INFORMED INVESTOR

February 2023

Antipodean Advisory

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Welcome to the February edition of our quarterly newsletter, Informed Investor.

ECONOMIC UPDATE

Risk assets performed strongly in January, following further indications that inflation may have peaked in key regions.

Global economic growth forecasts were lowered by both the World Bank and the IMF but investors appeared to brush off these concerns. Instead attention was focused on the central bank meetings, to see whether interest rates would continue to be raised.

Most global share markets added between 5% and 10% over the month, although strength in the AUD eroded returns from overseas exposures for Australian investors.

Locally, the S&P/ASX 200 Index returned 6.2% and closed the month close to its all time highs.

Fixed income performed well too, with downward movements in government bond yields aiding returns from Australian and global bond markets.

The generally strong risk appetite among investors also enabled credit to generate pleasing returns over the month.

Continued over...

FURTHER INFORMATION

Michael Clapham

Antipodean Advisory

P: 1300 101 250

E: michael@antipodeanadvisory.com.au

W: www.antipodeanadvisory.com.au

Capstone FINANCIAL PLANNING

ECONOMIC UPDATE CONTINUED

AUSTRALIA

Unlike in other regions, inflation still appears to be accelerating in Australia. Headline inflation rose at an annual rate of 7.8% in the December quarter, while the 'trimmed mean', the favoured measure among Reserve Bank of Australia (RBA) officials, quickened to 6.9% year on year. This was the highest level since the series was introduced in 2003.

Prices for 'discretionary' items surged over the period, with particularly strong demand and prices seen for cars, clothing and travel.

Despite sluggish retail sales in December, the latest inflation data will almost certainly concern policy makers and suggest the RBA will continue to raise interest rates in the months ahead.

NEW ZEALAND

The quarterly Survey of Business Opinions suggested firms are expecting profitability to collapse this year. This does not augur well for investment and growth.

Consumer confidence is also subdued, owing to higher mortgage interest costs and general weakness in the residential property market. The volume of home sales was 39% lower in December from 2021 and prices were down 7.2%.

US

The annual rate of inflation in the US has now slowed for six straight months.

In turn, there were suggestions that the Federal Reserve was preparing to slow the pace of its policy tightening cycle. Interest rates were raised by a quarter of a percentage point on 1 February. This compared to the past six rate hikes, all of which saw borrowing costs increased by either 0.5 or 0.75 percentage points.

Consensus forecasts suggest US officials might raise borrowing costs once or twice more in the next six months or so but any further moves are expected to be modest. That said, policy makers have emphasised the need for interest rates to be held at elevated levels for an extended period.

In other news, US GDP growth slowed less than expected in the December quarter, to an annual rate of 2.9%. So far, the economy has been more resilient than anticipated following significant increases in interest rate hikes in 2022.

Some other indicators were less encouraging. A closely watched gauge of activity levels in services sectors deteriorated, for example.

EUROPE

The weather in Europe in the Northern hemisphere winter has been milder than anticipated. This has resulted in lower than expected demand for energy for heating and seen wholesale energy prices trend lower. The outlook for inflation in the months ahead is therefore not as bleak as previously feared.

Gas storage in Europe has risen quite sharply; from the lower end of the historical range a year ago when Russian gas was flowing freely, to the higher end of the historical range during a period when Russian supplies have almost entirely ceased.

Lower energy prices are also feeding through to official inflation data. Consumer prices rose at an annual rate of 9.2% in the Eurozone in December, below the double digit annual inflation rates seen in each of the previous three months.

Nonetheless, European Central Bank officials remain steadfast in their fight against inflation and raised official interest rates by half a percentage point on 2 February.

The Bank of England raised borrowing costs by a further half percentage point the same day, taking the base rate to 4.0%. UK interest rates are now expected to peak around 4.5%.

In other news, the UK will be the only economy in the G7 group of nations to shrink in 2023, according to the IMF.

ASIA

The 'China reopening' story dominated attention in Asia. Officials finally appear to be softening their stance on COVID, removing a range of virus related restrictions.

The Chinese economy grew 'only' 3.0% in 2022; the second slowest annual growth rate since the 1970s and well below Beijing's 5.5% annual target.

Activity levels could accelerate immediately following the Lunar New Year celebrations as restrictions are relaxed. This could be good news for neighbouring countries in the Asia Pacific region, including Australia, which tend to be reasonably reliant on growth in China to drive their economies.

AUSTRALIAN DOLLAR

The general 'risk on' tone benefited the AUD. The currency strengthened by 3.6% against the US dollar, closing January above 70 US cents for the first time in nearly six months.

The AUD has now appreciated by more than 10% against the US dollar in the past three months.

The 'Aussie' also appreciated against other currencies, including the euro, the UK pound and the Japanese yen. Collectively, the AUD gained 1.6% against a trade weighted basket of currencies, adding to strength from late 2022.

AUSTRALIAN EQUITIES

Australian shares started 2023 positively, with all but one sector posting gains. As a whole, the S&P/ASX 200 Accumulation Index added 6.2%.

A combination of moderating inflation expectations, lower bond yields both locally and offshore and an increasing number of large international firms announcing cost cutting initiatives helped spur a renewed sense of optimism.

The Consumer Discretionary sector (+9.9%) was the strongest performer over the month.

Market sentiment towards mining stocks improved on expectations that an acceleration in growth in China will benefit demand for bulk commodities. This supported index heavyweights with increases of more than 8.0%. Strong performances from lithium companies also supported an 8.9% return from the Materials sector.

Utilities (-3.0%) was the only sector to register a negative return in January.

Small caps outperformed their larger peers for the first time since October, with the S&P/ASX Small Ordinaries Index closing the month 6.6% higher.

All sectors in the small cap index posted gains. The Consumer Discretionary sector (+11.2%) was a standout.

LISTED PROPERTY

Global property securities appreciated in January, consistent with the upward move in share markets globally. The FTSE EPRA/NAREIT Developed Index returned 8.0% in Australian dollar terms, comfortably outperforming wider equity markets.

In general, sentiment was supported by moderating inflation expectations in key regions. In turn, there were hopes we might be nearing the end of monetary tightening cycles in the US, Europe and Australia.

The best returns from international property markets were found in Germany (+16.8%), France (+10.7%) and Sweden (+10.7%). Laggards included Hong Kong (+5.2%) and Spain (+6.0%).

Japan was the only country to register a negative return (-1.6%), following a surprise change to the Bank of Japan's yield curve control policy in December.

GLOBAL EQUITIES

Overseas share markets fared well too. The MSCI World Index added 6.5% in local currency terms, although strength in the AUD reduced the return to 3.1% for Australian based investors.

The NASDAQ performed extremely well in the US, adding 10.7%. This was the best January return for more than 20 years.

The broader S&P 500 Index added 6.3%, essentially reversing December's weakness and closing around its end November level.

All of the major indices in Asia also posted positive returns.

There was a fair degree of dispersion among European markets, although all made positive progress.

GLOBAL AND AUSTRALIAN FIXED INCOME

Suggestions inflation may have peaked or being close to peaking in major regions saw investors reassess their interest rate forecasts. In general, the peak in borrowing costs is now expected to be a little lower than anticipated before Christmas.

These evolving expectations saw bond yields trend lower in most major regions, which supported gains from global fixed income.

Comments from Federal Reserve policy makers attracted the most scrutiny, especially since developments in the US tend to set the tone for other bond markets worldwide. Ten year Treasury yields closed the month down 37 bps, to 3.51%.

There were similar moves over the Atlantic. Ten year yields on UK gilts and German bunds closed the month 34 bps and 28 bps lower, respectively.

Japan was an outlier. Yields on 10 year JGBs rose 8 bps over the month, to 0.49%.

Australian bond yields fell sharply; by 50 bps in the 10 year part of the curve. This aided returns from the local bond market. The Bloomberg AusBond Composite 0+ Year Index added 2.8%, clawing back some lost ground from 2022.

GLOBAL CREDIT

Credit spreads narrowed quite sharply over the month, consistent with gains in major share markets and with a general increase in risk appetite among investors.

Spreads on investment grade securities closed the month 14 bps tighter, at 1.33%.

Spreads on high yield credit also narrowed sharply.

We saw a good level of new corporate bond issuance over the month. Encouragingly, all of this new issuance was comfortably digested by the market.

Early indications from the latest corporate earnings announcement season suggest most firms remain in healthy shape financially.

Source: Bloomberg. Issued by First Sentier Investors.

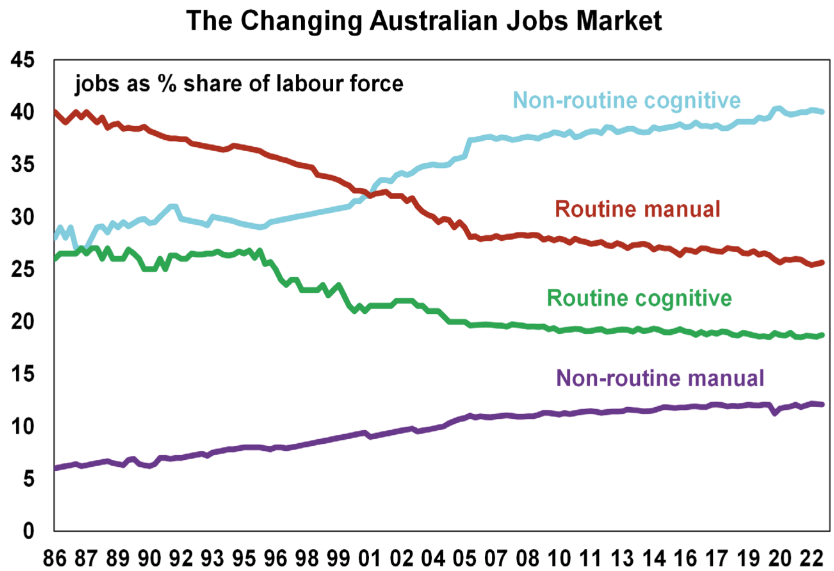
FIVE LONG TERM GLOBAL TRENDS AND IMPLICATIONS FOR MARKETS

This article looks at some structural trends in the economy and their impact on economic growth and investments.

1. A DECLINE IN ROUTINE BASED JOBS

Fear of technology replacing jobs has been around for years, although concern around this risk appears to have waned in recent times, as impacts of the pandemic on labour markets has taken focus. New technology is constantly displacing some jobs but it is also creating new ones in its place. The jobs most at risk are routine based jobs, because this type of work can be replicated, learned and taught by machinery and automatic intelligence. In Australia, there has been a long term decline in manual and cognitive routine based jobs. In the late 1980s, routine manual jobs were 40% of the workforce and are now around 26% of the workforce while routine cognitive jobs were 26% of the workforce in the late 1980s and are now worth 19% (see chart). Similar medium term trends are evident across other developed countries. Non routine jobs (either manual or cognitive) are less at risk of being displaced by technology because they are harder to replicate and often need a human element (for example in jobs related to health, childcare or teaching). Problems in recent years with self driving cars also shows the difficulties associated with technology.

Middle income households tend to be most susceptible to routine based jobs so this trend will increase inequality and could put downward pressure on wages growth in the long run. The OECD (Organisation for Economic Co-operation and Development) in a report done in 2018, estimated that around 14% of jobs (in the OECD) are at high risk from automation, with large variations across countries (countries at higher risk include Slovakia, Slovenia, Greece and Spain while the countries at the lowest risk include Norway, Australia, Finland and Sweden). The workforces that are more at risk tend to have a lower educated workforce, a weak tradeable services sector and have a low urbanisation rate. In Australia, around 7% of jobs are estimated to be at high risk of automation and in the US its slightly higher at 10%. The government has a role to play in ensuring that the transition to new types of employment for impacted employees is managed through training programs, appropriate university curriculum and ensuring that funding is targeting those areas at the highest risk of job losses due to automation.

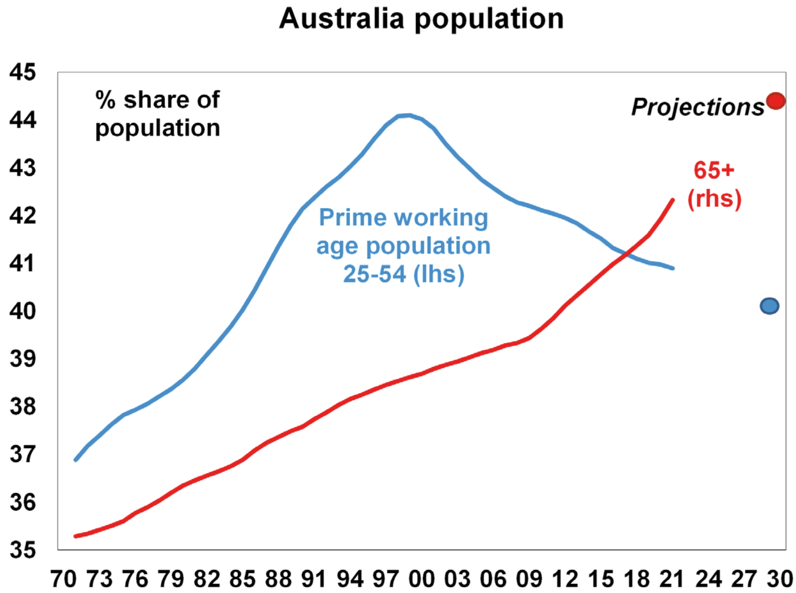


Source: ABS, AMP

2. AN AGEING POPULATION AND AN INCREASE IN THE 'DEPENDENCY RATIO'

The global population, especially in major developed countries, is ageing which has been a long term trend as the birth rate has declined.

In Australia, the share of the prime working age population (those aged between 25-54) peaked at 44% of the population in 1999 and has been falling slowly since then, currently at around 41% and projected to be around 40% by the end of the decade. In contrast, the share of the population that is aged 65+ is expected to keep climbing to just under 20% by 2030, up from 17% now (see chart). An ageing population will put upwards pressure on the 'dependency ratio' (the sum of those aged under 15 and over 65 as a share of the whole population) which will detract from national savings (people who work increase savings while the very young and old drain savings) which is inflationary in the long term.

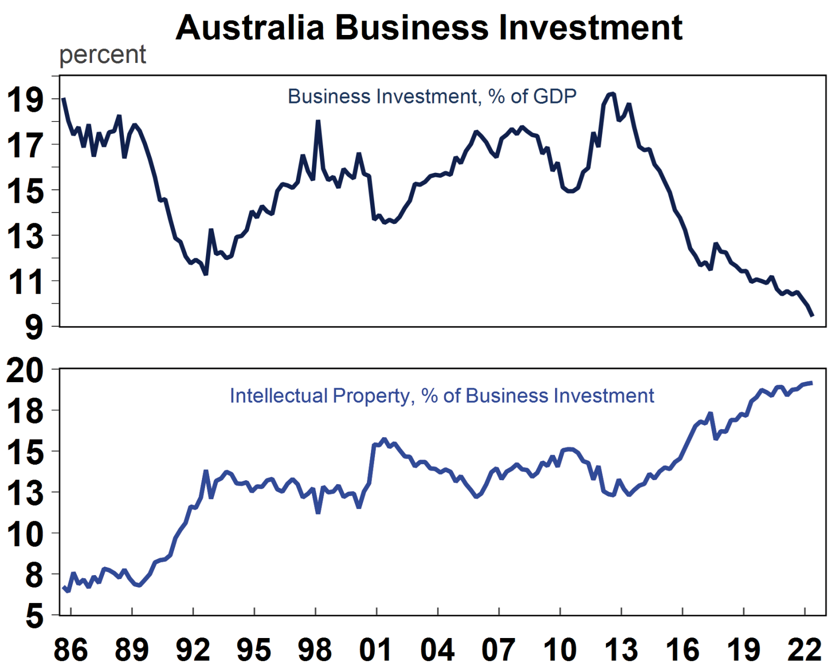


Source: ABS, AMP

3. A DECLINE IN BUSINESS INVESTMENT AS A SHARE OF GDP BUT A LIFT IN INTELLECTUAL PROPERTY AS A SHARE OF INVESTMENT

In many developed countries, private business investment is declining as a share of the economy, in place of a rising services sector which is less investment intensive.

In Australia, business investment often goes through cycles because of the dominance of the mining sector (at its peak mining investment reached 11% of GDP). After the last mining investment boom (which ended in 2012 after business investment was 19% of GDP), investment has been on a gradual decline and is now 9.4% of GDP (see chart). While there may be ups and downs in the cycle from the mining investment contribution and the usual wear and tear associated with depreciation, private business investment is likely to decline further as a share of GDP because of the changing nature of business investment. The typically large scale buildings and structures, machinery and equipment type of investment is being replaced with less 'heavy' types of investment, like intellectual property with the rising importance of the tech sector in all industries. A less capital intensive economy could weigh on long run productivity growth, although the impact is probably marginal as intellectual property investment should still boost productivity growth.



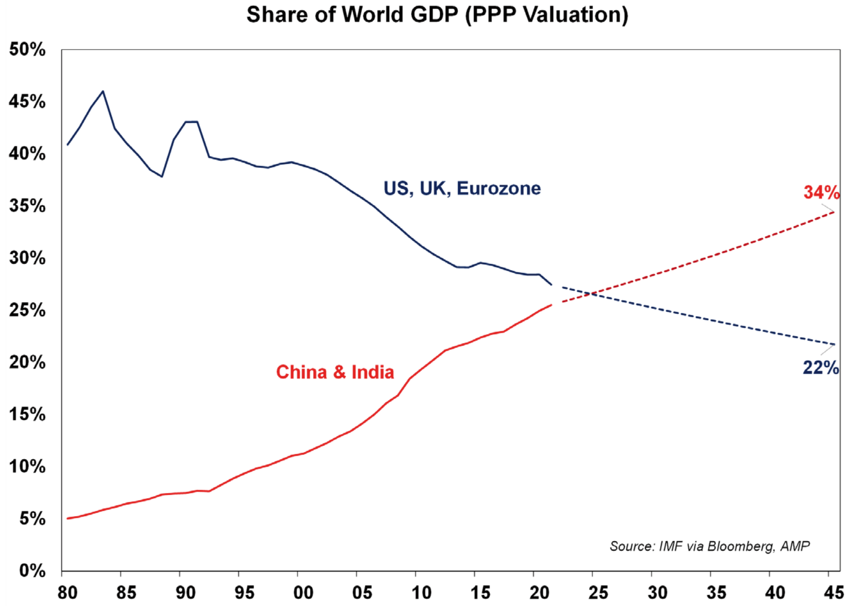
Source: Macrobond, AMP

4. A MULTI POLAR WORLD MEANS MORE GEOPOLITICAL RISKS

The US economy has been increasing in importance to the global economy since the end of the Second World War. The rising significance of the US economy to global trade, cultural influences, military presence and economic power has been increasingly consistent with a unipolar world, especially as the United Kingdom and the Eurozone have had challenging economic conditions in the past decade.

However, the balance of power has been shifting in recent years as the Chinese economy grows and becomes a larger share of the global economy (see chart). In purchasing power parity (PPP) terms (which adjusts individual country prices into a global comparison after accounting for exchange rates and purchasing power in each country which allows a better sense of living standard comparison) the Chinese economy is already the largest in the world (at 19% versus the US at 16%). If we also account for India then China and India make up 26% of the global economy compared to the US, UK and the Eurozone at 27% (in PPP terms). But we are currently at a crossroads, with China and India about to take over as a larger share of the global economy. On our estimates China and India will be 34% of the global economy by 2045, versus 22% for the US, UK and Eurozone (if growth rates continue at its current pace). As a result, the global economy is increasingly moving towards a multi-polar world as the balance of power shifts away from the US. This shift in the balance of power will keep geopolitical tensions and risks high over coming years as the US and China compete for global control, particularly in the technological space. Investors should be prepared for periodic inflammations in geopolitical tensions and heightened risks of conflict or war, keeping volatility in share markets high. Concerns over the growing Chinese economy are expected to again be a feature of both the Democratic and Republican party campaigns in the 2024 US Presidential election.

However, in Australia, the relationship with China looks to be improving with a recent meeting between Australian PM Albanese and China's President Xi Jinping seemingly the most positive in years.

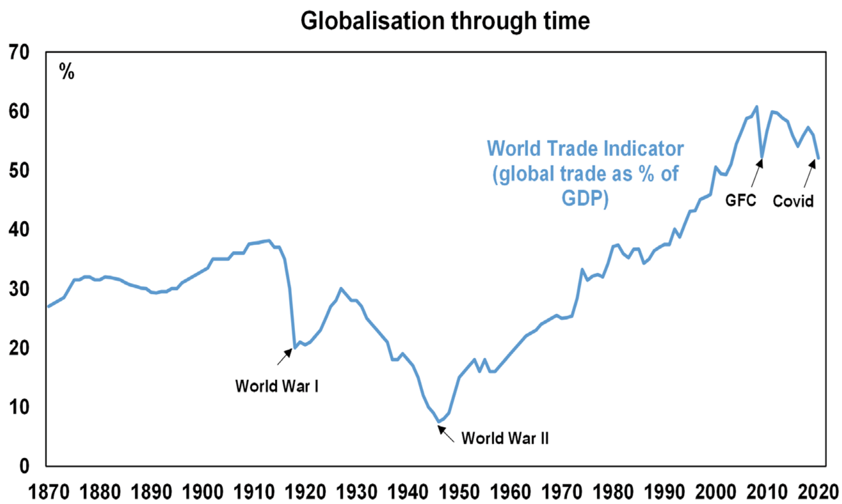


Source: World Bank, AMP

5. PEAK GLOBALISATION IS INFLATIONARY

Globalisation looked to be reaching a peak before COVID-19 broke out, with global trade (the sum of exports and imports) declining as a share of GDP since the Global Financial Crisis in 2008 (the chart shows that global trade was 56% of GDP in 2019, below its peak of ~61% before the GFC), as countries decided to become more self-sufficient after seeing the contagion impacts of the GFC. COVID-19 dealt another blow to global trade as closed borders and transport delays led to a push towards bringing as much production onshore as possible, or at least to closer countries ('nearshoring' or 'friendshoring'). Given that globalisation was disinflationary because production was transferred to countries to the most efficient producer (which most often ended up being the lowest cost producer) some reversal in the globalisation trend will be more inflationary for the global economy.

Source: AMP



Source: World Bank, BCA, AMP

BUYING AN INVESTMENT PROPERTY

Is an investment property the right choice for you in retirement?

WHAT YOU NEED TO KNOW ABOUT BUYING AN INVESTMENT PROPERTY

Buying a rental property is a very popular investment in Australia. For many investors, the appeal of owning an investment property is linked to their familiarity with this asset class – most of us either own or rent a house, apartment or villa. Over time, a quality, well located property could generate long term growth and decent income returns.

Houses and units may be easier to understand as an investment than many other assets such as shares and bonds, yet owning an investment property is not a licence to print money. There are risks and costs budding landlords need to consider.

The costs of having an investment property include property management fees, legal charges, mortgage interest payments and landlord insurance. You may also need to consider whether you could service the costs of owning the investment property if a tenant decides to move on and you're left with a vacant property.

If you're not sure you could cope financially, you might need to rethink your investment strategy. Likewise, you need to be aware real estate prices can take a tumble.

DOWNSIZING TO BUY AN INVESTMENT PROPERTY

Downsizing into a smaller property or moving to a more affordable location could be a worthwhile way to help finance your retirement lifestyle.

It can be a valuable strategy for empty nesters, some of whom may find maintaining a big and empty family home no longer makes sense financially or from a lifestyle perspective.

By downsizing to a more affordable property such as an apartment or townhouse, you could unlock any significant capital tied up in the family home.

With this extra capital, you may have the financial freedom to invest in either an investment property or another asset class. Before you make a move, be sure to speak to a financial adviser to determine whether a downsizing strategy is right for you.

TAKE ADVANTAGE OF DOWNSIZER RULES

Downsizer rules may help older Australians who sell their family home to invest some of the proceeds into superannuation.

From 1 July 2022 the eligibility age for downsizer contributions was reduced to 60 and from 1 January 2023 it reduced further to 55. Under these rules, if you're in the suitable age range you may make after-tax or non-concessional contributions into superannuation of up to $300,000 for an individual or up to $600,000 for a couple from the proceeds of selling your principal residence. The usual contribution caps of $110,000 per year ($330,000 under the bring forward rule) don't apply and it doesn't matter what your super account balance is (you would usually only be able to make after-tax contributions if your total super balance is less than $1.7 million on the previous 30 June)[1].

UNDERSTANDING THE COSTS OF BUYING/SELLING A PROPERTY

The costs of buying a property include stamp duty for the property transfer and for the registration of your mortgage. Stamp duty is charged by state and territory governments so the amount you will pay depends on the location of the property and its price. To find a stamp duty calculator appropriate to your state, or territory, visit the ASIC Money Smart website.

When buying property, you should also factor in the cost of pest and building inspections, which vary depending on the size and location of the property.

Also don't forget if you can save a deposit worth more than 20 percent of the value of your property you may not be required to paying lenders mortgage insurance (LMI). LMI is generally charged by a lender if your deposit is less than 20 percent of the value of the property.

LMI enables lenders such as a bank or a credit union to lend you a larger percentage of the purchase price. The cost of LMI may be included either upfront or in your loan repayments so it's spread out over the term of the loan.

If you're selling your current home and buying an investment, you'll probably sell through a real estate agent and this means paying the agent a commission on the sale. Agents in your area will have different fees, so be sure to shop around.

There are also legal costs for the transfer of a property from a vendor to a buyer. You're likely to need the professional services such as a conveyancer to legally transfer ownership of the property you are buying or selling. Your conveyancer will also conduct property and title searches to ensure the seller is legally entitled to sell the property. There may be some minor charges for completing these searches, in addition to the conveyancer's professional fee.

1 https://www.ato.gov.au/individuals/super/growing-your-super/adding-to-your-super/downsizing-contributions-into-superannuation/

There may be a range of fees levied by your lender such as application, valuation and settlement fees. Make sure you ask your lender or mortgage broker about these fees.

Once you secure the property, you may also need to take out landlord insurance. This is insurance that may protect the building and its contents and cover if the tenant defaults on his or her lease obligations.

HOW MUCH CAN I BORROW?

To estimate what you can borrow to buy an investment property, you could use a mortgage or home loan calculator to help translate the loan amount into a corresponding monthly payment. Calculators give you the luxury of playing with interest rates, deposit amounts and loan term to help you figure out what may be affordable. They can be useful tools to crunch some numbers and get a ballpark estimate. Though it's worth noting that many calculators won't give a complete picture of all costs and it may be worth considering advice from a financial adviser before making any financial decisions.

Once you know your borrowing power, you'll have a better idea of what your next step will be. You'll know whether you can afford an apartment or house near the CBD or out in the suburbs.

HOW CAN FINANCIAL ADVICE HELP WITH YOUR INVESTMENT PROPERTY?

Financial advice could help you achieve your investment property goals and get the right strategies in place to help you achieve them. It can help you:

- Establish and achieve your financial goals such as buying an investment property or putting more money into superannuation.
- Make the most of your money with sound advice around budgeting and establishing savings plans.
- Protect yourself and your assets by assessing your insurance needs.

Source: BT

WHAT ARE ASSET PORTFOLIOS?

Building your wealth for the long term starts with a sound investment strategy; but with so many options outside your superannuation fund, from bonds to managed funds, where should you begin?

UNDERSTAND YOUR RISK PROFILE AND TIMEFRAME

Almost every type of investment comes with some level of risk. There's a risk you could lose money, as well as the possibility your investments won't achieve your financial goals within the timeframe you need. As a general rule, the higher the risk the greater the potential return and the longer you should consider keeping that investment.

So first you need to understand what type of investor you are and recognise that this may change as you get closer to retirement.

When time is on your side, you may decide you can afford to take some calculated risks with your investment portfolio. That might place you at the 'aggressive' or 'moderate to high growth' end of the risk profile spectrum but if you're planning to scale back on paid work soon, you may feel more 'defensive' or 'conservative' with your investment approach, to protect the value of the capital you've already built up.

To work out your risk profile, think about how you feel about short term fluctuations in the value of your investments. Would it keep you awake at night or would you be comfortable riding it out?

A market correction when you're close to retirement could have a disproportionate impact on a larger portfolio so it's also worth considering two risk profiles, one for your superannuation and one for your other investments.

WHAT ARE ASSET CLASSES?

An asset class is a type of investment – broadly speaking, these are cash, fixed interest, property or shares. Each has a different level of risk and return.

Cash (defensive asset)

Investing in cash (such as term deposits) provides stable, low risk income (usually as interest payments). Traditionally, around 30 percent of assets are held in cash and term deposits.[1] It's a good idea to have some cash available at short notice and these investments usually have a short timeframe.

Fixed interest (defensive asset)

Investing in government or corporate bonds, mortgages or hybrid securities operate like a reverse loan – they pay you a regular interest payment over a fixed term. You usually hold fixed interest investments for one to three years.

1 http://www.afr.com/personal-finance/why-its-time-to-rebalance-your-portfolio-20160321-gnnbrt

Property securities (growth asset)

You can invest in property that is listed on share markets, including commercial, retail, hotel and industrial property. The potential returns can be medium to high but you may need to hold these investments for three to five years.

Australian and international shares (growth asset)

Shares (or equities) give you a part ownership of an Australian or international company. Your potential returns include capital growth (or loss) and income through dividends, which may be franked. Depending on the type of share, these are considered medium to high growth assets and you may need to hold them for up to seven years.

ALL ABOUT DIVERSIFICATION

Spreading your investments across a range of assets to reduce your risk is known as diversification – basically it lets you avoid putting all your eggs in one basket.

Diversification can reduce the volatility within your portfolio and the risk of a large drop due to any market downturn. Given it can also take time to sell certain investments (such as property), it's smart to have short term as well as long term investments within your portfolio. There are no guarantees – diversification won't fully protect you against loss but it can even out your returns.

OTHER WAYS TO INVEST IN SHARES

Investing in a managed fund gives you access to different equities, bonds and other assets, with a focus on a specific investment objective.

Pooling your money with a group of investors lets you invest in opportunities that would otherwise be out of reach and diversify your risk.

There are many different types of managed funds, with different risk profiles and investment approaches, including single sector or multi sector funds or index funds.

REVIEW YOUR INVESTMENTS REGULARLY

It's important to keep an eye on your investments to make sure your portfolio is balanced and you're on track to meeting your financial goals. If you invest in a managed fund, you may only need to review it once a year. If you are investing directly, you'll need to monitor market changes much more frequently.

It's also worth getting advice from a financial adviser before you change your investment allocation, as selling assets may result in a tax liability.

They can also give you an independent perspective on your investment goals and risk profile.

Source: Colonial First State

WHY INVESTING FOR RETIREMENT IS DIFFERENT

When you're still employed and earning a salary, there's money coming in you can rely on. In retirement, in the absence of a regular salary you'll need to find a new way to secure enough income to cover your living costs.

Investing your money is one way to make the most of your savings and provide an income in retirement but if you're expecting savings and investment earnings to help cover your expenses, it's important to get your strategy right.

WHY TIMING MATTERS

When accumulating super for retirement, you can afford to be patient. With years ahead to top up your super, you can stay invested during falls in the share market and wait for markets and your assets to bounce back. For the few years just before and after retirement, it's a different story. This period, known as the 'retirement risk zone', is the time when you have most to lose from a fall in the value of investments. Your super has likely reached its peak in value and you want to make the most of these savings for your future retirement income.

In order to protect your savings and provide you with income throughout your retirement, it's important to be aware of three key risks:

1. Living longer

Australians are living longer than ever before. Life expectancy has grown by more than 30 years in the last century[1]. Living off retirement savings for 20-30 years or more introduces the very real risk of running out of money. So it's no wonder more than half of Australians aged 50+ are worried about outliving their savings according to a 2019 National Seniors Australia survey.

We're lucky that we live in a country that if your retirement savings run out; the Age Pension is there as a safety net but these regular payments may not be enough to maintain the lifestyle you've been enjoying in retirement. You could also be left with limited funds and options for aged care, if you should need it. That's why it's so important to make a financial plan early in your retirement so that you can help to protect your income now and in the future.

2. Inflation

Inflation measures the change in the cost of living over time and represents an important and often underestimated risk to your financial security in retirement. Given your retirement could last 20 plus years, there's a good chance your savings and income will be affected by inflation. At an average annual inflation rate of 2.5%[2], a dollar today is worth roughly half what it was 25 years ago. Even this modest year on year rise in the price of goods and services can put you at risk of having an income that no longer covers your living expenses from year to year.

3. Share market performance

Share market performance is a risk for investors with exposure to investments such as shares, bonds and commodities. If you're worried about market collapses similar to the Global Financial Crisis (GFC) in 2008, you're not alone. A 2018 National Seniors Australia survey found that 7 out of 10 older Australians share your concerns.

Falls in the value of investments are impossible to predict and can make a big difference to income and financial security throughout your retirement. When investments earn negative returns, your retirement savings are falling in value. Crucially, if you also need to make regular withdrawals to pay for living expenses, it's a twofold blow for your overall financial position in retirement. Less savings now means more potential for outliving those savings later in life.

PROTECTING YOUR INCOME AND FUTURE IN RETIREMENT

Diversifying your investments – balancing growth and defensive assets for example can limit the impact of market risks and inflation on your retirement savings. However, even with a well diversified portfolio, your super and Age Pension may not provide you enough income for your entire retirement. If you'd like the peace of mind that comes with a regular income for life, a lifetime annuity might be right for you.

Using a portion of your savings or super, you can invest in a lifetime annuity and receive regular income payments for life. It can act as a safety net ensuring that you will receive income for life, regardless of how long you live.

Talk to an adviser about the benefits of a lifetime annuity and whether it might be right for you.

Source: Challenger

[1] Australian Bureau of Statistics, Life Expectancy improvements in Australia over the last 125 years, 18 October 2017.
[2] Australian Bureau of Statistics, 70 years of inflation in Australia, Andrew Glasscock, 2017. Fig 2.

CAN SUPER SECURE A WOMAN'S FUTURE?

Here are some stark numbers on the difference between men and women at the point when they retire:

- 80% of women are retiring without the super balance they need to fund a comfortable lifestyle.
- On retirement, women's average superannuation account balance is around $70,000 less than men.

To be balanced, we should remember there are many situations where the shortfall in a woman's super balance is offset by them sharing their partner's super but that assumes away a lot of life possibilities – particularly divorce and the early death of a male partner – and also a woman's sense of financial independence.

Women also live longer than men. A woman who was 45 in 2020 could expect to live till 86 – that's three years longer than her male counterpart. So female retirees are more exposed to the dreaded FORO – fear of running out.

WHY THE SHORTFALL?

Why do women have less super than men? There are multiple often intertwined answers.

More women work in low paid fields like hospitality and care services. They're also more likely to work part time. That's one reason the lockdowns of the past two years did more damage to female balance sheets.

Many women take time out of the workforce to have children and act as principal caregiver, especially during the early years of their children's lives. The ASFA (Association of Superannuation Funds of Australia) estimates women accumulate a 'super baby debt' of up to $50,000 – they have $50,000 less in their super because they've prioritised children. Compulsory super is based on a percentage of your earnings being saved for retirement. So the less you earn over your lifetime the less you save.

Women are also more likely to have time away from work to care for their parents. If Generation X is the 'squeezed generation,' looking after the generation before and after, then Generation X women may be the ones squeezed hardest.

EXPANDING KNOWLEDGE, SHRINKING THE GAP

Closing the knowledge gap is nearly as important as closing the contribution gap.

The first step is understanding where you stand – so checking with your super fund or adviser to understand exactly how much super you have and how much you'll need to support a comfortable lifestyle.

Many super fund managers have easy to use calculators that answer those questions. For a rule of thumb, ASFA suggests single people need $545,000 in retirement savings to fund a comfortable retirement. Couples need around $640,000. Obviously these numbers are only guides and assume that you fully own your own home at retirement. It's important you consider your own situation and expectations.

The next big factor for women is maximising the return on their super.

The calculators we discuss above can give you an individual view of the return difference between different investment strategies. Historically, funds that invest more aggressively (i.e. with more in shares and property and less in cash) have tended to outperform over the long term* and that means more money to retire on.

*Past performance is not indicative of future performance.

THE MORE YOU PUT IN...

Women seeking to set themselves up for a truly comfortable retirement need to first get a handle on their super and their retirement objectives, then accustom themselves to taking a little more risk in the investment strategy.

Given that it's highly tax effective, many would argue that women should be pouring as much money into super as they can afford. Obviously that decision is a highly personal one that must take account of a whole range of factors. Fortunately, Australian governments, left and right, are committed to making super work, so there are some excellent strategies women of all income levels can use to get more gold into their pot. Here's a very concise look at some of those opportunities.

HOW YOU CAN RETIRE WITH MORE

1. Make additional contributions

Simply put, women who are likely to take time out of work should weigh up the benefits of putting more money into super when they can to build up a retirement savings buffer.

Firstly, make sure your employer is contributing in line with their Superannuation Guarantee responsibilities – currently, they need to contribute 10.5% of your income to super on your behalf. (There's a cap of $27,500 a year on these so called concessional contributions). You can also make salary sacrifice contributions, where you forgo income and direct it into your super. Those contributions also count towards the $27,500 limit.

If you don't reach the cap in a given year, you can accumulate those unused portions for up to five years. When you have the funds available you can then 'catch up' by investing up to your annual $27,500 cap and any unused cap from previous year(s). You can't use this catch up approach if your super balance is over $500,000 but for many women it's an excellent way to consider adding to their super even if they've had a few years out of the workforce or on part time income.

2. Bring forward contributions

You can also make non-concessional contributions of up to $110,000 a year into your super. These are contributions you make after tax, for example from your savings. For younger women in high paying jobs, putting extra money into super, perhaps by investing a bonus, inheritance or proceeds from a property sale – may be an effective way to load up your super. Or if you do it later in your career, it's another way to catch up.

The government also allows you to 'bring forward' some contributions investing up to three times the annual non-concessional contribution in one year – that's $330,00. Again, if you have the funds, it may be a good way to make a focused push at increasing your super balance. As of July 2022, this option is available to any women under 75 (previously it was 67). So even women very close to retirement can use this strategy to improve their super situation.

3. Spouse contributions

Couples working together on their super strategies can make up for some of the inherent disadvantages women face when saving for retirement.

Spouse contributions can be part of that approach. They allow one member of a couple to contribute up to $3,000 into the super fund of their spouse and receive a tax offset of up to $540 for doing so. The offset works on a sliding scale depending on the income of the 'receiving' spouse. To get the maximum offset the receiving spouse must earn less than $37,000 and there's no offset once they earn over $40,000, but for many women, beefing up their super via extra contributions may be even more valuable than a tax offset.

PLAYING AS A TEAM

Couples that work together to accumulate the maximum possible super balance can have more flexibility and options in retirement.

One way couples can do this is through managing their individual $1.7 million super balance cap. The cap limits the amount of super you can transfer into a tax-free retirement income stream such as a super pension or annuity.

A TWISTY PATH TO A BEAUTIFUL PLACE

As you can see from this list of contribution strategies, there are numerous ways in which women can maximise their super balance and therefore improve their chance of a comfortable retirement lifestyle. But there are also a plethora of limits, caps and complexities to navigate.

Source: Perpetual

WAYS TO EXPAND SMSF INVESTMENT HORIZONS

The mix of investments that is right for an SMSF will depend on very personal factors, including SMSF members' age, lifestyle, attitude to risk and personal goals.

And it's not a case of set and forget – SMSF trustees' approach to SMSF investing may need to change over time as retirement approaches and priorities change.

WHY IS DIVERSIFICATION SO IMPORTANT TO SMSF INVESTING?

Diversifying an SMSF investment portfolio means having money invested across a range of different investments so that the SMSF is not over exposed if particular areas of the market fall in value. That might mean spreading money across different asset classes, regions, industries and investment managers.

Asset classes behave differently at different times – some asset classes will rise in value while others fall. Diversifying across different asset classes helps an SMSF to smooth out overall returns.

On the one hand, this could mean missing out on some 'upside' if the SMSF is not fully invested in the best performing asset class. On the other hand, this could mean avoiding the potential impact of having all the SMSFs money invested in an asset experiencing a significant downturn.

ASSET CLASSES THAT CAN BE USED TO DIVERSIFY AN SMSF PORTFOLIO

Diversification can be achieved through 'asset allocation' - the way money is spread across different types of investments. It involves identifying the investments that match SMSF members' goals and risk tolerance, then allocating a certain percentage of the SMSF portfolio to each asset class. It's important to understand the benefits and risks of different types of investments.

Cash

Cash generally refers to investments in the short term money market including short term bonds issued by high quality companies or governments. 'Short term' typically refers to investments that mature in less than 12 months.

Cash has historically generated the lowest returns of the four major asset classes over the longer term and values may be eroded by inflation.

Fixed interest

Fixed interest assets (also called 'fixed income') include corporate and government bonds. They work like a loan from the investor to the bond issuer and offer benefits such as regular income returns at a set interest rate, over a fixed term.

Fixed interest investments generally involve lower risk than shares and property but sit higher on the risk spectrum than cash. Corporate bond investors risk losing all or part of their initial investment if the company issuing the security fails.

Listed property

Listed property trusts provide a simple way to invest in residential and commercial property without tying up a large proportion of money directly in real estate. Because investment is through the share market, investors can sell securities relatively easily if necessary (unlike direct property investments).

Like shares, units in listed property trusts can rise and fall in value. Returns are affected by fluctuations in the supply and demand for properties and consequential changes in rental levels, as well as by interest rates. Global property securities can also be affected by social, economic or political factors, differing tax structures in foreign tax jurisdictions and foreign regulatory requirements.

Shares

Shares, also called stocks or equities, enable investors to buy a slice of a public company. As part owners, investors may be entitled to a stake in the company's profits in the form of dividends. As the company's business grows over time, the value of the shares may grow and this can provide capital growth for shareholders.

Share prices can rise and fall and the payment of dividends and the return of capital are not guaranteed. Investors face the risk that a company, or the industry in which it operates, may not perform as well as expected or that there may be adverse changes in a company's financial position.

HOW ELSE CAN AN SMSF PORTFOLIO BE DIVERSIFIED?

Managed investments can be a solution for investors seeking professional expertise and a strong level of diversification. Managed investments take the hard work out of selecting which assets to buy and sell and when to do it – instead a professional investment manager does this.

Managed investments can invest across

the full spectrum of asset classes, including cash, fixed income, property and shares. They can focus on a specific asset class such as shares, a particular industry, or even a specific country.

Managed investments can provide a level of diversification well beyond the reach of most direct investors. An Australian share fund, for example, could hold shares in dozens of Australian companies; a property fund can hold major assets like a commercial office block.

Two types of managed investments SMSF trustees may want to consider are:

1. Managed funds – investment vehicles where the money contributed by a large number of investors is pooled and managed as one overall portfolio by a professional investment manager. Investors purchase units in the fund which entitles them to an interest in a pool of assets with the other unit holders.
2. Managed portfolio – similar to managed funds except that instead of owning an interest in a pool of assets, a portfolio of assets is bought specifically by the SMSF trustee on behalf of the SMSFs members and the SMSF is the beneficial owner of all the assets in the portfolio. This means the SMSF receives the potential benefits of income, dividends, franking credits and potential capital growth, as well as some tax benefits.

However, along with the risks outlined above for individual asset classes, managed investments carry the additional risk that the investment manager(s) chosen may not perform as expected.

Source: BT

INVESTING IN INVESTMENT BONDS

Investment bonds are long term investments that may offer tax efficiency to investors on a high marginal tax rate and those investing for children or grandchildren.

Unlike traditional investment products, such as managed funds, bonds are a 'tax paid' investment. This means that tax on investment earnings is paid at the applicable company rate of 30 percent by the bond issuer – not by you, the investor.

Investors receive 'tax paid' returns provided they meet certain conditions – most notably that the investment is held for at least ten years and contributions do not exceed the 125% rule.

125% RULE

Bonds have a valuable taxation status; as long as any additional investments you make do not exceed 125 percent of the investments made in the previous year, then the taxation status will not be jeopardised. This is called the 125% rule.

By using the 125% rule, a bond investment becomes even more tax effective because it gives you the opportunity to make additional investments (or contributions to a savings plan) each year. The level of additional contributions you can make continues to increase until the end of the tenth anniversary, after which all withdrawals from the bond are tax-free. For example, if you invest $10,000 in year one, then, using the 125% rule, $12,500 (125%* 10,000) may be invested in year 2 and so on.

A TAX EFFECTIVE ALTERNATIVE

The following table shows the tax benefits of an investment bond.

Investment bond		Managed fund	
Investment earnings	$10,000	Investment earnings	$10,000
Tax paid by bond manager	$3,000	Tax paid by bond manager	$0
Net return (at maturity)	$7,000	Assessable income	$10,000
Assessable income	$0	Tax paid by investor	$4,500
After tax return	$7,000	After tax return	$5,500

WHAT INVESTMENT CHOICES ARE AVAILABLE?

While different investment bonds have different investment menus, generally they include a wide range of diversified funds, multi manager funds, Australian share funds, international shares, fixed income and capital guaranteed investments.

WHO SHOULD CONSIDER AN INVESTMENT BOND?

Investment bonds may be suitable for:

- investors with a long term investment horizon (at least 10 years)
- investors who have contributed as much concessional contributions to super as possible
- parents or grandparents who wish to invest on behalf of the next generation
- investors who do not require access to their funds, as investment bonds reinvest distributions.

Source: Insignia Financial