be. This is understandable as property prices will be higher and you are more likely to be involved in much older properties. Paddington, Woollahra and Bondi in Sydney, or Windsor, Carlton and South Yarra in Melbourne, would be in this category.

The further you are from a CBD, the less extensive renovations tend to be, because the market is primarily driven by investors in search of cash flow, meaning they also tend to keep the properties after renovation. In Sydney's south-west, suburbs such as Liverpool and Campbelltown are popular for cosmetic renovations, granny flats and adding new rooms.

- If your career is not in the building/construction business, it is worth turning to an expert. Consider whether you should consult a professional in the industry before committing to a project that is not your primary expertise. It could be a costly, time-consuming and ultimately fruitless journey if you take on something you are unable to complete.
- It is essential to research the property location to understand the local demographic, current house pricing, sales within the area, desirability and so on. Let's face it, once the renovation is complete, you want to ensure it doesn't sit on the market for any length of time. Time costs money and you want to realise the profits as soon as possible.

Once you've chosen ...

- Are you going to sell your own home and live in this property while working on it? If you're single or a couple that might work but if you have a family it's unlikely to be an option.
- If you are time poor you may resort to engaging a project manager. This will add a significant cost to the project but will ensure you have a professional overseeing every aspect. It also gives you someone to chase if things run behind schedule. However, you may decide to manage it yourself and engage tradesmen as needed. This reduces costs but adds to your workload as you may need to be available at short notice during normal working hours. That could become a problem if you continue to work full time and need to liaise with onsite workers.
- If you continue to live in your own home, how easy is it to continually travel between the two locations while the renovation is taking place? What seems like a fantastic investment opportunity may not appear so rosy when you are travelling an hour or more in each direction in the winter months! And this is a consideration easily overlooked.

Get on top of costs

- Many renovation experts dictate that you should not spend more than 10% of the current value of the property on renovations. So the most common mistake – by a long shot – is overcapitalising. This is especially true when you are buying a cheaper property, as your budget on renovations will have to be limited.
- This is a business transaction, so create a budget, investigate availability and pricing of items and tradesmen and endeavour to work within your clear financial boundaries. Blowouts will eat into your financial return and can make the project unprofitable.

- Create a work time-frame schedule. Whether doing the job yourself or engaging others, costs can seriously escalate if the project runs significantly over time.
- While there is no hourly pay rate for your own time you will need to factor in amounts due to anyone else working on your behalf.

State of the market

- Flipping works best in a rapidly rising market. This allows for small mistakes to be covered by the growth in the market. However, it is also harder to find good properties as a lot more people have the same idea as you! The big risk, of course, is what happens if the market turns while you are renovating and you can't then offload the property at the price you want?
- In a cooling market, a better strategy is to buy and hold the properties you renovate. This means that your project may be different as you plan to keep the property for the long term. Your budget should include a cash-flow projection of how much the property is going to cost to run and the rent you will collect.

Other considerations

- If you decide to undertake the renovations yourself, will you continue your normal occupation at the same time? This would certainly help with financing the project as it may aid in securing further loan funds. However, how much time and energy will you be able to give to the job? Will you spend every weekend and evening on it and how will that fit with your completion schedule, lifestyle and family commitments?
- If you project-manage yourself, be aware that there are a number of regulatory steps to be taken, forms to complete, surveys to be undertaken and approvals sought throughout the renovation period, depending on the level of work you are undertaking. Do you have an understanding of these important aspects?
- If you decide to give up work and concentrate on the renovation full time, that would enable the project to be completed quite quickly but there is still the question of financing the costs as you will have no income.

Some of these issues may not apply to you: perhaps you're a builder by profession, have no family to consider and can spend a substantial amount of time working on the property without it affecting others, or you may have a partner who is eager to be involved.

Renovations, upgrades and home improvements come in many forms: a simple paint job, new interior/exterior fittings, new bathrooms and kitchens, or a full overhaul including knocking out walls and rebuilding sections and extensions. So if you decide to go down this route, choose something that fits with your strategy and is achievable both in terms of workload and finances: a project you can jump into, work on, finish in a timely manner and realise the rewards. It's not an idea to take lightly and you should be prepared for unexpected hurdles, delays and cost over-runs.

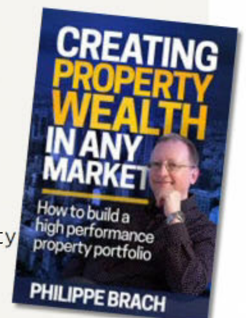
Consider the alternatives

As it becomes more and more difficult to ferret out the ideal property, some renovators are looking at venturing into areas with less competition, such as developing and subdividing. This is high-risk investing. You do not control timing as you are reliant on various authorities to give you the necessary approvals, and it is harder to control costs – overall there are too many variables.

You could also consider the old-fashioned way of making money from property: buy a new or near-new property and treat it as a passive investment. It is not as sexy and tempting as what the reality TV shows promote, and it takes time, but it is a tried-and-tested strategy. It's certainly a lot less stressful. ***M***

WIN A COPY

Creating Property Wealth in any Market



Philippe Brach, CEO of Multifocus Properties and Finance (multifocus.com.au), is an experienced property investment specialist and finance broker. He is author of *Creating Property Wealth in any Market* and we have 10 copies up for grabs. For your chance to win tell us in 25 words or less your best tip for profiting from property. Send your entries to money@bauer-media.com.au or *Money* magazine, GPO Box 4088, Sydney, NSW 2001. Entries close October 4, 2017.

Where to look for a bargain

The apartment boom has an upside for disillusioned would-be buyers

Although it is becoming increasingly difficult for some buyers to get their foot on the property ladder, research conducted earlier this year has demonstrated that property ownership remains the great Australian dream.

But the Evolving Great Australian Dream report from Mortgage Choice and CoreLogic showed that almost 90% of the 1000-plus people surveyed believe that the traditional freestanding house on a quarter-acre block in the suburbs is no longer achievable.

But regardless of how difficult property ownership becomes, people still want to own a home, says John Flavell, CEO of Mortgage Choice. "In fact, our research shows people rate home ownership as more of a priority than career success, travel or having a luxurious lifestyle," he says.

But there has been significant decline in the proportion of households that are owner occupied, from 69% in 2001 to 65% in 2014, the latest data from the Household, Income and Labour Dynamics in Australia (HILDA) survey reveals.

Given the downward trajectory in ownership rates, more prospective home buyers are ready to compromise in their choice.

The study indicates that 31% of Australians reduce their spending to save a property deposit, 24% decide to buy a smaller or more affordable place and 20% per cent aim to buy with friends and family.

Over recent years there has been a dramatic surge in the number of people embracing apartment living to fulfil their home ownership desires, says Flavell. "And when you look at the level of apartment construction taking place across the country, it is likely that we will continue to see more Australians calling apartments home."

Some potential good news for buyers is that the glut of new apartments in major cities – many of which were bought off the plan and are now coming up to settlement – may mean some bargains hit the market.

Take Brisbane. Unprecedented growth in the city's unit stock has seen numbers triple since 2000 and now the market is flooded. Many apartments were bought off the plan with 10% deposits at prices that are unlikely to be achieved today. For example, one-bedroom units that cost $450,000 are now being valued at about $320,000, according to industry sources.

Some buyers may simply cut their losses and forfeit their deposits rather than incur the long-term debt associated with overvalued property. This could present some bargains for buyers.

In Melbourne, where there has been a huge apartment building boom, good buys have already been in evidence. According to BIS Research, in Melbourne city (which includes the CBD, Southbank and Docklands), Whitehorse city (including Box Hill, Burwood and Mitcham) and Port Phillip city (including Port Melbourne, St Kilda and part of Southbank) more than half the units bought off the plan since 2011 have broken even or resold at a loss.

Buying with family and friends was another solution being considered by 20% of those surveyed. If you go this way it's important to clarify and document expectations through a co-ownership agreement, which sets out the roles and obligations of the parties. It should cover things such as whether the finance is a joint loan or separate loans, what happens if one party defaults on mortgage payments, what happens if one party wants to sell the house, and how property maintenance and costs are to be handled.

Head offshore

Want to earn an 8%-10% return and add offshore property to your portfolio at the same time? For an outlay of £45,950 ($77,700) you can buy a student studio in Primrose Hill, Huddersfield, in West Yorkshire. Huddersfield University is rated as one of the best in the UK for its teaching.

Primrose Hill Student Residence is a fully operational student property and has been 100% occupied since the development opened in 2012.

Buyers benefit from a 10-year fixed income agreement, receiving immediate 8% net income and contracted yield growth in year three (9%) and year five (10%). The property is fully managed and you can resell your unit whenever you choose and benefit from as much as 40% capital growth, according to the marketing company, Emerging Properties (emergingproperty.co.uk).

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.*

Catch the

STORY
MARK STORY

Australian investors can share the rewards as consumers in China and India go on a spending spree

It's no secret that the rate of growth experienced by emerging economy powerhouses China and India is nowhere near where it was during the mid-noughties, when it nudged 15% and 10% respectively. However, at around 6.7% and 7.2% respectively forecast for 2017-18 – compared with the International Monetary Fund's forecast of global GDP growth of 2.7% – China and India offer valuable exposure to one massive consumption frenzy as their middle-class ranks explode.

Buoyed by healthy economic data, especially around strong export and import numbers and a decision by the People's Bank of China to inject 498 billion yuan ($93 billion) into the economy, there's renewed investor sentiment for China stockmarkets, which ran out of steam after explosive performances in 2009 and then again in 2015.

And while the Reserve Bank of India has softened somewhat its hawkish view on economic growth, due to declining inflation and lower-than-expected economic growth, there's still strong demand for consumer durable and pharmaceutical sector stocks, which has helped to propel India's sharemarket forward.

What makes having exposure to China and India within your investment portfolio a compelling proposition are new forecasts by the Organisation for Economic Co-operation and Development that by 2030 they will collectively account for a whopping 39% (or $US25 trillion) of total global spending.

Here are some ways you can get a slice of the action.

ASX-listed stocks

There's no shortage of stocks listed on the ASX with sizeable chunks of their earnings exposed to China, and this can be a less daunting way to benefit from the consumption-boom story without being a stock picker in China or India.

A growing number of ASX stocks are exposed to China, and success selling into this market can boost the share price. But as infant milk formula marketer Bellamy's (ASX: BAL) recently demonstrated when it was plunged into turmoil by a surprise licence suspension by Chinese authorities, a company's Chinese fortunes can unravel if regulations suddenly change or if key customers withdraw support.

Included among ASX-listed stocks with strong China upside are: Blackmores (BKL), a2 Milk (A2M), Freedom Foods (FNP), Australian Agricultural Company (AAC), Treasury Wine Estates (TWE), Tassal Group (TGR), ANZ Banking Group (ANZ) and Sunbridge Group (SBB).

Meanwhile, Australia recently made its first uranium shipment to India three years after the September 2014 supply agreement, and among stocks that could receive a kicker from the country's growing energy demands include uranium producers and explorers such as Toro Energy (TOE), Energy Resources Australia (ERA) and Paladin Energy (PDN); and coalminers like New Hope (NHC), Whitehaven (WHC) and Yancoal (YAL).

Listed investment companies

If owning direct shares into these markets appears a little scary, there are many LICs that invest in China and India. While Platinum Asia Investments (PAI) has exposure to both countries, PM Capital Asian Opportunities (PAF) has both direct and indirect exposure to China.

Then there are Emerging Markets Masters Fund (EMF), Asian Masters Fund (AUF) and Ellerston Asian Investments (EAI), which all offer exposure to both China and India markets.

The recently listed India Fund (INF) also offers local investors exposure to equities listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).

Exchange-traded funds

Traded like any other listed stock, and offering easy access to a basket of top companies on key indices, ETFs let you buy or sell quickly and at low cost. They're an

next boom

alternative way to get specific exposure to emerging markets within the international component of your portfolio without having to be a stock picker.

Because most aren't actively managed, Jon Reilly, CIO with Implemented Portfolios, advises investors to tread carefully with ETFs, especially given that they can't rely on professional managers to limit losses relative to the fund's underlying benchmark index. "While they're incredibly powerful, investors must understand that returns from ETFs reflect individual company performance, plus underlying currency risk," says Reilly. "With most international ETFs quoted on the ASX being unhedged, it's important to have a view on where the Australian dollar sits."

While Hong Kong ETFs do provide exposure to China, Reilly favours those exposed to the top 50 A-class shares with a mainland focus listed on the Shanghai and Shenzhen stock exchanges.

While there are no pure ASX-listed India-focused ETFs, Reilly says investors can still get some exposure via iShares MSCI BRIC (IBK) (20.92% return over a year, 8.49%pa over three years), or iShares Global 100 (IOO) (16.83% and 12.52%).

However, investors wanting to invest in overseas-listed ETFs with an India geographic focus have no shortage of ETFs to choose from, with year-to-date returns from the 26 India-focused ETFs (based on Bloomberg data) averaging 27%.

Rather than just picking any India ETF, Reilly says investors have to decide which part of the market they want to be in. For example, the two best-performing India ETFs – Direxion Daily MSCI India Bull (INDL US) and VanEck Vectors India Small-Cap (SCIF US) – have delivered 95.17% and 44.2% respectively (year to date).

Direct shares offshore

Due to the regulatory uncertainty plaguing foreign companies exporting into China, plus unease with rules governing China exchanges, Andrew Macken, portfolio manager at Montgomery Global Investment Management, favours investing in "Chinese national champions" listed outside mainland China. "We favour quality native China businesses listed on foreign exchanges, like the NYSE, NASDAQ or HKSE, as opposed to those on the FTSE A50 Index," he says. "There's greater comfort knowing investors globally are looking at these foreign-listed local businesses that aren't exposed to regulatory hurdles confronting foreign companies."

Montgomery Global Investment Management is currently invested in global tech giants Alibaba (NYSE: BABA), Tencent (HK: 700), plus China Life (NYSE: LFC), the largest life insurer in China which is two-thirds owned by the Ministry of Finance.

While Montgomery has no direct investments in India, it has leverage into this market via Alibaba and Tencent, which have significant equity stakes in companies such as Chinese mobile internet company UCWeb – where India accounts for around 20% of the monthly 80 million global user base of its flagship UC Browser – and growing Indian companies such as Micromap Electronic Systems.

Unit trusts

Morningstar data reveals a third of funds under management in Asian unit trusts are, on average, invested in China. Unsurprisingly, the sectors in which funds have higher weightings include technology and consumer cyclicals that directly benefit from the region's consumption boom.

Top-performing managed funds over the year to June 30, 2017 with a strong China focus include the Schroder Asia Pacific Fund (30.62% total return over a year), Premium Asia (25.26%) and Fidelity China (25.77%). Meanwhile, funds with direct exposure to India include Fiducian India (23.8% one year, 25.9%pa five years) and Fidelity India (16.3% and 20.1%). *M*

STRONG PERFORMERS

China-focused ETFs, or popular emerging markets ETFs with varying exposures to China (and possibly India), that have performed well recently include:

- **VanEck Vectors China AMC CSI 300** (CETF) 12.28% (1 year)
- **iShares China Large Cap** (IZZ) 16.32% (1 year), 12.18%pa (3 years)
- **iShares MSCI Hong Kong** (IHK) 19.51% (1 year), 14.42%pa (3 years)
- **iShares Asia 50 (A)** (IAA) 27.50% (1 year), 15.62%pa (3 years)
- **iShares MSCI Emerging Markets** (IEM) 19.37% (1 year), 7.67%pa (3 years)
- **Vanguard FTSE Emerging Markets** (VGE) 14.55% (1 year), 7.26%pa (3 years)
- **SPDR S&P Emerging Markets** (WEMG) 15.33% (1 year), 7.14%pa (3 years)

* Based on Morningstar data to July 3, 2017

A key role to play

STORY
SUSAN HELY

Bonds and cash are out of favour but there are strong reasons to include them in a portfolio

Fixed interest is a dilemma for investors. The returns are ridiculously low – even slipping into negative territory – but investors are told by experts to keep part of their wealth in these products.

While Australian and world sharemarkets are buoyant, fixed-interest returns are uninspiring. For example, the Australian sharemarket's S&P/ASX 200 gained 7.33% and the US market's S&P 500 jumped 16% for the year to the end of July while the S&P/ASX Australian Fixed Interest Index lost 0.25% and the S&P/ASX Australian Government Bond Index slid by 1.75%.

But still investors are urged not to dump fixed interest from their portfolios altogether.

"We are sticking to the principle that it is appropriate to hold a relatively high proportion of the portfolio in fixed interest," says Riccardo Briganti, investment specialist, applied research and solutions team, at BT Financial Group.

If you look at the returns of the past 10 years, fixed interest has beaten shares with 6.2%pa compared with 3.6%pa for Australian shares to the end of June this year. "If risk is your highest concern, you can protect your portfolio," says Briganti.

Fixed interest still plays a clear role as a diversifying and balancing asset class to offset sharemarket volatility. For this reason balanced portfolios typically hold 25% in fixed-interest investments such as bonds and cash. Some super funds have eased back on fixed interest and dialled up their infrastructure holdings, particularly those utility investments that deliver a bond-like return.

Retail investors have gone underweight on fixed interest. They favour bank hybrid securities that pay a higher yield but this can be risky (see breakout).

Bonds

The outlook for bonds isn't bright. In fact, investment groups such as Vanguard continue to revise down fixed-interest returns. Vanguard's outlook for bonds is the most guarded since 2006, given the environment of low interest rates and low earnings yields. It says the expected 10-year median return for the global fixed-income market is in the 1% to 3% range. This resembles the historical bond returns of the 1950s and 1960s.

"Despite this outlook, we encourage investors to evaluate the role of fixed income from a perspective of balance and diversification rather than outright return," says Joe Davis, Vanguard's global chief economist.

"High-grade or investment-grade bonds act as ballast in a portfolio, buffering losses from riskier assets such as equities. Several segments of the Australian bond market, such as credit and government bonds, have 10-year median expected returns centred in the 2.5%-3.5% and 1.5%-2.5% range respectively," says Davis.

The Australian credit bond index is in the 2.5%-3.5% range, which is slightly higher than that of the government bond index. Inflation-linked bonds are showing negative returns over shorter investment horizons because of their sensitivity to a rise in real rates.

One of the most popular ways to hold fixed interest is through a diversified fixed-income managed fund that invests in government, global, Australian and corporate bonds. (See tables, page 72.) But increasingly there are other vehicles, such as low-cost, diversified exchange-traded funds that track a particular index. These offer wide diversification as a

buffer against any defaults by a bond issuer. For example, the Vanguard Australian Fixed Interest ETF (ASX: VAF) holds 520 securities.

Fixed-income ETFs

You can buy fixed-income funds in the same way you buy shares through the ASX. Around $400 million flowed into fixed-income ETFs in the six months to June 30. There has been a spate of new fixed-income listings and there are 18 Australian fixed-income funds and five global bond ETFs.

You can buy Australian government, semi-government and corporate bonds. They can be fixed, floating rate or inflation linked. Global bonds include both emerging and main markets.

"In lower interest rate environments there is naturally greater enthusiasm for corporate bonds where yields are higher," says Jason Davis of Strategic Income. "However, there is also less liquidity and greater risk, especially as you delve into the BBB part of the market."

He recommends that investors check not only the average credit rating but also the composition and any credit rating rules in the index specification and how often these are reviewed between rebalance dates.

The two main corporate bond ETFs are Russell Australian Select Corporate Bond (RCB) and Vanguard Australian Corporate Fixed Interest Index (VACF), the latter covering local companies issuing corporate debt as well as the expanding "kangaroo bond" market, which gives investors exposure to overseas companies such as Apple without the currency risk.

Jason Davis says that investment fees (MERs) and spreads for these corporate bond ETFs are higher than for government debt ETFs, reflecting the fact that the provider and market maker have to do more work to make these products operate efficiently.

"When searching for better yields via corporate and global bond offerings, investors need to be mindful of potential liquidity issues and the different economic markets that the bond issuers operate in," says Davis. "Investors should understand how rapidly credit premiums can move, and along with the greater chance of forfeiture these have the potential to cause nasty repercussions for returns."

Be wary of 'ridiculous' hybrids

Hybrids are a "ridiculous" product for retail investors, according to Greg Medcraft, the outgoing chairman of the Australian Securities & Investments Commission in an interview with *The Australian Financial Review* in July. In many cases, if a bank gets into financial trouble hybrids can be converted into bank shares, which may be worth less than the initial investment or may be written off completely, resulting in a total loss of capital.

This is what happened to some hybrids offered by overseas banks during the GFC.

The four major Australian banks have issued around $27 billion worth of hybrids, which have been popular with retail investors because of the high yield and 100% franking credits.

Medcraft believes the billions of dollars of hybrid securities issued to retail investors by the major banks will eventually cause problems for the financial system. He said it was notable that hybrids had been banned for retail investors in other markets like the UK.

BT Financial Group's Riccardo Briganti says ASIC has a very strong view that people don't understand the characteristics of hybrids. He does not classify hybrids as fixed income. "Hybrids are a lot closer to equities. It goes back to what is your definition of fixed income," he says.

Morningstar analyst John Likos agrees that hybrids are not substitutes for fixed-income securities or term deposits. "We believe they should be treated as a separate asset class with their own asset allocation.

"And in our view, hybrid securities should only be the domain of the medium- to high-risk investor as part of a diversified portfolio. Never the low-risk investor whose primary concern remains the preservation of capital. By their very nature hybrids have both debt- and equity-like features."

Likos says that Australia's major banks remain among the strongest in the world with regards to their financial and business risk profiles, the former supported by a more stringent application of global capital requirements than many of their global peers.

As for Medcraft's point that "if a bank has any trouble [hybrids are] the first line of defence", Likos says a glance at any capital structure chart will show shareholders will be the first line of defence, followed by hybrid securities.

Likos says Medcraft is likely to be thinking of what happened recently in the resolution of the Banco Popular failure in Spain. "Namely, a non-viability event is likely to lead to the complete writedown of equity and hybrid securities simultaneously. Yet this is no reason to avoid both equity and hybrid securities. If anything, their low recovery rates are reason enough to exercise greater due diligence prior to investing," says Likos.

ASIC warns that hybrids' interest payments are not guaranteed and are paid at the discretion of the issuer. On top of this, missed interest payments do not accumulate.

Issuers do not guarantee that the investment will be repaid and, unlike savings accounts or term deposits with a bank, hybrids are not covered by the government guarantee. "Your investment is not secured by a mortgage or security over any asset," warns ASIC.

The hybrid will convert into ordinary shares in the issuer on a fixed date, usually eight to 10 years after issue, provided that the issuer's ordinary share price has not fallen by more than 50% in that time.

Cash ETFs

The success of the BetaShares Australian High Interest Cash exchange traded funds (AAA), which has $1.2 billion under management, has spawned three new cash ETFs this year. The BetaShares fund, which started in 2012, returned a net 2.05% to the end of July compared with the current cash rate of 1.5%. The annual fee is 0.18%.

"With Australian interest rates stuck at record low levels and banks not readily offering flexible and commercially priced products to large retail savers, it is not surprising that the BetaShares cash ETF has been so successful," says Jason Davis.

The cash ETFs are an alternative to traditional cash investments such as term deposits and they tend to invest in deposit products and track cash market indices such as the RBA Cash Rate Index and the AusBond Bank Bill Index. They don't require you to open bank accounts or roll over a term deposit as they trade on the ASX. There is no locked-in investment period, nor are there the potential break fees and forfeiting of interest that occur if you withdraw funds before a term deposit matures.

With a bank term deposit, amounts up to $250,000 are guaranteed by the federal government but there is no guarantee for a cash ETF. Also there are brokerage and investment fees for ETFs that don't exist with a term deposit.

The new cash ETFs include iShares Core Cash (BILL), iShares Enhanced Cash (ISEC) and UBS IQ Cash (MONY).

BetaShares' Alex Vynokur says he expects fixed-income ETFs to continue to grow as investors, particularly self-managed super funds, put together balanced portfolios using ETFs. "Such growth is expected to be supported due to the increased product choice now available across both fixed and floating rate bonds," he says. *M*

"With interest rates stuck at record lows, it's not surprising that the cash ETF has been so successful"

TOP-PERFORMING MANAGED FUNDS

GROUP/INVESTMENT	FUND SIZE	INDIRECT COST RATIO (ICR)	1-YR RETURN	3-YR RETURN (PA)	5-YR RETURN (PA)	PEER GROUP RANK[1]
AUSTRALIAN BONDS						
Perpetual Active Fixed Interest Fund	$1.27m	-	1.72%	4.94%	5.42%	1
Legg Mason Western Asset Aus Bd A	$358m	0.38%	0.75%	4.39%	5.05%	2
Janus Henderson Australian Fxd Intst	$1116m	0.47%	0.71%	4.01%	4.84%	3
Macquarie Australian Fixed Interest	$98m	0.63%	0.61%	4.21%	4.84%	4
AMP Capital WS Australian Bd	$698m	0.36%	0.75%	4.09%	4.74%	5
DDH Fixed Interest	$2.52m	0.68%	0.21%	3.79%	4.42%	6
Advance Aus Fixed Intr Multi-Blend W	$177m	0.55%	0.42%	3.92%	4.41%	7
Macquarie Enhanced Aust Fixed Interest	$505m	0.19%	0.31%	4.25%	4.39%	8
PIMCO Australian Bond Fund	$4964m	0.45%	0.63%	4.30%	4.39%	9
Nikko AM Australian Bond	$114m	0.45%	0.37%	4.05%	4.38%	10
GLOBAL BONDS						
Russell Global Bond	$2145m	0.71%	1.96%	6.74%	10.58%	1
Legg Mason Brandywine Glbl Opp Fix Inc A	$431m	0.71%	6.47%	5.79%	7.64%	2
Legg Mason Brandywine Global Fixed Inc A	$206m	0.69%	5.60%	5.44%	6.99%	3
CFS Wholesale Global Corporate Bond	$8.59m	0.67%	3.97%	5.22%	6.97%	4
Russell International Bond	$328m	-	2.09%	5.28%	6.30%	5
PIMCO Global Bond W	$4156m	0.49%	3.39%	5.86%	6.27%	6
Mercer Global Sovereign Bond Fund	$780m	0.37%	0.57%	6.22%	6.06%	7
PIMCO Global RealReturn W	$12.22m	0.51%	4.25%	7.46%	5.93%	8
Morningstar International Bonds	$151m	0.62%	1.71%	4.89%	5.77%	9
BlackRock WS International Bond	$102m	0.55%	1.38%	4.77%	5.70%	10

Source: Morningstar. Returns as at 30-Jun-17. [1] Based on 5-year returns.

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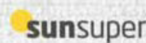


*Calculation made using superguru.com.au calculator and based on a 44-year-old putting an additional $43 each month ($10 a week) assuming 5%pa growth over 21 years. The figures provided by the calculator are based on a series of assumptions and are general illustrations only. They do not take your personal circumstances into account and are not intended to be a substitute for professional advice. We make no warranties as to their accuracy and shall not be responsible for any action taken on the basis of the calculator. While such material is published with necessary permission, no supporter entity (or their related bodies) accepts responsibility for the accuracy or completeness of, or endorses any such material. Except where contrary to law, we intend by this notice to exclude liability for this material.

STORY SUSAN HELY

The more the merrier

By putting extra into super now you will be able to enjoy that dream lifestyle in retirement

You can't just hope for the best when it comes to having enough money for retirement. Yet plenty of people do. Sixty-eight per cent of us don't contribute anything extra to superannuation and 18% count on an inheritance to fund their retirement, according to this year's RaboDirect Financial Health Barometer survey.

A head-in-the-sand syndrome about funding retirement is rife across every generation. Gen Y (21 to 36 years) demonstrates the most positive savings behaviour, with 40% making voluntary contributions to super, followed by 31% of baby boomers (52 to 70) and 25% of Gen X (37 to 51), according to the survey.

But still around 44% of Australians say they don't think they have enough money in super to fund their retirement while 55% of baby boomers believe that they will run out of money in retirement.

A common lament of retirees is "I wish I had salary sacrificed more to super". For a whole lot of reasons, the super guarantee rate of 9.5% isn't enough to fund a comfortable retirement. But there are plenty of reasons why people don't want to make contributions into super: financial pressures from record high housing prices, stagnant wages and rising living costs. Often people think they will wait until the mortgage is paid off and the children are through school before they start salary sacrificing. This is common among the self-employed and women. But they often don't catch up.

> If you start contributing extra when you are 28, you pay a third of what you would have to pay when you are 45

Jenny Brown, founder of JBS Financial Strategists, says young people want the cash now to fund lifestyle, family and mortgages. "It is understandable," she says. "But I encourage people to make sure they're salary sacrificing early on, and that they have adequate insurance. Making contributions to superannuation is essential. A lot of small business owners say, 'My business is my super'. But that's not necessarily going to work out if your business relies on goodwill."

If you put more money into superannuation, you will have more income in retirement. So you need to look at ways to boost your savings.

START SMALL AND START EARLY

If you don't have much extra money, give up some regular expenses and put the savings into your fund. If you are young and have time on your side, then topping up your super with small amounts can turn into huge rewards for your future. Think of it as "paying yourself forward".

For example, if you cooked an extra meal at home each week, you could save $1000 a

year and over 45 years you would have over $175,000 extra for your retirement.

Super funds offer apps that allow fund members to make flexible contributions.

The earlier you start putting extra money aside through salary sacrificing, the more you will have in super because the power of compounding means that the more often your interest is earning interest the more money you make. If you start contributing when you are 28, you pay a third of what you would have to pay when you are 45.

UNDERSTAND THE TAX BENEFITS

Super is the most tax-effective way to save for retirement, with a 15% rate on contributions. Investment earnings are taxed at 15% and there is no tax on pension income if you are aged over 60.

SALARY SACRIFICE

The most tax-effective way to boost your savings is through salary sacrifice, because you are putting your pre-tax salary into your

PAY YOURSELF FORWARD SUPER Booster day

If you want to boost your super be sure to visit superboosterday.com.au before September 15th. Make the pledge and you could win $1000 to add to your nest egg. There are five prizes of $1000 to be won.

EXPERT TIP
Jeff Gray, Cbus

IN YOUR 20s

1 Consolidate accounts. Each super fund you own will charge an administration fee, so consolidating your savings into just one well-diversified account could save thousands over your working life. Before you consolidate, check on termination fees, that you receive the same level of insurance and that your employer can contribute to your chosen fund.

2 Investment options. It is important to understand the difference in longer-term results achieved by growth options versus more conservative options. After all, you could be talking about an investment time frame of around 40 to 45 years of your working life followed by a potential further 20 to 30 years in retirement. Time is on your side here and a difference of just 1% or 2% a year in investment performance could amount to an additional several hundred thousand dollars or more over your working life.

3 Government co-contribution. For lower income earners (less than $51,813pa in 2017-18), the government will contribute an additional 50¢ for every $1 of after-tax contribution you make to your super fund, up to a maximum of $500pa.

4 Salary sacrifice. You simply ask your boss (the payroll department) if you can contribute some of your pre-tax wage into your super account before you pay tax on it. While most people will incur a 15% contribution tax, that could still represent a saving of up to 6%, 19.5%, 24% or 32%, including the Medicare levy, depending on your marginal tax rate.

5 Tax-deductible contribution: From July 1, 2017, everyone who is eligible to make a super contribution can now claim a tax deduction for it. This then produces a tax saving that is identical to making a salary sacrifice contribution.

EXPERT TIP
Tim Newman, ING Direct

IN YOUR 30s

1 Make sure you're in the right fund. In most cases your super is invested in a fund chosen by your employer (and in a lot of cases you'll be invested in multiple funds). Check how much you're paying in fees, and whether your current fund offers the options you need. If you're not sure where your money is being held, go to my.gov.au to search where your super is currently invested. As an extra step, check which investment option you're invested in. Most super funds offer a range of options with different levels of risk involved. Generally speaking, the riskier the option then the better the chance for potentially higher returns. And if you're turning 30, you're still a fair way from retiring and therefore have plenty of time to take advantage of higher return but more volatile investments.

2 Top up your super if you can. Consider making a personal contribution. If you're looking to minimise the amount of tax you pay, you could consider salary sacrificing to help reduce your taxable income.

3 Get your goals in order. You should start making super a priority. It helps to have something to aim for, so setting yourself a goal to achieve at retirement is the best way to motivate yourself to invest more of your time (and money) into super.

4 As you get older and start accumulating assets (like property), consider insurance and its importance in protecting not only yourself but those who depend on you for financial support.

5 Consider advice. Let's not forget the important role that advice can play in your future. Becoming financially savvy is one thing but taking the time to plan out your future is another. That's where a financial adviser can help you make a plan and stick with it.

EXPERT TIP
Glen Macann, QInvest/QSuper

IN YOUR 40s

1 Divert your next pay rise. In the spirit of not missing what you don't have, your next pay rise hasn't yet been allocated to living expenses. It could be a good chance to allocate it to your retirement each pay cycle instead.

2 Earmark your tax refund. Hopefully you haven't yet spent future tax refunds either! They can also be a relatively easy source of super contribution money. It also provides an extra incentive to claim all your deductions.

3 Make it small and regular. With another two decades in the workforce, there's plenty of time for even very small extra contributions – such as the cost of a Netflix subscription – to reap the benefits of long-term compound returns.

4 Find some other savings. Along the line of a Netflix subscription, there may be numerous regular living expenses that you could tighten up on to use that money for superannuation. Check your phone plans, utility contracts and grocery bills as a starting point.

5 Take a look at your fund. It's not just about putting money in, it's about getting value back. Check the fees, investment performance and investment strategy to ensure that your fund is working as hard for you as you are for it.

super fund. The money going into super is taxed at only 15%. You even may be able to slip into a lower tax bracket.

Here is an example of how it works. Johnny earns $90,000 a year before tax, excluding his employer's super contribution. If Johnny decides to redirect $10,000 of his pay into salary sacrifice contributions, he will save more than $2000 in tax, with the extra money going into his super fund.

But the trade-off for salary sacrificing is that you are locking your money away until retirement and cannot access it until you have reached your preservation age.

An automatic payment plan is the best way to save because the money is taken from your pay before you even see it. Ask your employer or the human resources department to make the deductions. It is best to include the details in your terms of employment and get the agreement in writing. This ensures your employer calculates its 9.5% super guarantee contribution on your original income and not on your reduced salary. Contributions are capped at $25,000 a year.

To work out how much to put aside, look at how much you want to retire on. What are your expectations? There are plenty of calculators (moneysmart.gov.au from ASIC or superguru.com.au from ASFA) that will give you different levels of income in retirement. Calculators ask you how much you have already saved, your salary and when you want to retire.

GOVERNMENT CONTRIBUTIONS

The government co-contribution scheme rewards you for making personal non-concessional (after-tax) contributions. If you earn less than $51,813 a year (before tax) and make non-concessional super contributions, you may be eligible for this matching contribution from the government.

If you earn less than $36,813 the maximum co-contribution is $500 based on 50¢ from the government for every $1 you put in. It doesn't matter whether you make small regular contributions or irregular lump sums; the co-contribution is based on the total amount of non-concessional contributions you make over a financial year.

The amount the government puts in reduces the more you earn. However, you can earn up to $51,813 and still be eligible for something.

You could also qualify for the low income superannuation tax offset (LISTO). Around 3.1 million people (63% are women) receive the LISTO, which has replaced the low income superannuation contribution. The LISTO provides a refund of contributions tax for anyone earning up to $37,000, up to a maximum of $500.

Low-income earners will typically receive around $260 on average, says Martin Fahy, CEO of the Association of Superannuation Funds of Australia (ASFA). Around 15% of LISTO recipients are aged 30 to 39.

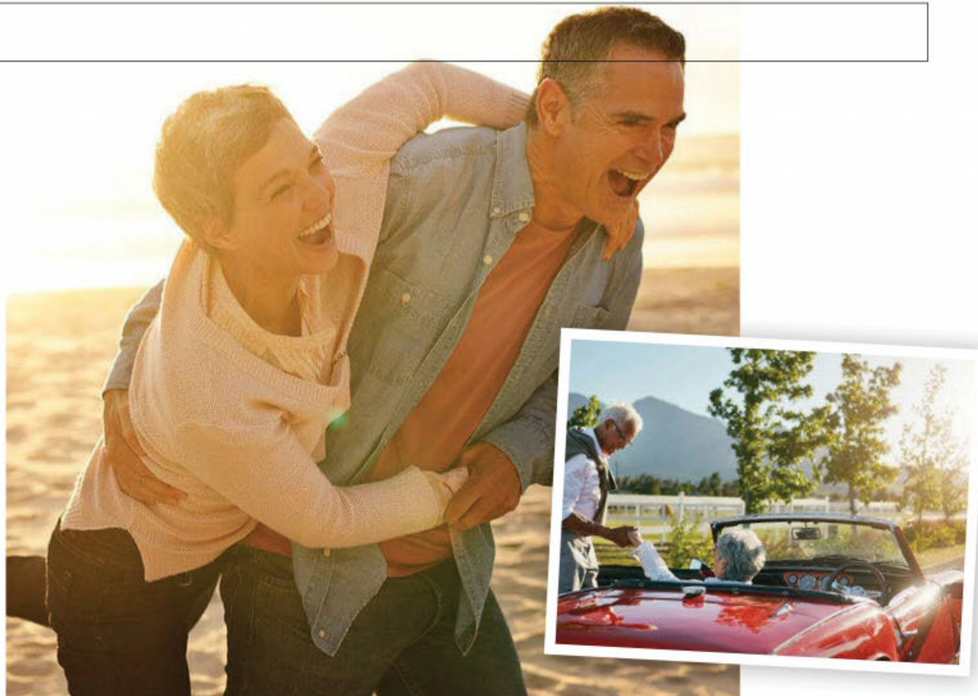
You can find the relevant information at ato.gov.au.

PERSONAL CONTRIBUTIONS

If you have made a personal contribution to your super fund, you can claim a tax deduction. It is available for anyone between 18 and 75 years of age who makes a personal contribution, which is a big help because the average super balance of recipients is less than $50,000.

Fahy says about 850,000 people would benefit from the ability to claim a tax deduction, which is capped at $25,000 a year, for personal contributions. But if you claim a deduction

An automatic payment plan is the best way to save because the money is taken from your pay before you even see it



for personal contributions you may not be eligible for the government's co-contribution.

BONUSES

While you are not permitted to salary sacrifice accrued annual leave or long service leave, you can salary sacrifice your bonus. The catch is that you must come to an arrangement with your employer before you are paid a bonus, not afterwards.

This means you must tell your employer that you will salary sacrifice part or all of your bonus (up to the $25,000 contributions cap) before you have been notified of the amount of the bonus. However, if you want to salary sacrifice your bonus after you have been notified, it can be a non-concessional contribution and come out of your after-tax salary.

HIGH INCOME EARNERS

If you earn over $250,000 you will pay 30% on any salary sacrificed amounts. This applies to only 2% of income earners.

CONTRIBUTION CAPS

There are restrictions on how much you can put into super. You can contribute up to $25,000 for concessional (before-tax) amounts. This includes your employer's 9.5% guarantee payment. If you go over the contribution cap you will be taxed at a higher rate.

If you can spare the money, you can really boost your super by making non-concessional (after-tax) contributions. You will usually save more by investing through super than by investing in the same assets outside super.

The annual non-concessional contributions cap is $100,000, or $300,000 using the three-year bring-forward rule. *M*

EXPERT TIP

Anne Fuchs, Sunsuper

IN YOUR 50s

1 Combine your accounts. It can make sense to combine all your super accounts into one – fewer fees, less paperwork, one larger balance. Many super funds offer online services to help you find and consolidate your various accounts.

2 Choose the right investments. The investment option you choose can make a big difference to your total balance at retirement. If you don't make a choice, most funds will invest your super in a balanced mix of assets.

3 Add to your super. There are a number of ways to add to your super on top of the compulsory contributions from your employer. Some may even save you some tax now or get you an added contribution from the government. Talk to your super fund or employer's payroll department about the options.

4 Look after your loved ones. Insurance through super can be a cost-effective and simple way to give you and your dependants peace of mind should you die or be unable to work due to illness or injury.

5 Get some advice. Expert financial guidance can help you picture your dream retirement and put in place the right strategies to achieve it. Most funds offer advice to their members over the phone or in person, often at no additional cost.

EXPERT TIP

Jack McCartney, UniSuper

IN YOUR 60s

1 Consolidate your super. If you've had more than one job, it's likely you have more than one super account. Yet having two, three or maybe even more could be costing you in extra fees each year. As you approach retirement it's important to consolidate your accounts.

2 Make extra contributions. In the lead-up to retirement many people consider making extra contributions to increase their nest egg. You can make these contributions both before and after tax but be aware of the various annual limits on each of these types of contributions.

3 Have you chosen an investment strategy? Choosing the right one for your age and tolerance for risk can be an important factor impacting on your balance.

4 Have you got a financial plan in place? You're likely to need a regular income for at least 20 years once you retire. It's important you structure your assets to maximise any entitlements you have and to ensure your money will last. A qualified financial adviser can assist you with this.

5 Realise that super is complex. It's important to understand the opportunities and possibilities. At UniSuper, we offer our members free education seminars and webinars to arm them with the facts needed to build retirement savings with confidence.

A punt at the best of times

Trouble at CBA and Telstra shows how hard it is for investors to get it right

If the first rule of investing is to not lose money, and the second rule is the same as the first, then why do so many of us keep breaking the rules?

Hands up, if after the past few months of publicity and controversy, you've wondered if you should sell your Commonwealth Bank or Telstra shares? Just about every person who owns them, I'll bet.

Notwithstanding CBA CEO Ian Narev announcing his departure in 15 months, a 20% pay cut for the board and short-term bonuses suspended for senior executives over allegations by government agency Austrac that the bank's systems failed to report around 53,700 potentially suspicious transactions, nothing much happened to the Commonwealth share price.

Yet each breach attracts a maximum penalty of $18 million – a total worth many times more than the bank at $966 billion. Tabcorp earlier this year settled for $45 million after being accused of 236 similar breaches. That's more than $190,000 per breach. Apply that to the Commonwealth's 53,000 and you come to around $10 billion – a year's profit. Put another way, it's around 7% of the company's market value.

Can shareholders afford that? Well, yes. Should something like that normally dent the share price? Yes. So why have the shares barely moved? Well, that's because the Commonwealth's argument is that it committed just one breach (that was repeated more than 53,000 times). One breach is $18 million, which is a far cry from $10 billion or so.

So how does a CBA shareholder work that one out? You're not a legal expert who understands the vagaries of the Federal Court. All you can do is follow the crowd and hope like hell the smart money is right in not marking down the shares. In other words, for all the analysis and smarts that go into company research, there's still a punt at the bottom of it, even in the largest of all companies.

So we go to Telstra shares. Here you perhaps should have got a whiff of something in the past 12 months. They hit a 13½-year high price of $6.61 in mid-2015 – four years after hitting all-time lows around $2.60. It rode off the back of its $11 billion settlement with the government on the NBN rollout and soaring dividends. The company was so awash with cash that it, unusually, distributed 100% of its profit as a dividend.

Well, the past year has been anything but impressive, with the shares falling all the way back to around $3.80 as I write, based on worries about its future growth and a cut in its dividend policy.

Telstra CEO Andy Penn, while announcing the company profit, said that in the current financial year the payout ratio will fall from close to 100% to between 70% and 90% of the profit. The shares fell 10% on the spot. As with Commonwealth Bank, many people receiving low deposit rates from their bank had piled into Telstra to chase those higher income returns. Yields of 7%-9% fully franked were enticing but ultimately illusory.

Now a Telstra shareholder must work out how much the dividend will be cut by (there will undoubtedly be guidance for shareholders throughout the year but until then it's a guessing game). But for that income-based investor – already staring down a 30% cut in their income, with the possible capital loss – it's an unenviable decision. What was that first rule of investing? Don't lose money?

For many investors, the decision is to hang in there and ride it out. And if you have enough time, that might work. All the bad news might be in the market already. Or it might not. You can't be quite sure. Telstra's big problem is that, having sold off its customer base and copper wires to the NBN for a reported $11 billion, it means it also sold off between $2 billion and $3 billion worth of profit.

It says it will give three-quarters of that money back to shareholders and will invest the rest into fresh businesses to try to replenish the profit. Some big shareholders are saying "which businesses?" and "let's hope they pick the right ones". And that adds risk to the share price.

Just a final one: the real way to judge companies is to look at their return on shareholders' capital employed. In the case of CBA it's 16% (down from 18% in recent years) and for Telstra it's 14.7%. That's not dividends, that's the profit generated on the capital shareholders have put in. Neither is shabby though others are growing more strongly.

But if two of the most popular companies in Australia have so many questions to be answered, heaven help you trying to sort through your portfolio – and fulfilling the first and second rule of investment.

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

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Deposits get a boost

Every bit helps the first-time home buyer – even $6240

Everyone knows first home buyers are doing it tough. Soaring property prices, savings accounts that offer paltry returns and low wages growth mean their efforts to get a deposit together is a challenge. The new First Home Super Saver Scheme offers some help.

The federal government says the scheme, launched on July 1, will boost the savings for a home deposit "by at least 30% compared with saving through a standard deposit account". At the time of writing the legislation was yet to be passed.

The scheme boost comes via tax breaks and a deemed earnings rate. The catch is you can only save up to a total of $30,000. That's small bickies when you consider the high price of property. Still, every bit counts. As with all things super, rules and restrictions apply.

For starters, if you don't buy a home the savings must be left in your super until you retire. Should you marry someone who already owns a house, your savings still have to stay in super instead of reducing the mortgage.

There are also limitations on how much you can save each year. While you can make before-tax contributions of up to $15,000 a year, you nevertheless cannot exceed the annual $25,000 super concessional contributions cap, which includes your employer's 9.5%.

So where's the benefit?

The deemed earnings rate is based on the 90-day bank bill rate plus three percentage points – double that of savings accounts. While contributions and earnings are taxed at 15%, withdrawals are taxed at your marginal rate less a 30% offset.

As the case study (see box) and graph show, someone earning $60,000 a year and contributing $30,000 over three years could save $6240 more in the home scheme than in a standard savings account. (The deemed rate is 4.78% compared with 2% for a savings account.)

The scheme is administered by the tax office, which will determine the amount of contributions that can be released and instruct super funds to make the payments.

CASE STUDY: HOW MICHELLE AND NICK WOULD BENEFIT

Michelle earns $60,000 a year and wants to buy her first home. Using salary sacrifice, she annually directs $10,000 of pre-tax income into her superannuation account, increasing her balance by $8500 after the contributions tax of 15% has been paid by her fund.

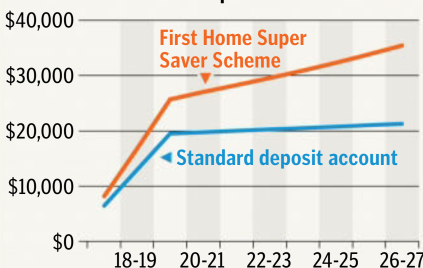
After three years she is able to withdraw $27,380 of contributions and deemed earnings on those contributions. Her withdrawal is taxed at her marginal rate (including Medicare levy) less a 30% offset. After paying $1620 of withdrawal tax she has $25,760 that she can use for her deposit.

Michelle has saved around $6240 more for a deposit through the government's scheme than if she had saved in a standard deposit account.

Michelle's partner Nick has the same income and also salary sacrifices $10,000 annually to superannuation over the same period. Together they have $51,520 that they can put towards a deposit, $12,480 more than if they had saved in a standard deposit account.

Source: budget.gov.au/estimator

FIRST HOME SUPER SAVER



Source: http://budget.gov.au/estimator/

If your super fund returns are higher than the deemed rate, the surplus remains in your account. If the fund's returns are lower, the difference is made up from your account. The deemed rate gives savers' earnings certainty and makes it easier for super funds to manage.

Individuals who are self-employed or whose employers don't offer salary sacrifice can claim a tax deduction on personal contributions, meaning savings in effect come out of pre-tax income.

How much you benefit comes down to your personal circumstances. "If you're on the top marginal rate you get a nice kicker," says Claire Mackay from Quantum Financial. "But you're not going to be able to put much in because if you're on the top marginal rate your super guarantee [9.5%] is going to be pretty close to the maximum the company has to make."

Even if the benefit is fairly marginal it might be a convenient way to save, says Mackay. "It's a combination of knowing yourself, knowing your own strengths and weaknesses, and doing the numbers to see what's the best outcome. For a lot of people, salary sacrificing means your employer's payroll is looking after it for you. You don't have think about it. It's enforced savings."

To work out your savings go to budget.gov.au/estimator.

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

Are tax cuts the answer to help stimulate our economy?

YES

SHANE OLIVER
Head of investment strategy and chief economist, AMP Capital

Now is the ideal time to consider tax cuts as part of an overall supply-side boost to the economy. While Australia has avoided the much-predicted recession, for several years now the economy has languished with sub-par growth, poor levels of non-mining investment, record low wages growth and high underemployment.

It's likely this will continue for a while yet as housing construction starts to decline and low wages growth, surging electricity prices and slowing wealth gains constrain consumer spending.

Rate cuts from the Reserve Bank have done a good job of supporting the economy as they have put extra cash in the hands of companies and consumers and helped lower the Australian dollar from above parity, which has boosted farmers, tourist operators, manufacturers, and so on. But rate cuts are getting diminishing returns.

Government spending has its merits as a way to provide a quick stimulus to the economy but is probably best left to emergencies, and in any case it's already running around the highest it ever gets as a share of GDP.

Which leaves tax cuts. The case for action here is high. The large corporate tax rate of 30% is above the OECD average of 25% and the US is heading much lower. We risk losing corporates to overseas. We also have a high reliance on personal tax collections and our top marginal tax rate is high compared with our neighbours, which is adversely affecting incentive.

Ideally both corporate and personal tax rates should be cut but the key is to do it all fairly, and lower income earners need to be big beneficiaries – not only from a fairness perspective but also because they are more likely to spend the bulk of any tax savings they get. All of which will help to reinvigorate the economy.

NO

CRAIG JAMES
Chief economist, CommSec

I don't believe that tax cuts are required to stimulate our economy. Not that tax cuts aren't required in a medium-term sense. But they aren't necessary to provide a short-term boost to economic activity.

Actually the economy is travelling very well at present. According to the latest survey data, business conditions are the best in a decade.

Home building is solid in many regions, and supported by the lowest interest rates in a generation. In fact, building activity is especially strong across Sydney and Melbourne.

And while consumers say they aren't feeling especially optimistic, they are still spending. Real retail spending in the June quarter was the strongest in eight years.

So while we don't need the government to slash taxes to boost economic activity, changes in the tax scales – more correctly, tax reform – is indeed a worthy aim.

Australia's population continues to age, thus putting greater reliance on those in the workforce to provide the tax revenue necessary to cover rising government spending on health and social security.

The aim should be to encourage more people to enter the workforce and stay in employment. And one way to do that is to lower the top tax rate to 25-30 cents in the dollar and at the same time increase the GST to 15% or perhaps even higher. The lower tax rate increases the incentive to find work or to work longer hours. Because they retain more of the monetary rewards for their work efforts, workers then have a choice about whether to spend their wages and pay the higher GST rate, or save more of their income.

Tax cuts for business should be part of the tax reform proposal, again to encourage more businesses to set up and embrace global opportunities.

WHAT YOU NEED TO KNOW

Unemployment rate: 5.6%
Inflation rate: 1.9%
Cash rate: 1.5%
GDP annual growth rate: 1.7%

Take it to a higher level

Success in the sharemarket requires better thinking than many people bring to it

STORY GREG HOFFMAN

Change has been a constant within the Trump White House. As I write, tensions have been rising between Trump and North Korean dictator Kim Jong-un. The president has also raised the possibility of military intervention in Venezuela.

In response to such uncertainty, investors have recently turned to gold, a traditional safe haven. In mid-August, the gold price had risen around 7% over the previous month. And the share prices of Australian-listed gold miners – the likes of Newcrest (ASX: NCM), Northern Star (NST) and Evolution (EVN) – followed suit.

Buying such stocks equates to "first-level thinking", when sharemarket success demands something more. Billionaire investor Howard Marks explained it well in his book *The Most Important Thing*:

"Remember your goal in investing isn't to earn average returns; you want to do better than average. Thus your thinking has to be better than that of others – both more powerful and at a higher level. Since others may be smart, well-informed and highly computerised, you must find an edge they don't have. You must think of something they haven't thought of, see things they miss, or bring insight they don't possess. You have to react differently and behave differently."

That background explains why "first-level thinking" won't cut it for us small investors. Marks says first-level thinking "is simplistic and superficial" and that almost anyone can do it. "All the first-level thinker needs is an opinion about the future, as in 'The outlook for the company is favourable, meaning the stock will go up.' "

He then differentiates between first-level and second-level thinking using several examples:

"First-level thinking says, 'It's a good company; let's buy the stock.' Second-level thinking says, 'It's a good company but everyone thinks it's a great company, and it's not. So the stock's overrated and overpriced; let's sell.' "

"First-level thinking says, 'The outlook calls for low growth and rising inflation. Let's dump our stocks.' Second-level thinking says, 'The outlook stinks but everyone else is selling in panic. Buy!' "

CRUCIAL INSIGHTS

For those of us trying to beat the market, these are crucial insights. One edge that you and I have over larger, "well-informed and highly computerised" professionals is an ability to buy smaller stocks that they can't.

And in Swick Mining Services (SWK) I think we have a situation combining that advantage in small stocks with second-level thinking. The result is a speculative proposition that could be poised for strong returns in the current environment. Here's why.

Swick provides drilling services to mining companies in Australia, the US, Canada and Europe. Almost 90% of revenue in 2016 came from underground diamond drilling. Despite what it may sound like, this does not typically involve drilling for diamonds but drilling *with* diamonds. Specifically, diamond-encrusted drill bits which take long, cylindrical core samples. These

samples are then analysed, typically in a lab, to help mining companies plan their mines more effectively.

Swick's customers mine for nickel, tin, copper, manganese, zinc, lead and silver. But gold mines are the largest customer segment, making up almost half of Swick's revenue, and that's where the second-level thinking comes in.

Rather than simply buying gold or gold mining companies, we can say that if the gold price rises further, then gold miners will be incentivised to mine more quickly, explore for new ore bodies and reconsider previously uneconomic sites. All of this will require more core samples, which should equal more work for Swick.

In May, Swick told investors that it expects rig utilisation in its key underground diamond drilling division to be about 100% by June. So we can assume that it has started the current financial year on a high.

The company's largest profit to date was $11.3 million in 2013 and I think it has a shot at getting close to that figure if conditions remain favourable. Perhaps not quite in 2018 but the year after that.

Dividing an $11.3 million profit by almost 232 million shares on issue, we arrive at 4.8¢ in earnings per share. At the time of writing, Swick's share price is 31¢. So that would be an attractive price-earnings ratio of 6.5.

> **Second-level thinkers are wondering if the panic over Amazon is an over-reaction**

Put another way, if investors were to pay a price/earnings multiple of 12 at that point, the share price would be 57¢, an 84% gain over a couple of years for today's investor. And the potential upside doesn't end there.

Swick recently moved to 100% ownership of Orexplore, which has developed a scanner enabling on-site analysis of core samples. Instead of trucking the samples to a specialist lab – running the risk of the cores deteriorating or being damaged – the process can be conducted much more efficiently.

The Orexplore technology is a logical add-on for Swick's existing clients. And it's a known quantity for Swick, which first invested in the business in 2013 and has funded its research and development in the meantime. A prototype of the technology operates at the Boliden copper mine in Finland (Orexplore was founded in neighbouring Sweden).

Dreaming bigger, it's possible that Orexplore becomes standard at mines all around the world. That kind of success would be nice gravy on top of this investment. But it's not necessary for things to work out well.

THE INVESTMENT STORY

Part of second-level thinking is understanding the difference between a "business story" and an "investment story". First-level thinkers focus on the business story while second-level thinkers look at the overall picture, taking the stock price into account.

For instance, first-level thinkers are focused on the impact that Amazon's arrival in Australia will have on retailers. No doubt this is bad news for many local retailers. But consider that many stocks in the sector have halved over the past year. These include Baby Bunting (BBN), Shaver Shop (SSG), Adairs (ADH), RCG Corporation (RCG), Vita Group (VTG), The Reject Shop (TRS) and Myer (MYR).

First-level thinkers are running scared and the question for second-level thinkers is whether that panic is an over-reaction, at least in some cases, and therefore creating investment opportunities.

An important caveat here is that second-level thinking can only ever lead to potential investment ideas. The kernel of something that might grow into a fully fledged idea once researched.

At this point, for me, these retail stocks remain just that – potential investments. I haven't yet conducted deep research. But Swick is a stock I have followed for many years (and is owned by portfolios I manage). So when the second-level thinking angle of Trump-inspired higher gold prices presented itself, I was in a position to know that the investment case was already an attractive one.

At a time when the leader of the free world appears to epitomise first-level thinking, it may pay more than ever to take our own thoughts to a higher level.

Greg Hoffman is an independent financial educator, commentator and investor. He is also chairman of Forager Funds Management.

Disclosure: Private portfolios managed by Greg Hoffman own shares in Swick Mining.

Paper profits disappear

STORY JAMES GREENHALGH

Newspapers aren't what they used to be. Now the real money is in digital real estate

The odd thing about Australia's two largest media companies – News Corp and Fairfax – is how they're no longer really media companies at all. Fairfax's newspaper business is of marginal value, something that the market has already worked out. Instead, its most valuable asset is the property sales website domain.com.au.

Now the same thing is happening at News Corp. The difference is that the opportunity for investors in News is bigger and better.

News Corp's latest result was notable for the $US785 million ($997 million) written off from the value of its UK and Australian newspaper assets, along with $US227 million from the value of Foxtel. A billion dollars here, a billion dollars there, and soon enough it adds up to real money.

The legacy news and information services business (NIS) continues to deteriorate. Plummeting advertising revenues – falling 10% in Australia, for example – explain the writedowns. The division may account for $US5.1 billion in revenue but, as with Fairfax, the business upon which the company was founded is becoming less important.

Taking its place is the digital real estate division, where chief executive Robert Thomson has promised that earnings will soon overtake those from NIS.

Here the numbers were impressive. For the year to

June 30, 2017, underlying real estate EBITDA (earnings before interest, tax, depreciation and amortisation) jumped 44% to $US318 million as Move, the US arm of the business, became profitable.

The company continues to invest heavily in Move, with recent new products aimed at helping real estate agents. Although market leader Zillow is a formidable competitor, the upside remains significant.

The 62%-owned REA Group (the Australian part of the digital real estate division, owner of realestate.com.au) produced another strong result. Revenues and EBITDA each grew 16% to $671 million and $381 million respectively. Net profit growth was slightly lower at 12% as higher amortisation and interest charges took a toll.

This grab bag of businesses generates lots of cash

The result was a little below the market's high expectations. Combined with a downturn in the Asian business and concerns about weakening developer advertising in Australia as the apartment construction boom cools, REA Group's share price fell 6% after the result.

This remains an exceptional business. And the result from this division hints at the opportunity. REA's share price has soared over the past few years but News Corp's has gone nowhere. Given News's majority shareholding in REA Group, it should eventually catch up.

While shareholders wait, the company's other divisions are doing well enough. Book publishing delivered underlying EBITDA growth of 9% to $201 million and in cable network programming underlying EBITDA was flat at $127 million.

Pay television company Foxtel – 50%-owned by News Corp – continues to be very profitable, even though management is struggling to increase subscribers, which fell from 2.9 million to 2.8 million during the year. The average monthly revenue per user was $86.

And despite the structural challenges News Corp faces, this grab bag of businesses generates lots of cash. Underlying operating cash flow (excluding legal settlements) was $757 million for the year and net cash increased to $1.7 billion. That means there's plenty in the kitty for acquisitions or growth opportunities.

What about the outlook? The digital real estate business will deliver another year of strong growth in the 2018 year. At NIS management is frantically cutting costs but it won't be enough to prevent a further earnings decline.

There's a strong pipeline in the book publishing division, which will hopefully offset some weakness in cable network programming as higher rights costs for the rugby league contract begin to bite.

All up, we believe the market continues to underprice the stock. REA Group and Move now account for the vast majority of the company's value. The legacy media assets may be eroding faster than even we expected but this has been offset by the increasing potential of the digital real estate division.

REA Group should continue to perform well, even as the Sydney and Melbourne housing boom subsides, and Move looks very promising.

So forget newspapers. News is all about digital real estate. Over time the market should eventually recognise this fact. News Corp has been on our "buy" list for a few years now and we're quite happy to keep it there.

James Greenhalgh is a senior analyst at Intelligent Investor, owned by InvestSmart Group. This article contains general investment advice only (under AFSL 282288). To unlock Intelligent Investor stock research and buy recommendations, take out a 15-day free membership.

OUTLOOK Sarah Hunter

Choppy waters lie ahead

The economy faces a number of challenges before broad-based growth returns

Economic growth over the past 18 months has been patchy, and although the fundamentals are good this is set to continue for the next year or so – growth is likely to be around 2.5%pa this year and next. Driving the economy forward will be exports, with new LNG installations coming online in Western Australia and the Northern Territory and Queensland's coalminers recovering from the disruption caused by Cyclone Debbie.

Tourism and education exports have also come back to the party, helped by the fall in the Australian dollar since the end of the mining boom and improving conditions externally, with short-term overseas visitor arrivals increasing by about 9% year on year for the last 18 months. Export volumes rose an estimated 7% in 2016-17, and growth is likely to remain robust this year.

Governments are also doing more of the heavy lifting. NSW and Victoria are charging ahead with transport infrastructure projects – wherever you turn in Sydney or Melbourne there's a road or rail link being built or upgraded – and the federal government is also getting in on the act with the rollout of the National Broadband Network. The end of fiscal austerity in this year's budget will also help, with Medicare getting additional funding and support for small businesses expanded.

But this positive momentum is set against an incoming downturn in residential construction activity. It is likely that residential construction bounced back in the June quarter after a rain-hit start to the calendar year but it looks as if activity levels are starting to slide.

Dwelling approvals are currently falling by more than 10% a year nationally, with the decline concentrated in apartment blocks and townhouses. As this feeds through the construction pipeline, there will be a natural decline in activity, and with all capital city markets now in housing stock oversupply apart from Melbourne (close to balance) and Sydney (small undersupply), the downturn is likely to run until the end of 2018-19.

Households are also feeling the squeeze. Although employment growth has picked up since January, with the economy adding 168,000 jobs since then, underemployment is still a problem and wages growth remains stubbornly weak at just 2%pa. With inflation running at around 2%, real wages are stagnant for the average employee.

There is no immediate relief on the horizon. The downturn in the labour-intensive construction sector will weigh on employment growth, and the recent pick-up is likely to peter out in the next three to six months. This will also delay any substantial increase in wages growth until 2019-20.

Growth in consumer spending has been largely unaffected so far, with households choosing to save less of their income to fund spending. But this can't continue forever, and growth in consumption is likely to fall to less than 2.5%pa over the next 18 months as households tighten their belts.

Given the choppy outlook for the economy, it is no surprise that business investment has been patchy. We have just about reached the bottom of the mining bust; spending by coal and iron ore miners has troughed out but total spending will fall further as the Wheatstone and Ichthys projects are finished in Western Australia and the Northern Territory respectively. We have seen a pick-up in spending by hoteliers and others connected to tourism, but apart from this the growth in investment spending has been tepid at best. This is no surprise given the subdued pace of consumer spending and residential downturn but it does mean that it will be a few more months yet before a broad-based recovery in business investment takes hold.

So overall, a mixed bag for the next year or two. If the economy evolves along these lines, the Reserve Bank is likely to stay on the sidelines until 2019-20, meaning rate normalisation here will begin a full three years after the US (although the Reserve Bank is a lot more optimistic about the outlook). With US rates rising, this will lead to a steeper yield curve and downward pressure on the Australian dollar, which would be a welcome additional support for the economy.

Sarah Hunter is head of Australia Macroeconomics, BIS Oxford Economics.

SECTOR MARKETING

Classified information

Online businesses have diverted print's "rivers of gold"

As a small boy back in the 1970s I earned $11 a week delivering papers, morning and afternoon, for a newsagency in Melbourne's West Brunswick, and to this day I cannot forget how much I rued rainy Saturdays. You see, back then the Saturday paper was enormous and heavy – thanks to the classifieds.

And back then there was no internet – indeed, we didn't even have the phone on until 1976 and our television was black and white. In the 1970s if you wanted to sell your TV, car or house, you listed it in the Saturday paper. You paid by the line and most people were economical with their words, remembering that a three-bedroom house-and-land package could be picked up for $11,000 or a $1000 deposit and repayments of $22 a week.

How times have changed. Today the rivers of gold that were newspaper classifieds have all but dried up for the owners of printed newspapers and now accrue to online monopolists or duopolists.

REA Group dominates real estate classifieds in Australia. Carsales likewise dominates new and used auto trading locally and in New Zealand; TradeMe dominates all of the above as well as second-hand goods.

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

❶ REA Group

ASX code REA
Price $68.25
52wk ▲ $71.59
52wk ▼ $45.50
Mkt cap $9bn
Dividend 91¢
Dividend yield 1.3%
PE ratio 43.64
BUY

Of the more than $7 billion spent on marketing residential real estate in Australia, we believe an undeserving 83% goes to real estate agents. Less than 10% goes to REA Group and we believe the company brings more than 10% of the value to a transaction.

When REA announced its 2016-17 full-year profit of $228.3 million, which was up about 12%, the shares fell 6%.

We believe that a maturing or flat property market would bring more vendors listing; lower auction clearance rates and therefore longer times "on market", which in turn means more listings at any one time; and more aggressive competition among vendors, who will pay up to highlight their property and therefore provide a higher average revenue per ad for REA.

Combined, a mature property market delivers more growth for REA.

❷ TradeMe

ASX code TME
Price $4.55
52wk ▲ $5.70
52wk ▼ $4.16
Mkt cap $1.8bn
Divident 16.5¢ (2017)
Dividend yield 3.6%
PE ratio 22.68
HOLD

TradeMe recently fell 7% in a single day on the back of a broker report that downgraded its prospects amid an expectation that Amazon will enter the New Zealand market after it is established in Australia.

The note suggests that, to compete with Amazon Prime, TradeMe will need to come up with an "all-you-can-eat" freight offer that will need to be partly subsidised. It also suggests that a loss of share will feed into the virtuous circle for Amazon and adversely impact TradeMe's classifieds and advertising revenues.

We don't disagree that Amazon is likely to increase its market share in New Zealand. But we note that even if TradeMe never sold a single new product again from tomorrow, its earnings before interest and tax would fall by just 13%, which now appears to be more than factored into the share price.

❸ Carsales

ASX code CAR
Price $13.24
52wk ▲ $13.94
52wk ▼ $9.57
Mkt cap $3.2bn
Dividend 40.2¢
Dividend yield 3%
PE ratio 29.16
HOLD

In a relatively mature car market, Carsales impresses with its ability to continue to grow while maintaining impressive rates of return on equity. For 2017 revenue grew by 8% and EBITDA by 4%. The core business, excluding Stratton Finance, increased revenue by 13% and EBITDA by 7%.

While profit margins were slightly weaker, this was due to the faster growth of lower-margin businesses such as Tyresales and RedBook Inspect. Importantly, the Stratton business returned to growth in the second half and experienced a strong fourth quarter, perhaps leading the company to provide guidance of "solid" growth in 2018.

Current prices are somewhat demanding for Carsales shares. Longer-term investors need to consider the impact of autonomous electric vehicles on a car classifieds business.

Prices as at close of business, 18-Aug-17.

Think like a Vulcan

Earthlings are terrible investors: their emotions get in the way

10 STOCKMARKET LESSONS THAT NEVER CHANGE:

1 If you ever find yourself standing up at your dealing desk and punching the air in delight, it means "sell".

2 If anyone ever says, "We have entered a new paradigm in equity investment", "stronger forever", "the Chinese economy has de-coupled from the global economy" or "we have no sub-prime exposures", three stockbrokers list in a year or the ETF industry creates an actively managed ETF that targets a particular theme, sell!

3 There is only one thing a falling share price tells you and it's not "buy me". I don't know what it is about the Australian culture but if something falls in price everyone wants to buy it. A falling share price means "sell me" not "buy me". It's technical analysis, page 1.

4 The market falls three times as fast as it rises. An academic study into behavioural finance once concluded that losses have three times the emotional impact of a gain. It is a lot easier to miss out on profits you never made than it is to lose profits that you did. Fear is a bigger driver than confidence and, as Warren Buffett says, "it takes five minutes to be fearful but you can't get confident in five minutes". Stockmarkets rise slowly and fall quickly. You have to react quickly to losses. In a bull market you have time. In a bear market you don't.

5 Humans are naturally bad investors. They are wired for hope, to like, to hate. Because of that they make terrible investors. Investors need to think like Spock. Be Spock. Vulcans make much better investors. They are wired to coldly process the information and make a decision, while we get confused, depressed, optimistic, pessimistic, and worry about whether we are in loss, or profit, anchoring ourselves to some previous share price that is now irrelevant to tomorrow's share price. None of that helps; it just gets in the way.

6 No one ever tells you to sell. The best stock in a bear market is cash but, amazingly, no one ever tells you to sell and this is perhaps one of the most important lessons from the GFC. The finance industry is a marketing machine. It is designed to get you in, not let you out. Anyone who has ever tried to exit a managed fund will tell you. Anyone who has ever rung up a financial planner and told them they want to sell will know. The financial industry is not in the business of facilitating the exit of fee-paying clients. You have to take responsibility for making the decision to sell. It is yours to make, and the finance industry will resist you.

7 There are no crystal balls. Tomorrow is a blank canvas. Investment sails on a sea of uncertainty. It is about probability not certainty. The best you can do, through research, is to improve the probability of success, because nothing is 100% certain.

8 Time is money. "Buy and hold" and "set and forget" are unrealistic and utopian because they breed inaction and denial. Inaction in the GFC cost 54.5% from top to bottom and in order to recover that loss the market had to go up 119%. At the average return of 9.5% a year, were we to be so lucky, it should have taken us 8½ years to get our money back but so far it has been 10 years, and we are still down 15% from the 2007 high. It's not the money that hurts, it's the time.

9 The difference between success and failure is not what you do before you buy a stock but what you do after. Half this game is not picking the right stocks; it is getting out of the stocks that you get wrong. It is about avoiding losses. It is about not cocking it up. It's almost more important than getting it right.

10 You have to time the market. If we want to save ourselves 10 years of going nowhere again it is clear that occasionally, just occasionally, we are going to have to time the market. But let that not dismay you; timing the market is half the fun. Making a judgement and taking a risk is why we're here and the finance industry would do well to embrace it rather than hide in the cliche that you can't time the market.

Finally, be good to your kids. Those kids you packed off to primary school this morning are the first generation of investors who will have no experience of the 2008 crash and are therefore the first generation since then who are capable of irrational exuberance.

We will be selling them all our assets at the top one day. So smile and be nice. It's us and them.

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 data in these tables compares some of the most popular super funds. They are a mix of industry funds, master trusts and government funds. Industry funds are set up by employer associations and unions; many are offered publicly, some have restricted membership (NP). Master trusts (corporate and personal) are set up by banking, insurance or financial planning groups. All performance figures are after all fees, charges and tax applied to the fund have been deducted. The table here shows performance of funds' balanced options. But most super funds offer many other choices of investment mix.

The data is provided by SuperRatings, a totally independent Australian superannuation research company. It is the leading source of superannuation information to the Australian media and is renowned for its timely commentary and opinions on the various superannuation funds available.SuperRatings assesses over 250 superannuation funds and products. SuperRatings takes into account risk-adjusted investment performance, fees, insurance, service delivery, education, financial planning facilities, employer support, fund governance and flexibility of the options. The judging is mainly quantitative but does include qualitative assessment.

Calculators, fund comparisons, fund ratings, news and expert opinion can be found at www.superratings.com.au.

Best super funds: balanced options

RANKED BY 5-YEAR RETURN

FUND	TYPE	2017 RATING	1-YEAR RETURN	RANK	3 -YEAR RTN (%PA)	RANK	5-YEAR RTN (%PA)	RANK[1]	7-YEAR RTN (%PA)	RANK
HOSTPLUS Balanced	Industry	Platinum	13.2%	1	9.7%	1	**11.8%**	1	9.9%	1
Cbus Growth (Cbus MySuper)	Industry	Platinum	11.9%	9	9.1%	4	**11.4%**	2	9.6%	4
AustralianSuper Balanced	Industry	Platinum	12.4%	2	9.2%	3	**11.4%**	3	9.7%	2
UniSuper Accum (1) Balanced	Industry NP	Platinum	9.6%	34	8.8%	8	**11.2%**	4	9.5%	5
CareSuper Balanced	Industry	Platinum	11.7%	12	8.9%	6	**11.1%**	5	9.7%	3
Intrust Core Super MySuper	Industry	Platinum	12.2%	6	8.8%	9	**11.1%**	6	9.1%	12
BUSSQ Premium Choice Bal. Growth	Industry Personal	Platinum	9.8%	31	8.9%	7	**11.0%**	7	9.3%	9
VicSuper FS Growth (MySuper)	Industry	Platinum	11.2%	17	8.0%	16	**11.0%**	8	9.4%	6
Telstra Super Corp Plus Balanced	Corp	Platinum	11.4%	16	7.5%	27	**11.0%**	9	9.3%	11
Sunsuper for Life Balanced	Industry	Platinum	12.3%	3	8.5%	11	**10.9%**	10	9.0%	17
Equip MyFuture Balanced Growth	Industry	Platinum	11.9%	7	8.3%	13	**10.8%**	11	9.3%	10
Energy Super Balanced Option	Industry	Platinum	11.7%	12	8.6%	10	**10.8%**	12	9.0%	14
AustSafe Super MySuper (Bal.)	Industry	Gold	11.1%	18	8.4%	12	**10.8%**	13	9.0%	15
Catholic Super Balanced	Industry	Platinum	11.8%	10	9.1%	5	**10.7%**	14	9.3%	8
REST Core Strategy	Industry	Platinum	11.1%	19	7.4%	28	**10.7%**	15	9.1%	13
First State Super Growth	Industry	Platinum	12.3%	4	7.8%	20	**10.5%**	16	8.8%	20
Aon MT Corp Ess Bal. Growth Active	MT-Corp	Gold	9.7%	33	7.2%	30	**10.4%**	17	8.4%	23
HESTA Core Pool	Industry	Platinum	11.0%	21	8.0%	17	**10.3%**	18	9.0%	16
Kinetic Super Growth	Industry	Gold	11.9%	8	7.5%	26	**10.3%**	19	9.3%	7
MTAA Super My AutoSuper	Industry	Gold	11.0%	20	9.4%	2	**10.2%**	20	7.6%	39
SR50 Balanced (60-76%) Index			10.5%		7.6%		**10%**		8.2%	

[1] Rankings are made on returns to multiple decimal points.

SuperRatings Indices Median Returns

	1 YEAR	3 YEARS	5 YEARS	7 YEARS
SR25 High Growth (91-100%) Index	14.1%	8.6%	12.5%	9.5%
SR50 Growth (77-90%) Index	11.8%	8.1%	11.2%	9.0%
SR25 Conservative Balanced (41-59%) Index	7.2%	5.7%	7.6%	6.9%
SR50 Capital Stable (20-40%) Index	5.3%	4.8%	5.8%	5.7%
SR25 Secure (0-19%) Index	2.1%	2.4%	3.0%	3.4%
SR25 Property Index	7.6%	9.9%	10.0%	9.6%

Percentages in brackets indicate proportion of growth assets.

WHAT THEY MEAN

Rank Super funds have been ranked by five-year returns. Returns are net of maximum fees. High balances may qualify for lower fees and thus better returns. Rankings for one-, three- and seven-year returns show the performance of the particular fund compared with peers.
NP means membership of the fund is restricted.
Pr means performance results are preliminary.
Returns are as at June 30, 2017.

SuperRatings rating
Platinum are best value for money funds; **Gold** are good value for money; **Silver,** reasonable value; **Bronze** are below average in performance and features; and **Blue** are bottom of the ladder.

"We have a tendency to not push ourselves as hard as start-ups in markets such as China"

What was your first job?
During high school I was a candy bar assistant at Hoyts Cinemas in Sydney's Chatswood. The job also involved cleaning the popcorn popper and hopper and then making choc tops in the freezer during down time.

What's the best money advice you've ever received?
Money is worth a lot less than your personal brand and reputation, so don't make decisions that might provide you with a few extra dollars in the short term but will hurt your personal brand. If your personal brand is tarnished, you'll miss out on lots of opportunities.

What's the best investment decision you've made?
While not financial, I believe the best decision I've made was to work pro bono during a university internship at Macquarie Bank and then again scoring a pro bono role as a consulting agent at Chic Management. Both of these time investments helped to build relationships with great people which have absolutely paid off.

What's the worst?
Not investing more heavily into US tech stocks in 2009. In hindsight these bets had really strong fundamentals and were really obvious! I believe it's important to look at consumer-facing fundamentals – not just revenue growth and profitability but more importantly aspects such as brand loyalty, product superiority and developing network effects. On this basis, it's really hard to see how the likes of Apple, Amazon and Google weren't going to continue to do well.

What is your favourite thing to splurge on?
I like to spend money on sneakers like New Balance, Nike, Car Shoes or Alpinestars. I think the most expensive shoes I've purchased were a pair of Nike Air Max Zeros from eBay. They were originally released as a Tinker Hatfield special edition so I expected them to remain a rare find. But due to their overwhelming popularity they've been released to the mainstream and you can buy a pair reasonably cheaply at the local store. Luckily, I didn't buy them as an investment and wear them often, so they wouldn't be worth much today anyway!

Tim Fung

Founder and CEO of Airtasker, a services marketplace allowing people to outsource chores and errands. He is also a mentor at Founder Institute, Sydney and was named in SmartCompany's Hot 30 Under 30 entrepreneurs and Shoe String's *Startup Daily* Young & Influential List in 2012.

If you had $10,000 where would you invest it?
Into a start-up founded by a trusted friend or colleague. I would want to bet on the opportunity to make a significant step-change win and to do this I think you would need to bet on a company which is doing something meaningful for the community and society.

What would you do if you had only $50 in your bank account?
I would look to earn a little more money by leveraging my skills on Airtasker. I would focus on local tasks including office admin and building Excel spreadsheets and mix it up with some moving jobs to get some exercise!

Do you intend to leave an inheritance?
It would be nice to leave something behind for my wife Modi and our labradoodle Harvey but at the same time I think it's important to invest into enjoying your life, which means something different for each person. Overall, I don't really believe in the importance of leaving behind a huge personal legacy in terms of commercial success, so I would take a reasonably pragmatic view of what I would need to leave behind to make sure Modi and Harvey could have a comfortable life together.

What needs to happen to help start-ups grow in Australia?
In Australia sometimes there is a tendency to not look at the fundamentals and concentrate on monetisation and extracting profits before we've built a strong underlying platform for sustainable future growth. I think the main thing that we can improve on is having more confidence and, ultimately, chutzpah. We have a tendency to not push ourselves as hard as start-ups in competitive markets such as China, where competition forces start-ups to reach higher.

Finish this sentence: money makes ...
... more money. Which is a little sad as it seems that in the modern world there is quite a bit of inertia which hinders the poor getting a little richer and the rich getting a little poorer – and I don't think this represents any type of meritocratic system.

Money

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