BITCOIN, CANNABIS, LITHIUM
VERDICT ON INVESTMENT TRENDS

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HOW MUCH CAN YOU SAVE?

4 WAYS TO PAY FOR SCHOOL FEES
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Money

FEBRUARY 2018 $7.95 ISSUE 208

TOP 50

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WHAT $100K BUYS YOU IN REAL ESTATE

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SUSAN HELY
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APARTMENT LIVING THE 5 BIGGEST STRATA ISSUES

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Money 8 WEEK $AVINGS challenge

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A quarter of Aussie adults don't have a regular savings plan, according to research by ING, and *Money* wants to help you change that.
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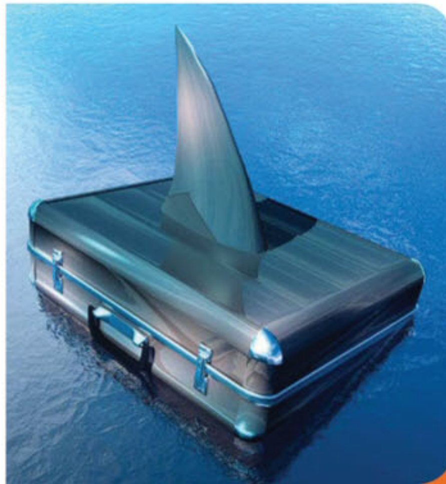
See page 56 for more details.



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14 10 copies of our Book of the Month – *The Wealth Way* by Pete Wargent – up for grabs.

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SIGN UP FOR OUR **FREE** WEEKLY NEWSLETTER MONEYMAG.COM.AU

Rise to the savings challenge

Challenge yourself! That's how we want readers to start the new year. If you've set yourself a savings goal and just need a little nudge to help you stay on track, then I urge you to register for *Money's* 8 Week Savings Challenge. Signing up is free, and the practical tips and guidance are all there for the taking. The dedication and hard work, of course, rests with you. Full details can be found on page 56.

For those who have already saved, your mission would be where to invest your hard-earned cash. Last year turned out to be a good one for investors. The S&P/ASX 200 climbed about 5.7% to 6077.1 in the year to January 15, 2018 and, assuming you didn't buy real estate in Perth or Darwin, every other capital city showed an increase, according to the ABS.

This year will once again be a case of dialling up the risk. Cash in the bank won't cut it and experts are predicting the official cash rate to remain on hold for most, if not all, of 2018. But be careful if you do take on more risk. As Greg Hoffman points out, it's been pretty hard to avoid a conversation over summer about bitcoin, lithium and cannabis. His story sums up how most of us may be feeling: "Sitting on the sidelines watching others make 'easy money' in such conditions isn't much fun."

But one of the golden rules is to understand exactly what you are investing in. Are these hot plays changing the investment world or are they destined to bust? See page 82.

Our cover story this month, now seven years strong, follows a more traditional path

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Feedback

Letter of the month

Could life skills advice be the key to success?

Susan Hely's article ("Hard job choosing a career", October) struck a chord for me. I think back to the time I was 14 or 15 and being nudged toward choosing a career. I was pretty sure it was the IT industry at the time. Two years later I was not so sure. Instead I took a fairly windy road that, at this point, has me working as a hearing clinician. Fortunately, my parents taught me to work hard and save money so I find myself in my mid 30s with a good base.

Many 15-year-olds are simply not able to identify a career path. I do not believe it is fair to make them choose. The end result is often many wasted years at university before they discover what they want to do. That is if they do discover it. Many end up falling into jobs and end up "stuck", with responsibilities making it hard for them to move on. How much better would it be if instead of career advisers in schools we had life skills advisers? They could teach financial literacy, the impact of choices, present the opportunities of youth but the potential costs as well, the value of hard work and independence.

The list goes on. It doesn't really matter if a 15-year-old is not able to choose a career but it does matter if he or she has the financial skills to keep themselves ahead of the game in the years that follow.

A career is a means to an end, not the end in itself. Think of the economic benefit to the nation if life skills were a targeted program in schools, not to mention the benefit to individuals and families themselves.

Derek, WA

Free advice for all and sundry

In the December/January issue you answered a question from a 40-year-old reader Henry who has more than $4 million in assets and an annual income of $250,000! Any wonder he has $4 million when he writes to a column asking for free advice. I think sometimes they are just skiting, to let everyone know how well off they are and for the rest of us to feel like a bunch of underachievers. I see this time and again.

Why don't you tell these people to stick their hands in their deep pockets and pay for advice. They annoy me no end, as you can probably tell. They are in the same category as the affluent retirees who try and hide assets to qualify for the aged pension.

I prefer to see you address genuine questions from people who are in genuine need of "free" advice. Love the mag, keep up the good work.

Garry, Grumpy Old Geezer, NSW

Ed's note: I often find those who do well with money are frugal and as Henry proves it's all

to building wealth. Shares or property? Interestingly, if you had invested in Skaffold's Top 5 picks since inception you would have enjoyed a return of around 16%pa – the sharemarket, returned around 10%pa.

If you only jumped on board last year then the 2017 portfolio delivered a 4.7% return over the 12 months versus 12.5% for the S&P/ASX All Ordinaries Accumulation Index.

Sometimes sure and steady can win the race but annoyingly, as Hoffman points out when discussing Bitcoin and its fellow cryptocurrencies, "between now and the likely bust there may be one heck of a party".

Effie Zahos,
Editor, *Money* magazine

"You can be young without money, but you can't be old without it."

– TENNESSEE WILLIAMS

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for a good reason. Yes, it can be frustrating reading what may appear as first world problems but good on anyone I say who makes the most of how little (or how much) they may have. We very much appreciate your thoughts, though, Garry – a question from you would be welcomed any time too.

Best of the Best corrections

Cheapest Online Broker: Only Chess-sponsored brokers were included in the category.
Best Feature-Packed Online Brokers: Commsec's brokerage fee starts from $10 not $19.95.
Cheapest Car Insurance: Bingle only offers a market value policy not an estimated value on the policy.

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What is one thing you'd like to do to improve your finances in 2018?

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ISSN 1444-6219

EFFIE ZAHOS
Effie is *Money*'s editor and author of *The Great $20 Adventure*. Effie says: "2018 will be the year of investing for me. I plan to move some cash onto a P2P lending platform, add some more ETFs to my portfolio, reshuffle my asset allocation in my super and then explore the option of setting up my own fund with the intention of buying property."

TERRY RYDER
Terry is the founder of hotspotting.com.au and PropertyU, and author of four real estate books. "A key focus is monitoring personal and business expenses to cut spending. I'm also implementing strategies to lift Hotspotting's income. The ultimate goal is to improve profitability, reduce debt and create opportunities for investment."

GREG HOFFMAN
Greg is an independent financial educator, commentator and investor. Greg says: "Getting my investments in the right vehicles. I often don't think enough about whether each investment would be better held in my super fund, personal name, a trust or a company. It makes a big difference to after-tax returns."

PETER DOCKRILL
Peter is *Money*'s tech columnist with more than a decade of experience writing about technology. Peter says: "This year I'm determined to not buy anything I don't need. It's so easy to get distracted by minor purchases we want but don't actually require. For 2018, I'm committing to ignoring them – and saving that money instead."

VITA PALESTRANT
Former editor of the Money section of *The Sydney Morning Herald* and *The Age*. Vita says: "Last year I waved my money goodbye, literally. No more! Cash is king again. Never mind the irritated paywave customers behind me in the queue, or the cashiers who struggle to count change. Slow finance is good for tight-fisted consumers."

ANTHONY O'BRIEN
Anthony launched content and marketing firm Corpwrite Australia in 2008, with longtime *Money* writer Chris Walker. Anthony says: "Transmuting into Marcus Padley to improve my finances seems a long shot. Realistically, I'll tap into digital channels and existing clients to expand my business."

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IN YOUR INTEREST Paul Clitheroe

It worries me that people who have worked hard and saved for decades can't get out of the habit

The combined December/January issue of *Money* is without doubt my favourite issue of the year. The Best of the Best awards summarise what the magazine is all about: saving money. The other part, of course, is making money. Both have to be a good thing but the joy of saving money is the certainty and instant payback. If you switch to a cheaper mortgage, insurance policy, credit card, internet provider and so on, you save money immediately. And you also save an amount you can calculate.

Even better, money you save is tax free. For the average working Aussie, saving $3000 is pretty much the same as earning an extra $4500 from work or investment income. So saving money just makes sense.

But here we are in February 2018. I hope you spent a little time over Christmas and New Year making a few money plans. This may well have been about saving, managing your existing investments or planning new ones. I also encourage people to plan how they will spend their money. Sometimes I fear we forget that a real joy of saving and investing is spending.

I do tend to get a fair bit of light-hearted flak from *Money* followers about my preoccupation with racing my yacht Balance in the Rolex Sydney Hobart race. My defence is actually quite sensible: it is in our budget. But on Boxing Day I was not getting ready to steer my boat out to sea. I was watching her start, sail out of the Heads and turn south to Hobart. I have skippered my boat in eight Hobarts over the past decade or so and this year it was time to take a break. Even better, it was a really special break as my son Marcus married on December 30. My crew raced my boat to Hobart and Bob Steel, who I bought the boat from some years ago, stepped into my shoes as skipper.

But the money point here is about why we work, save and invest. I reckon goal setting is critical to success with money. If we have no goals I just can't see the reason to slave away for decades earning more than we spend, saving the surplus and investing sensibly. Vicki and I started doing this nearly 40 years ago and for me sailing was one of my goals. With small kids and a big mortgage, there was no sailing. But in my 40s I could start again, and then as the kids grew up and the mortgage was paid off sailing a fast race boat became a reality. But every budget has its constraints, not to mention common sense, so in my case this meant buying a decade-old, third-hand boat, which I picked up for about 15% of its new value. Even so, if you think I hate cars in terms of depreciation, try a boat.

Boats may or may not be your thing but that is not the point. What really worries me these days is not just my usual concern over people spending more than they earn, taking on too much debt and so on. At age 62 I've really started to notice that people who have worked hard, saved and invested for decades can't get out of the habit.

I am hearing in my own friendship groups and from *Money* followers, and reading in research papers, that once people hit their goal of financial independence they simply are unable to utilise their capital to live as they planned. They have strived to create a pool of capital but now cannot bear the thought of it diminishing. So they restrict their lifestyle to preserve the pot of money.

My great friend Arun Abey, one of my co-founders of ipac, has written a book called *How Much Is Enough* and it contains some challenging content. After three and a half decades of chatting to people about money, it is very obvious to me that those who have created a pot of money rarely spend much of it, bar some of the earnings. The result is they die too well off.

Money readers will know that in the long run a diversified investment portfolio should see returns of some 3% to 5% above inflation – let's call it 4%. So if you are spending about 4% of your asset base, you should end up dying with your money intact, keeping pace with inflation.

My advice is, at any age, to have a plan that includes lifestyle spending and then do it. Luckily, I find a third-hand boat as much fun as a new one, and much cheaper!

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

Banks try to put the bad old days behind them

Code of conduct is welcome but more reforms are needed

Last year was one the banks probably would prefer to forget. A relentless series of scandals and fines kept them on front pages and at the forefront of the political agenda.

But the banks are approaching 2018 as a fresh start, using the upcoming royal commission as a way to clear the air. In a bid to get in ahead of the game, they have released a new voluntary code of conduct to try to win back consumer confidence.

The Australian Bankers' Association's new industry code aims to make products fairer for consumers and has made a commitment to more ethical behaviour.

Key changes include:

- Telling customers before they are about to be charged a fee, giving them time to pay off their credit card or top up their account.
- Notifying customers before the interest-free period on their card ends.
- Giving customers the ability to cancel their credit cards online, rather than being forced to do so over the phone or in person at a branch.
- Providing customers with a list of direct debits and recurring repayments, making it easier for them to switch.
- Providing more safeguards to guarantors who help family members with their home loans.

The banks are making a concerted effort to make their products fairer. The revised code is a legitimate step in the right direction but it's by no means pens down just yet for our banks.

When it comes to credit cards, more reform is still needed in relation to interest rates. RateCity data shows that just 4% of cards offer a rate under 10%. Our banks can do better than this.

We would also like to see the credit card companies increase the minimum repayments people are forced to make each month. Currently most cards require customers to only pay between 2% and 3% of their bill – which is a pittance.

By increasing the minimum repayments to 10%, customers would be forced to pay back a reasonable amount of debt and avoid paying some unnecessary interest.

Sally Tindall, money editor, RateCity

ON MY MIND

Beware the retirement spree

Self-funded retirees can be affected by a "mid-term retirement extravagance" syndrome, which can have an impact on their otherwise carefully managed finances.

Sometimes, after about a decade in retirement, some retirees can be tempted to go on a spending spree. It might be buying the luxury car they have always wanted, or taking an extravagant holiday while they feel able.

This is fine and indeed should be encouraged if they can easily afford it. However, they need to ensure such spending does not affect their longer term financial situation, including the quality of care they will be able to afford in their final years.

It is a mistake to think they will need less income in the later years of their life, as they become less active. Quality of life for retirees needing care can vary enormously, and aged care and medical needs are increasingly expensive. Healthcare costs can rise dramatically after the age of 70.

The aim for retirees should be to achieve a happy balance between enjoying life now but also making sure there is enough to cover their future medical and support needs.

Michael Hutton, head of wealth management at HLB Mann Judd Sydney

CALENDAR OF EVENTS

Tuesday, February 6
Balance of trade

RBA interest rate decision

Monday, February 12
NAB business confidence

Thursday, February 15
Westpac consumer confidence

Unemployment rate

Wednesday, Feb 21
Wage price index

NEWS BITES

Vanguard launched four new diversified ETFs and you can choose based on your risk profile. The options are conservative (VDCO), balanced (VDBA), growth (VDGR) and high growth (VDHG) and each has a fee of 0.27%pa. Each Diversified Index ETF is a share class of an existing Vanguard Diversified Index Fund.

Mastercard introduced a rewards program for Debit Mastercard holders. Rewards will include discounts for travel, two-for-one offers, and food upgrades at popular establishments. You can see the offers and sign up at debit.mastercard.com.au.

BetaShares launched an ethical ETF. The BetaShares Australian Sustainability Leaders ETF (ASX: FAIR) "provides exposure to a diversified portfolio of Australian companies that have been screened to preference companies engaged in sustainable business activities and to avoid companies engaged in activities deemed inconsistent with responsible investment considerations". The management fee is 0.49%pa.

Act now on energy costs

It's amazing how many finance experts don't know anything about energy and are paying way more than they need to because of it. If finance experts don't know much about energy, what chance does the average consumer have?

People are always looking for ways to save a bit of money, whether it's by cutting back on takeaway coffee or shopping at a different supermarket, but electricity is often the overlooked area of opportunity.

You can save a small fortune – if you know what to look for. I say this now because 2018 really needs to be the year when more consumers take the power back from the energy retailers. But many people will need a helping hand.

The federal government talked tough with the big energy companies last year but to really help people save it's all about education. Let's see some TV campaigns encouraging consumers to not only compare their options but to better understand them too.

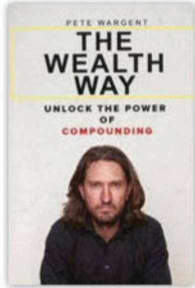
Finance expert or not, it's time to do something about your energy bills.
Simon Downes, editor, Canstar Blue

22%

of Australian adults are turning to the sharing economy for additional income, with Aussies already earning an average of $7300 a year from these side jobs, according to research by Finder.com.au. Its research shows that the most lucrative option is being an Uber driver – with the average Australian raking in $10,490 a year from the service.

NEWS & VIEWS

BOOK OF THE MONTH



THE WEALTH WAY
PETE WARGENT
Wilkinson Publishing RRP $34.99

When it comes to your finances and building wealth, often simple is best. Finance expert, Pete Wargent, says there is a way to build wealth "passively" by using time as your friend and accepting that most people won't beat the market. The book helps you create a plan to build wealth and covers things like taking a look at your assets and liabilities, setting specific targets, deciding on your asset allocation, the nuts and bolts of what you can invest in and how. The book also looks at how you can generate income from self-employment or business.

Five readers can win a copy.
In 25 words or less, tell us the simplest change you can make to build wealth. Send entries to Book of the Month, 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 March 7, 2018.

DOWNLOAD OF THE MONTH

PODCAST: YOUR WEALTH, AVAILABLE ON ITUNES OR PODBEAN

This relatively new podcast is a weekly series by NAB outlining strategies to build wealth. It features nabtrade's director of SMSF and investor behaviour Gemma Dale who chats to various experts.

At the time of writing, the episodes, which are about 20-25 minutes long, have looked at saving for kids education, super vs mortgage, saving for retirement without using super, understanding hybrids and understanding IPOs and capital raisings.

Other topics Dale plans to cover this year include investing in a low yield environment, the currency outlook for 2018, the great disconnect between markets and the geopolitical environment, busting the $1m retirement myth and how much you really need for a comfortable retirement.

TAX TIP

Dodgy schemes in the firing ring

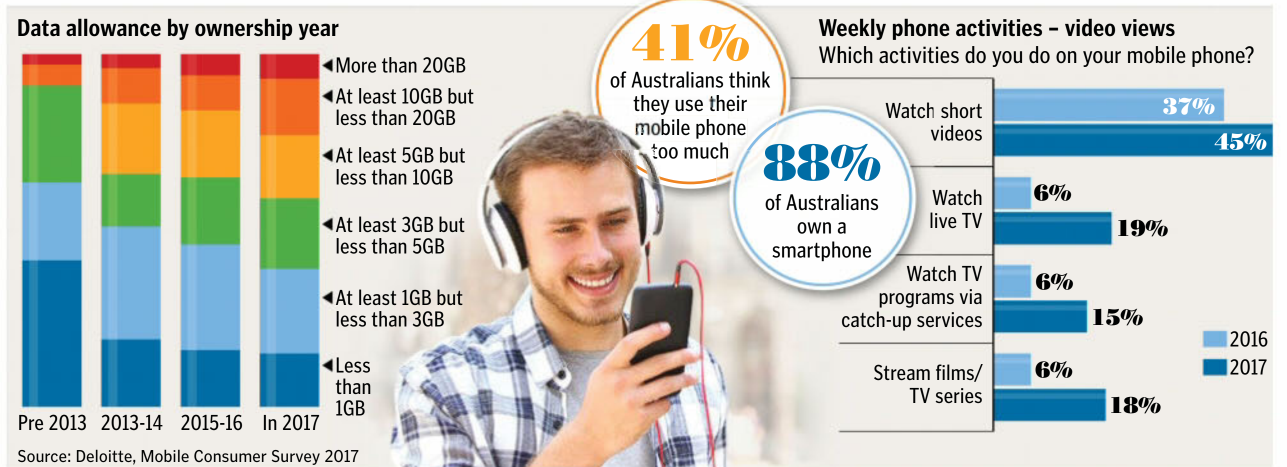
The tax office keeps a close eye on artificial tax schemes. It has highlighted a trio of arrangements aimed at those who are nearing retirement and have a self-managed super fund. They should avoid the following:

- Artificial arrangements involving SMSFs and property development ventures, involving the creation of complex structures, often including a chain of interposed unit trusts, which result in the income from the property development being distributed to an SMSF, rather than to the individual, and hence subject to a lower rate of tax.
- Arrangements where SMSF members deliberately contribute an amount beyond their non-concessional contributions cap in order to manipulate the taxable and non-taxable components of their balance when they withdraw the excess.
- Arrangements where an individual or related entity grants a legal life interest over a commercial property to an SMSF, as opposed to the SMSF obtaining full legal ownership. This results in the rental income being diverted to the SMSF and taxed at lower rates while the individual or related entity retains legal ownership of the property.

The key features of schemes like these are low (or zero) tax, lots of shuffling of legal paperwork and a general air that they are "too good to be true". (Hint: they are!) So if somebody approaches you about such a scheme, be sure to consult a trusted adviser.

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

SNAPSHOT Growing appetite for data



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MY MONEY

▶ MORE MONEY STORIES ON 52-65

TOP 5 PROMOTIONAL BONUS SAVINGS ACCOUNTS

RaboDirect 3.05%pa advertised rate, 1.80%pa without bonus; **HSBC** 3.00%pa advertised rate, 1.60%pa without bonus; **Citi** 2.85% advertised rate, 1.70%pa without bonus; **Bank of Sydney** 2.8% advertised rate, 1.75% pa without bonus; **BOQ** 2.8% advertised rate, 1.45% pa without bonus. Source: Canstar as at 12-Jan-18.

CREDIT CARDS

Check the cost of balance transfer

If you overindulged on your credit card during the festive season and have a debt that you can't pay off straight away, you could be thinking about taking up a balance transfer offer. There are plenty available – some for as long as two years. You can find out what's on offer on comparison sites such as Canstar, RateCity and Finder.

When comparing offers it's important to look beyond the balance transfer rate and period. You need to consider if there is a balance transfer fee, what the annual fee is on the credit card and what rate you'll be charged when the promotional period ends. These can all affect the cost to repay your debt and the results may surprise you.

In the table we compare three offers – all with different rates, annual fees and balance transfer fees. Even though the Heritage Bank offer was for a shorter period, the fact that the card has no annual fee and no balance transfer fee meant it came out on top.

For larger balances the gap narrows. These calculations assume you pay it off in about two years. If you were to repay smaller amounts, say $278 a month, over a longer time, on the $10,000 debt, the Bankwest Breeze is cheapest, costing $751, followed by St George at $773, while Heritage Bank is the priciest at $888.

So do your sums and think about how much you can repay each month before choosing an offer. Also make sure you don't make any new purchases on the card, and focus on clearing the debt.

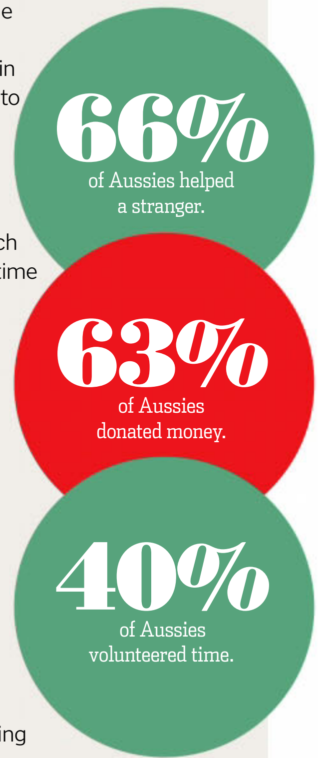
HOW THE DEALS COMPARE

	BANKWEST BREEZE	ST GEORGE VERTIGO PLATINUM	HERITAGE BANK GOLD LOW RATE	CREDIT CARD AT 18%
Balance transfer offer	0% for 24 months	0% for 24 months	0% for 12 months	NA
Balance transfer fee	2%	1%	NA	NA
Revert rate	12.99%	21.49%	11.80%	NA
Annual fee	$79	$99	$0	$0
Cost to repay $3000[1]	$218	$228	$87	$677
Cost to repay $5000[2]	$258	$248	$144	$1124
Cost to repay $10,000[3]	$358	$298	$291	$2255

Assumes repayments of [1]$125pm, [2]$209pm, [3]$417pm.
Used Credit card calculator at moneysmart.gov.au for calculations.

$4.2bn to go to charity

Aussies are expected to donate $4.2 billion to charity this financial year, with an average contribution of $336 per person, according to research by Finder.com.au. On a world scale, Australia ranks ninth based on the percentage of the population who donated money in 2016, according to the CAF World Giving Index 2017. Of course, there are other ways to give, such as volunteering time or helping a stranger, and when you add these in, Australia moves up to sixth spot globally on the giving index.



There are a number of ways you can donate money. You can elect to make a one-off contribution or arrange something ongoing with your preferred charity. Keep your receipts as you should be able to claim any donations of more than $2 at tax time.

If your employer has a workplace giving scheme, you can arrange for your donation to be deducted from your pay and sent directly to your preferred charity, says the MoneySmart website. The advantage of this is that you get the tax benefit right away rather than waiting until tax time.

Another way of donating is to leave a bequest in your will, says MoneySmart, which suggests you contact the charity directly to discuss your plans.

You should always check the legitimacy of an organisation, warns MoneySmart. The Australian Charities and Not-for-profits Commission website (acnc.gov.au) shows if the charity is registered.

Source: CAF World Giving Index 2017. Data relates to participation in giving behaviours during one month prior to interview.

COMPILED BY MARIA BEKIARIS

PROPERTY

PRICE GROWTH

Hobart heads the pack

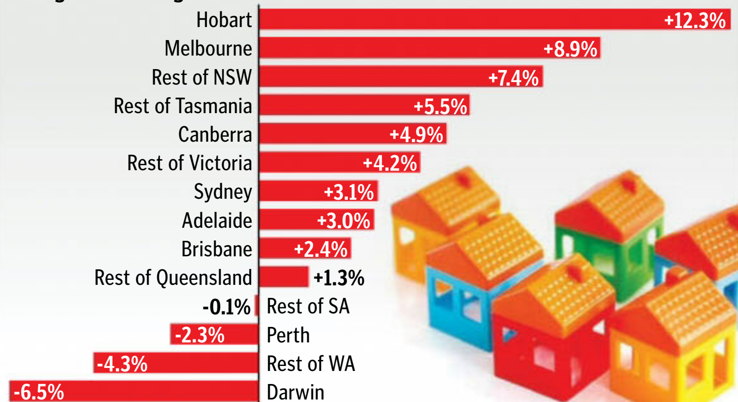
Hobart was the best-performing capital city in 2017 with dwelling values rising by 12.3%. This is almost five times higher than the city's decade average annual rate of capital gain (2.5%), according to CoreLogic. The only other capital city to come close was Melbourne with a rise of 8.9%.

Other cities had more lacklustre gains. The transition towards weaker housing market conditions has been clear but gradual and is likely to continue throughout 2018, says Tim Lawless, head of research at CoreLogic.

The best-performing suburbs of 2017 were Queenscliff in Victoria for units and McMahons Point in Sydney for houses, according to CoreLogic, as the median values increased by 47% and 45% respectively. The suburb with the highest total value of house sales in 2017 was Mosman in Sydney, with the total adding up to a staggering $1,178,766,474!

Ouyen in Victoria was the suburb with the highest gross rental yield for houses at 9.9% and Port Douglas in Queensland took the honour for units with a gross rental yield of 9.3%.

Looking for a cheap house? Head to Mount Magnet in Western Australia – the old gold-mining town boasts the lowest median house value in Australia at just $68,605.

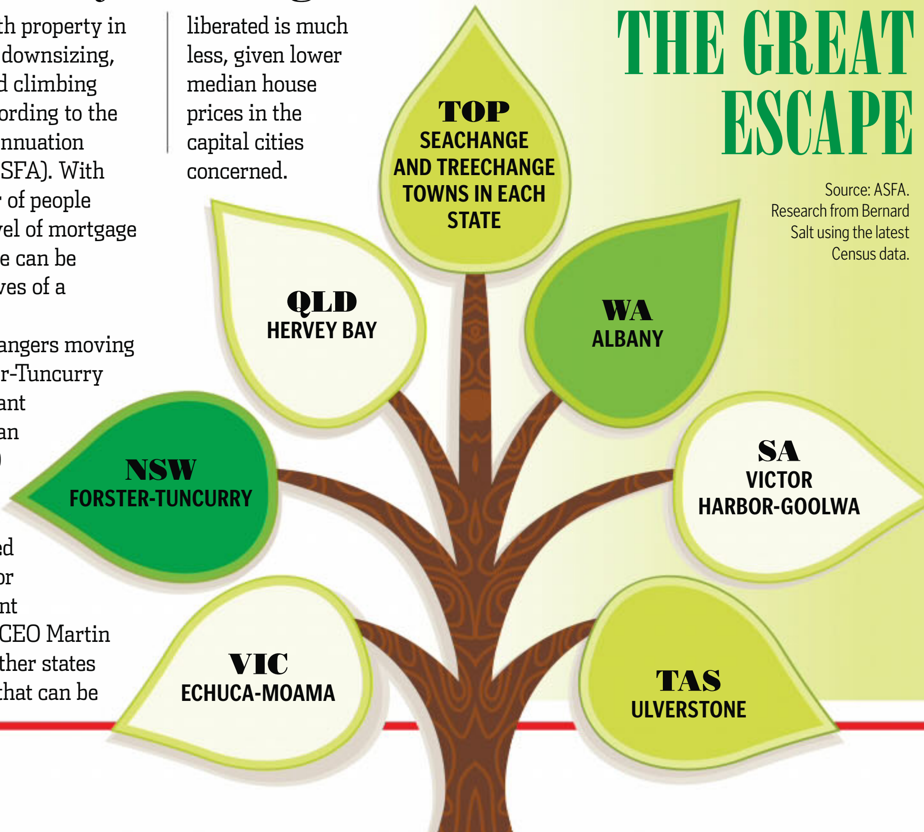


Retirees fancy a change

Aussie retirees with property in capital cities are downsizing, diving into the sea and climbing into tree changes, according to the Association of Superannuation Funds of Australia (ASFA). With an increasing number of people retiring with some level of mortgage debt, making the move can be a way to free themselves of a financial burden.

For example, seachangers moving from Sydney to Forster-Tuncurry could liberate significant capital, with the median house price $650,000 less than in Sydney.

"That is a lot of money that can be used to pay off a mortgage or fund a better retirement lifestyle," says ASFA CEO Martin Fahy. In some of the other states the amount of capital that can be liberated is much less, given lower median house prices in the capital cities concerned.



MORE PROPERTY STORIES ON P66-70

TOP 4 LOW-RATE LOANS

Reduce Home Loans 3.39%pa, 3.40%pa AAPR[1]; **Mortgage House** 3.44%pa, 3.44%pa AAPR; **Homestar Finance** 3.44%pa, 3.47%pa AAPR; **Freedom Lend** 3.49%pa, 3.50%pa AAPR.

Source: Canstar as at 12-Jan-18, ranked by AAPR. [1]AAPR on $250,000 loan for 25 years.

COMPILED BY MARIA BEKIARIS

INVESTING

CRYPTOCURRENCY

Can an SMSF invest in Bitcoin?

Elizabeth Wang, solicitor, Townsends Lawyers

The recent explosion in the price of Bitcoin has everyone talking about it. Cryptocurrencies are growing in popularity, though opinions differ widely on whether they are a worthwhile investment, as opposed to a usable currency.

Whether or not Bitcoin is a suitable investment for a self-managed super fund can depend on the risk appetite of the members, their age, the amount invested and the total funds of the SMSF.

Issues to consider include:

SOLE-PURPOSE TEST

This test will be satisfied if an SMSF's sole purpose is to provide retirement benefits for its members. However, difficulty may arise in trying to satisfy the sole-purpose test as an SMSF cannot directly or indirectly provide financial assistance or benefits to its members before their retirement, including use of, or access to, the assets (except money and listed securities) of the SMSF.

The tax office says Bitcoin is not to be classified as "money", meaning that an SMSF cannot acquire Bitcoins from its members but may acquire them through an exchange.

An SMSF may be able to satisfy this requirement if it could be shown that its Bitcoins are held securely and that the trustee is controlling any movement of the Bitcoins. Any movement or transfers between the SMSF and a member, even temporarily, could cause significant issues under the sole-purpose test.

INVESTMENT STRATEGY

As part of their investment strategy, trustees will need to consider a number of aspects relating to Bitcoin, including the risk in buying, holding and realising an investment, the likely return, diversification, liquidity, costs and tax consequences.

As part of this framework, a trustee must exercise due diligence in relation to all investments made by the SMSF. The issue here is the risky nature of Bitcoin as an investment. It may not be a prudent choice, especially for those approaching retirement age.

But there may be a role for Bitcoin as part of an otherwise appropriate strategy. For example, the trustee may be able to argue that having 2% of the fund's assets invested in Bitcoin does not constitute a material risk for the fund and yet adds the potential to increase the overall investment performance.

Whatever the decision, Bitcoin as an investment must be approved in the SMSF's investment strategy and it may be necessary to amend the fund's trust deed.

▶MORE INVESTING STORIES ON P72-81

TOP 5 FUNDS, BY 1-YEAR PERFORMANCE

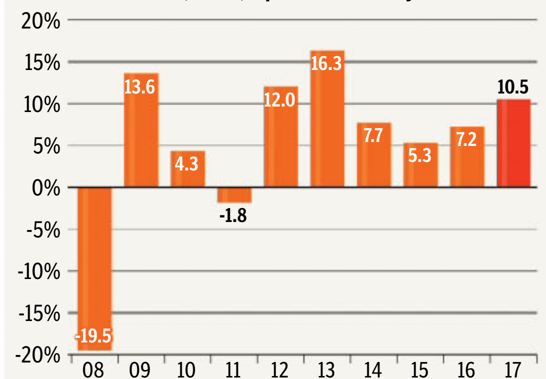
Intelligent Investor Value (FHT0009AU), 44.28%; **Intelligent Investor Wholesale Value (WPC0003AU),** 41.06%; **Smallco Investment (ASC0001AU)** 36.98%; **Naos Emerging Companies Long Short Eq (NAM0002AU)** 35.15%; **Hyperion Small Growth Companies (BNT0101AU)** 30.75%. Source: Morningstar as at 31-Dec-17.

Year ends on a high note

Super funds have delivered positive returns for the sixth consecutive year, hitting double digits for the first time since 2013. According to SuperRatings, the SR Balanced (60-76) Index, used to measure balanced super fund returns, is estimated to have risen by 10.5% over calendar 2017.

"For Australian investors, it was a frustrating year in many respects, with the sharemarket rallying in fits and starts," says SuperRatings CEO Kirby Rappell. "However, a falling Australian dollar in the latter part of the year did help boost returns for funds' international share exposures.

"Of course, the US market has provided some crucial support, with the new US tax package providing some momentum. However, we will have to wait and see exactly how that will flow through to returns in 2018."



COMPILED BY MARIA BEKIARIS

SHARES

RETAILERS

Big stores face a tough future

The Australian department store sector, dominated by five large chains, had been declining long before ecommerce and the arrival of Amazon, according to Johannes Faul, equity analyst at Morningstar. In 1985, department stores accounted for 13.7% of all retail spending but in fiscal 2017 the sector's share declined to 6%. "We estimate sector sales declined by 2.3% in fiscal 2017, underperforming overall retail spending, which grew by 3.4%," says Faul.

Faul forecasts online sales by department stores to increase significantly over the next decade to $5.4 billion from $0.9 billion in 2017, growing at an average rate of 16% a year over the period. "Unfortunately for the incumbent [Australian] department store chains, we expect Amazon Australia to capture 50% of the incremental online sales growth attributable to department store sales from 2020."

Among the discount department stores, Target (owned by Wesfarmers) and Big W (Woolworths), both amid strategic transitions, reported significant declines in like-for-like sales in 2017, down 14.9% and 5.7%, respectively. But Kmart (Woolworths) increased like-for-like sales by 4.2% and total sales by 7.5%, taking market share in the shrinking sector.

THE SALES PITCH

NAME/TICKER	CURRENCY	FAIR VALUE ESTIMATE	CURRENT PRICE	UNCERTAINTY RATING	MORNINGSTAR RECOMMENDATION	MARKET CAP (BILLION)
Myer Holdings (MYR)	AUD	$0.68	$0.77	High	Hold	$0.63
Woolworths (WOW)	AUD	$23.50	$26.87	Medium	Reduce	$35.06
Wesfarmers (WES)	AUD	$37.00	$44.12	Medium	Reduce	$50.03
Amazon.com (AMZN)	USD	$1250.00	$1159.82	High	Hold	$555.29

Note: the Morningstar rating for the non-Australian company represented in this table has been converted from a star rating to a recommendation for the purpose of comparison.

▶MORE SHARES STORIES ON P82-87

Lower returns forecast

Investors can expect Australian equities to return 5%-7%pa over the next decade, according to Vanguard's long-term market outlook. This is in stark contrast to the 9.4%pa return generated over the past 30 years. While sharemarket valuations look reasonable (with a price earnings multiple close to the historical average), unlike expectations for continued improvement for much of the developed world, the potential downside risks are elevated for Australia, says Vanguard.

The risks of a slowdown are elevated given the fading tailwinds of a housing construction boom and higher household debt.

While the labour market looks relatively tight, the demographic shift, including the ageing population, means the labour supply is leaning toward part-time workers.

SELL COMPUTERSHARE

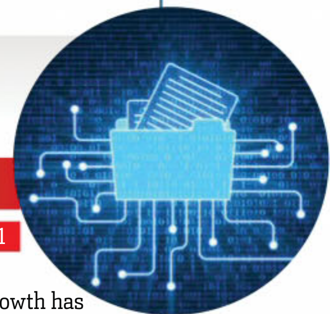
The Intelligent Investor: James Carlisle

RECOMMENDATION

BUY below $11.00 | **HOLD** up to $16.00 | **SELL** above $16.00

SELL at $16.31

Source: Intelligent Investor; price as at 20-Dec-17 close of business



It is remarkable how quickly sentiment can change. In August 2016, no one wanted a bar of Computershare as stalled earnings and the twin threats of blockchain and Brexit sent the stock below $10. Just 16 months later, it is up 66%.

Our concern with Computershare is that it doesn't have the quality we admired when we first upgraded the stock in 2011. Our interest was in the core share registry business, which contributed almost 75% of group revenues. The rest came from "business services".

Since then the core businesses haven't grown, while business services has almost tripled, now contributing almost half of revenues. Most growth has come from mortgage servicing, which is much more competitive than share registry and has other problems, such as the need to keep winning new mortgages to replace the ones being repaid.

Combine a competitive market and the need to keep winning new work and you have a recipe for overpaying and earning slim margins. The company is already looking at a potential earnings cliff in 2020, as profits start to decline on its mortgage servicing contract with UK Asset Resolution and it will have to fight hard to win new contracts.

At current prices we think the risks are beginning to outweigh the potential rewards. Time to **SELL**.

TOP 3 AUSTRALIAN EQUITY ETFs RANKED BY ONE-YEAR RETURN

VanEck Vectors Australian Equal Weight ETF (MVW) 18.57%; **SPDR S&P/ASX 200 (STW)** 14.62%; **iShares Core S&P/ASX 200 ETF (IOZ)** 14.44%. Source: ASX as at 30-Nov-17.

COMPILED BY SUSAN HELY

STORY ALAN DEANS

Power of persuasion

Chinese personal shoppers, known as daigous, hit the front pages two years ago by cleaning out stocks of infant formula from Australian stores for sale in China. Some newspapers slammed the practice for being "shonky" and a "black market". Locals fretted that their babies would go hungry. But daigous now are a legitimate and powerful way for Australian businesses to sell anything from Ugg boots to health supplements, skincare products and processed foods directly to shoppers in the world's largest market. They have upended the traditional Western sales model where slick marketing by consumer goods companies is used to entice consumers. TV ads, social media and billboard campaigns are their tools of trade. But daigous use word of mouth, personal networks and social media to generate bulk orders from shoppers. Product makers are at the tail of the chain, not the head.

There are many daigous, a number being one-time students, and their daily exports are blossoming. There is now even an ASX-listed company, AuMake International, servicing daigous via warehouses in Sydney and Perth and five stores, including one in Sydney's George Street shopping mecca. There are hundreds of such outlets around Australia but they don't need street-level shopfronts. Mostly they are out of sight.

The queen of the daigous in Australia is Livia Wang. She, however, is not a personal shopper. Wang migrated to Australia a decade ago from Taiwan after working in public relations. There, many of her clients exported goods to China. Years before daigous existed anywhere in the world, she learnt valuable skills that helped her establish a thriving trade consultancy in Sydney's Milsons Point. Her clients are a web of Australian and New Zealand brands selling into China and daigous.

"In Australia, there are around 60,000 daigous who make a living out of selling products," says Wang. "That is a lot. Every year from 2016 that number has grown by 30%. Each day we send to China around 40,000 to 60,000 parcels. There are another 20,000 parcels being sent per day from New Zealand. That is one box being sent to one purchaser in China. Why don't Australian businesses see the opportunity? Ecommerce has become mature. Daigous are there for a reason – because their family and friends trust them as a sourcing channel." Wang says each shipment is worth about $50 to $60, meaning that total daily exports by daigous could now top $1 million.

Fact file

Livia Wang

Chinese trade and marketing specialist and leader of the daigou shopping phenomenon. Aged 36; lives in Sydney with her husband, Sean, and two children.

First job, personal assistant to a professor in Taiwan, involving extensive travel. As a young girl she wanted to be like her father, who guarded Taiwan's president. Her goal is to have financial freedom.

Wang migrated to Australia in 2008 to study for a degree in public relations from the University of Sydney. "I never thought I would have a business of my own. I wanted to work for someone else." She took a job waitressing at a nearby coffee shop and eventually married her boss.

"When I met Sean, we opened hospitality businesses, first one then another and then another one. It was all very successful until the third one. It had 100 people, and we thought we could make money but it was such hard work. We didn't know that a liquor licence was required but it took a year to be approved. We had to pay the staff and keep the business running. It looked like a wine bar but we couldn't sell wine. I got down to $3000 in my bank account. I either had to sell the house, go bankrupt or find a way to use those dollars. I chose the third. I spent the money on a business coach to help me start again. That took a year, and I rebuilt the business to where it should have been. I worked very hard to get that back and when it got towards break-even I sold it. I learnt that I had to be very, very humble."

Four years ago Wang switched towards what she does now. Initially she believed that public relations would be difficult in a country where she didn't know the language well. But she spotted an opening in the local Chinese market, in particular copywriting and correcting spelling mistakes she noticed

BEAN BODY
天然身体护理
始创品牌
BeNatural

in Chinese newspaper ads. "I judged that they were not using professional agencies, so I sold my restaurant and hospitality business and set up my agency to help them."

AccessCN was born. Initially it helped small local companies like restaurants and event promoters sell to Chinese tourists by revamping their websites and translating promotional material. But this market was too small. She switched focus to persuading Australian companies that China was an important market.

"The first year a lot of people refused the opportunity," says Wang. "They did not think China was their thing. They thought that New Zealand was next and then Europe and America. They thought that China was not a developed country – too difficult and too hard. They didn't know the scope of the market. There was no ecommerce platform so they could not gauge the potential. It took a lot of time to educate them.

"We trialled a number of small cases on social media to see how much traction they could get and had some amazing trial results. I used those cases as evidence to win larger companies like David Jones and Westfield. They came on board. That was only in the very early stage, and since then the business has developed on a much broader scale."

Wang used social media to access the local daigou community, and was well placed when the demand for infant formula soared. "The strategy was to leverage the daigous to endorse the brands when their family and friends asked them, 'What should I buy?' We used social media to influence the daigous. We tried a lot of strategies, like introducing them to products so they could influence other buyers. They used ecommerce platforms to sell to Chinese buyers. This journey was clear from day one. We knew it would work. But Australian brands did not understand daigous. How could there be an industry that is not retailing – it is not commerce? It is social commerce! That is the phrase we use."

Her clients did not understand the potential of the daigou sales channel. They did not know who their customers were, seeing them as people raiding supermarket shelves. "I sensed a risk. If the daigous didn't have enough support, they would be out of business. Then, how could manufacturers sell directly to China? No way. The market is too big for them."

Agile approach ... "I have to be very paranoid," says Wang of her business.

At first, Australian companies just saw the daigous as people raiding supermarket shelves

Wang's solution was to host a daigou conference in Sydney, an event that shot her to fame because of its coverage in the media. Her focus was to showcase Australian brands to daigous. "That event in Darling Harbour saw 5000 daigous register in the first two hours to attend the brand expo. The media was shocked at the number of people."

The numbers have continued to grow since but Wang now says the market is flooded. Her approach has changed again, and she has no plans to stage another expo. "There are too many daigous. If they all talk about different products, they don't have enough influence. The message doesn't get through. For example, when they were all talking about infant formula, they were talking about three brands – Aptamil, Bellamy's and A2. None of the daigous were talking about any other brands. It was a very concentrated message."

Part of the solution is for daigous to form alliances to regain their sales influence. Some now share offices and clients. Even so, Wang says there are still too many. She also doubts that the emergence of daigou stores and warehouses will provide a solution. They showcase products in retail-style formats, then package and ship the goods they sell to daigou clients in China. But Wang warns that these stores are not influencers themselves. If daigous don't like their products, they don't buy. Wang's answer is to capitalise on the relationships she has established to sell daigous product via a mobile app. Her brands are small or medium sized, and a core sales strategy is to be China focused. The products often are not commonly known in Australia.

Wang's office in Milsons Point must be one of the only ones without a harbour view. There she employs 24 people and has another 60 in China. She describes the growth of her company as being "very large" but is reluctant to mention figures. More than half of net profits are ploughed back into the business. "I like the model to be very agile and flexible because I have to keep up with the pace [of change]. I have to be very paranoid." *M*

Six in a row.
That's something to smile about.

Hostplus has been awarded *Money* magazine's **Best of the Best for the Lowest-Cost Balanced Super Fund** for the Indexed Balanced Option, for the 6th year running. Plus, we've been named the **2018 Best Balanced Super Fund for the Balanced Option.**

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Number one Balanced Fund over 1 year (13.2%), 3 years (9.68%p.a.), 5 years (11.76%p.a.), and 7 years (9.92%p.a.) - SuperRatings Fund Crediting Rate Survey, 2nd August 2017. This document does not and is not intended to contain any recommendations, statements of opinion or advice. The information contained is general in nature and does not consider any of your objectives, financial situation or needs. Past performance is not a reliable indicator of future performance. Awards are not the only factor to be taken into account when deciding to acquire, continue to hold or dispose of a financial product. Please refer to the Hostplus PDS at www.hostplus.com.au. Issued by Host-Plus Pty Limited ABN 79 008 634 704, AFSL No 244392 as trustee for the Hostplus Superannuation Fund ABN 68 657 495 890. RSEL NO. L0000093, RSE No. R1000054, MySuper No.68657495890198 which includes the Hostplus Pension.

CASE STUDY

Overcome the fear

A couple with a young child don't want to make the wrong choices

NAME: Jennifer and Toby
STATUS: 32-year-old married couple with a two-year-old daughter, Emily.
QUESTIONS: How do we accelerate our wealth? Should we continue to build our savings in our 100% mortgage offset account or should we invest in a portfolio of listed shares, ETFs and bonds? What is the outlook for our two Perth properties?
ANSWERS: Pay down your property debt and diversify your wealth into other investments. Don't sell your Perth properties and consider buying a place in Hobart.

With so many investment experts giving different advice on what financial path to take, Jennifer and her husband are stumped about which way to go. "We work hard and hence feel we have a lot to lose if we make the wrong decision at this point in our lives," she explains. She says the fear of making the wrong investment decision means they have "analysis paralysis". They read lots about investing, crunch the numbers, weigh up the options but don't do anything.

Jennifer and Toby moved to Perth 10 years ago to tap into mining boom. "We want to make hay while the sun shines," she says. They found well-paid jobs and saved hard. So far they have survived the bust that rocked the Western Australian economy in 2015 but has since levelled out.

Several years ago they bought an investment property in a popular Perth suburb, paying off the interest-only loan. Last year they bought a three-bedroom townhouse to live in but expect they will upscale to a bigger home in five or so years. They are also thinking of moving back to Hobart one day to be closer to family.

What is the best strategy for their savings? At the moment they concentrate on maximising the balance of the 100% mortgage offset account to effectively "save" 3.95% on the loan on the principal place of residence. But would they be better off investing in shares, ETFs and bonds? As they have a long investment horizon, they can benefit from performance that historically outstrips property over time.

Hobart is still 'hot'

PETER KOULIZOS

Peter lectures in property and is the author of several books, including The Property Professor's Top Australian Suburbs *and* Property Vs Shares.

Both properties are located in suburbs with great capital growth potential. Due to their proximity to amenities and the water, these suburbs have outperformed the Perth property market over the past five years and this should continue for the foreseeable future.

The next part of the property puzzle is to work out what to do next. There are enough savings to buy another property and whilst keeping the money in an offset account against the principal place of residence and saving 4%-5% interest is an excellent strategy,

6 paths to wealth

PIPPA ELLIOTT

Pippa is a financial planner with over 20 years' experience and is the managing director of Perth-based Momentum Planning

You're entering the most expensive time of life – growing a young family with plans to reduce to a single income. You've built a great foundation and you have options, which all depend on your decision around moving to Hobart.

I see your wealth position growing from a base today of under $1 million up to possibly $2.18 million over the next 10 years, depending on which way you go.

Across scenarios, your total wealth outcomes are similar – because it's not so much the investments driving your wealth creation, it's your earnings and savings rate. You need to focus on not "losing" money (through diversification) and focus less on "making" money. Even the debt reduction option sees you in a strong position.

You are prime candidates for getting personal financial advice and I implore you to seek this out, so that you can confidently move towards your short-, medium- and long-term goals.

All options assume Jen takes five years off work to grow the family and returns to work earning $80,000pa. Your annual living costs are $80,000pa. You could:

1. Stay in Perth and focus on clearing home debt by 2027-28 at 41-42. This would involve applying all available surplus to your debt and being disciplined.

2. Move to Hobart in 2020, spend $900,000 on a new home, borrow $720,000 and use offset cash as a deposit. Keep the Perth properties as rentals. Debt would be $1.74 million and this is therefore the greatest risk option, heavily overweight to property.

3. Stay in Perth and direct $100,000 now and all surplus cash flow over the next 10 years to a diversified portfolio in Jen's name – 100% Australian and international equities. I've assumed a total return (dividends and growth) of 10%pa.

4. Stay in Perth and both salary sacrifice super up to the annual $25,000 concessional cap ($337,000 contributed over 10 years). Beyond this, any surplus cash flow could be directed to your home loan. It has less risk than the diversified portfolio strategy (includes defensive assets and growth assets) but with the tax savings is pretty close to matching the 10-year outcome.

5. Stay in Perth and invest $100,000 of cash in an investment bond, where tax on earnings is capped at the company tax rate rather than your personal rate. If you hold your account for 10-plus years, you get to sell without any capital gains tax.

6. Stay in Perth, invest 100,000 in the investment bond (tax savings but 10-plus year timeframe), then $50,000 in the next 12 months from cash flow into a diversified portfolio (this is more accessible if you need it) and $6000pa each to superannuation as concessional contributions (tax effective and a long-term investment) – so a blend of ideas. This is the strongest outcome of all the Perth models.

I get a sense that family will draw you back to Hobart. However, I would be concerned to see you with such high debt. If you were to sell your Perth home and use those funds to support the Hobart purchase, then you have a much lower debt level and the opportunity to consider the investment options above.

an even better idea is to use a portion of these funds, borrow some more money and buy a property in an area that should grow at more than 4%-5%.

Thankfully, Jennifer has some local knowledge as Hobart is one capital city where I would suggest she invests. It has experienced double-digit growth in the past 12 months and I can see that this will continue for at least a couple more years. As they plan to move to Hobart in a few years, buying a property now is a good move.

However, some parts of Hobart will do better than others. I'd suggest buying a character property in the inner-city suburbs of North Hobart, South Hobart or Glebe, making sure that it receives enough sunshine, especially during the winter months. Local knowledge is critical when looking to purchase a property interstate and all the locals know how important it is to be on the right side of the hill so as to maximise the exposure to sunshine.

Happy house hunting in Hobart!

Reduce the debt and risk

LINDZI CAPUTO

Lindzi is a financial planner and manager of wealth management at HLB Mann Judd, helping people achieve their financial goals

Jennifer and Toby are in a strong financial position, so shouldn't be discouraged by adverse property price movements over the short term. What really drives wealth creation is the ability to save, so their strong savings habit will hold them in good stead.

The decision to either pay down debt or establish an investment portfolio is a dilemma faced by many. In the early stages of wealth building with a young family, the priority should be to remove non-deductible debt first.

So Jennifer and Toby should direct their weekly savings to repaying the mortgage on their family home. As they point out, an investment would need to generate an after-tax return greater than the 3.95% interest cost of their loan for it to be worth their while.

For an investment to be a more attractive option, it would need to generate a before-tax return of more than 6.48%pa, assuming tax would be payable at their marginal rates.

While this is not a high hurdle to achieve with equity investments over time, with plans to upgrade the family home within the next five years their time frame is too short to ride out the volatility of investing in equity markets. Such a strategy is too risky and exposes Jennifer and Toby to the chance of losing capital if they had to sell at the wrong time in a market cycle. So the safer route of simply reducing the non-deductible debt makes sense.

For an equity-type investment to be worthwhile, six or more years are needed to give markets enough time to recover from downturns.

Once Jennifer and Toby's non-deductible debt represents less than 50% of the value of their home they could look at other longer term wealth-building options such as an equity-type investment or perhaps making additional contributions to super.

Future investment decisions should look to improve the diversification of their wealth. They should avoid becoming too reliant on the returns of a particular asset class, which can make wealth more susceptible to market fluctuations. Spreading wealth across different asset classes lowers the risk of investing.

With a $100,000 inheritance, Marion's dilemma is a ...

Classic case of risk v return

Q In December we paid off the mortgage on our apartment in a very nice north-eastern suburb of Melbourne. My husband has his own business and, unfortunately, no super. I have super of between $65,000 and $70,000.

Recently we came into a small inheritance. Not life-changing but not to be sneezed at either – $100,000. My husband would like to buy the property upstairs. I would too but I know it's an emotional buy. I don't want to be negatively geared with another mortgage at our age and would prefer to put the money into super.

I am 57 and my husband 62 and I would like to have a bit more cash flow to enjoy life a little and save for my retirement by putting the $100,000 into the super.

Would it be best to have our own individual super? I was thinking that perhaps because I'm a partner in his business we could salary sacrifice some from the business and some from my part-time TAFE work into my superannuation. (I work part time due to not having the best of health.)

Thanks, Marion, this is a great example of risk and return.

If you buy upstairs and rent it out, given the population growth in Melbourne, it is likely to do well in the long run. With low interest rates, the rent may cover most of your mortgage and other costs.

But the problem is, as you say, having debt at a later stage in your careers. It also puts most of your eggs in one basket.

The final straw for me is that you mention your health is not great and that you would like more cash flow. So if I was in your shoes, I would not buy the property upstairs and take on new debt.

Frankly, I think taking more risk with new debt is likely to give you better returns. But this will be at the cost of more risk and, I suspect, lowering your cash flow. So I am voting for topping up your super. Here, though, you need specialist advice. Salary sacrifice is a great idea but it depends on what you both earn and a number of other factors.

I'd chat to your accountant or a fee-charging professional adviser, or you may find your current super fund offers member advice at a modest charge.

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*.

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For Helen's $30,000 Centrelink debt ...

Bankruptcy should be a last resort

Q I have a Centrelink debt of $30,000. If I decide to go bankrupt will my debt be cleared?

Hmmmm. This is not my area of expertise. So I went to the Welfare Rights Centre, which says: "If you have a Centrelink debt, and then become bankrupt, you do not have to repay the debt during the period of bankruptcy (usually three years). Centrelink cannot take deductions from your payments, require payments by instalments, garnishee your bank accounts or take court action to recover the debt during that period.

"After bankruptcy, Centrelink can only start to recover a debt in limited circumstances. Whether or not a debt can be recovered after bankruptcy is a complicated issue. If Centrelink tries to recover your debt after you are discharged from bankruptcy you should seek legal advice from your local Welfare Rights Centre/advocate." (See welfarerights.org.au.)

My advice is to discuss this with Welfare Rights before you make any decisions regarding bankruptcy. Bankruptcy is not an easy way out; it really is a final resort. It will limit your capacity to get credit in the future and is not something that anyone wants to do unless it is really necessary.

James appreciates the money although he feels ...

Overwhelmed by $600k windfall

Q I have received an inheritance of $600,000 and am feeling overwhelmed. I just don't know how to best use it. I am 40 and earn $130,000. My wife is 35 and at home with our four kids (12, 10, 9 and 7) and earns $10,000. I have $200,000 in super and my wife has $30,000. We do not own a home or any investments.

We live in northern Sydney but I am hesitant to buy property in this market, knowing that we will eventually move further north when I retire, although my wife would like a "family" home. How should I best use this money to provide a good and secure childhood for my kids and ensure I have something for our future?

Thanks for getting in touch, James. I am hearing you. $600,000 at a pretty young age is a huge amount of money and I know you don't want to make a mistake. But I am right in tune with your wife. I suspect that with four young kids retirement is well over a decade away. So in your shoes I would buy a family home.

The market is slowing in Sydney, so there is no panic to act, but I do feel that a well-located property will be a decent investment over the next decade. I would certainly expect it to increase in value more strongly than a non-city location. So I vote for doing your research, buying a home and enjoying it for the next decade or more.

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Kevin has a strategy to help …

Daughters avoid tax bill

Q My question relates to tax payable on superannuation left to non-dependants when I die. I am in my early 70s and my daughters are in their 40s, so if all goes well for me in the time I have left they will be over 60 by the time they inherit!

I understand that any superannuation left to non-dependants will be tax free for the tax-paid component and liable for 15% tax on the untaxed component.

If I was to withdraw all my super when I judge that I don't have much time left and put it in a bank account outside the umbrella of superannuation, would it then be tax free to my family?

Yes, Kevin, without knowing your exact super details, that is correct. My wife Vicki and I chuckle about this as well. We also hope to live for many more years but we have three non-dependant kids.

The challenge, though, is when to pull the money out of super!

We would be mightily annoyed if we pulled it out too early and then paid tax on the investment earnings. So our call is to leave it there until we have solid medical evidence that death is close.

Quite frankly, if the worst scenario is that we leave it too late and our kids pay 15% tax on our untaxed component, then that is a First World problem.

Wayne is retiring soon but still needs to …

Prepare for a long lifetime, even at 65

Q I'm 60 years old and self-employed, looking to retire within five years with a regular income (ideally, $100,000 a year). I have a self-managed super fund valued at over $900,000 and I'm not receiving a great return. What would be your advice on how to invest this money? I would like to receive a regular income.

I've been researching different ways to invest, such as purchasing a house or unit through my super fund or through an industrial fund, but the returns are not the best.

Is there a better option?

Hi, Wayne. Let's not worry about how to invest for a moment. I am far more interested in you building a financial plan that will get you to a position of financial independence.

I imagine that you own a home and you may have other assets, but what you have told me is that you have $900,000 in super and want an income of some $100,000 a year in five years.

In five years, at age 65, you will have a life expectancy of some 20 years. You really should hold a balanced portfolio so you are not gambling on property, shares or fixed interest. A long-term realistic rate of return above inflation and after costs is in the range of 3% to 5% a year.

Your question is far too important for me to muck around with. Your plan for the next five years of work will really set your path for the rest of your life.

My advice is to seek out a professional, fee-charging adviser and build a plan that gives you a path for the next two decades and hopefully beyond.

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With a new baby possible, Tom can ...

Grow cash to boost firepower

Q I'm a 31-year-old and my wife is 32, with no dependants. We have no debt beside a home loan of $378,700 (our house is valued at around $450,000). I earn $95,000 and my wife earns around $82,000 each year.

We have $15,000 in cash and $5000 in an MLC investment fund, to which we contribute each fortnight. I have $128,000 in super and my wife has $121,000.

I'm interested in investing more into the MLC account or buying a second property. We are also thinking of starting a family in the next year and a half. What do you think is the best investment strategy?

Congratulations, Tom. At your ages you have made great financial progress and have a good grip on your money. If not for your family plans, I would not be against you buying another property. But while you both have a strong super balance, you don't have a lot of free cash, meaning a big mortgage on a new place.

With east coast property markets softening after the monster boom, my advice would be to build savings via a mortgage offset account, and practise living on one salary as you plan your family. I reckon a big new mortgage with a potential new baby and – I would suspect – one income for a while is not what you need right now

Growing cash will give you more firepower with less risk in the future.

To estimate Le's retirement income, a ...

Budget is a must

Q My wife and I have just turned 64, with a single income, no debt and no dependants. I will be receiving a redundancy package of just under $100,000, and defined benefit super of about $250,000 from my current employer.

I am wondering if this will be enough to live off. My living expenses will be very modest, and I plan to use my pay package until I can start claiming the age pension benefits from the government, with my account-based pension.

Well, Le, it all depends how much you plan to spend! If the age pension is enough for you to live off, with a few extras coming from your super pension, then it is an easy answer for me. But if you want to spend $75,000 a year, it is a problem.

With no debts and, I presume, a home, 4% to 5% spent from your redundancy and super earnings gives you about $16,000 to $17,000 a year. Add the pension and you may find that you are very comfortable.

What you need to do is a budget for your retirement.

Sandra has enough in super and savings so ...

There's no need to worry so much

Q I am 54 and am concerned my income over the next 13 years will not continue, as it has severely reduced. I have some funds invested in ETFs and cash totalling $275,000 and own my own home. I have a total of $547,000 in superannuation, mostly in Hostplus Indexed Balanced Fund and also some in the Public Sector Superannuation Scheme ($178,000), which they tell me will pay a pension of $17,000pa. (I worked for a government department for just shy of 10 years a long time ago.)

I can live on $27,000 net, have another $60,000 in cash, which I can use to live on and would keep me going for a little while, and intend contributing $25,000 to super this financial year.

So when can I officially retire, which I am worried about doing? When can I access my super and can I work, say, on a part-time basis while retired?

Sandra, I am very pleased you are taking this issue seriously but on the face of it you are over-worrying. You have given me the key number I need, namely you can live on $27,000 a year. Your Public Sector Super pension would be $17,000, so you need another $10,000.

Putting aside the PSS amount of $178,000, you have $369,000 in super and $275,000 in exchange traded funds and cash and another $60,000 in cash, a total of $704,000. In a diversified portfolio, it is conservative to estimate that this would earn 2% to 3% above inflation, let's call it 2.5% or an average of some $17,000 a year.

Take that $17,000 and add it to your $17,000 pension and you are at $34,000 already. And remember, this is drawing only 2.5% a year from your savings. I just can't see a problem, which is great for me and even better for you.

As always, if in doubt seek professional personal advice.

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SMART SPENDING

Destination: Ljubljana, Slovenia

Picture perfect ... clockwise from top, the snow-topped Julian Alps provide a stunning backdrop to Bled Island; National and University Library; a rich traditional holiday cake, potica; Central Market on a wintery day.

Five things to do

1. Walking tour: Ljubljana, the delightful, leafy capital of Slovenia, is a great value-for-money destination. Orient yourself by taking a free, two-hour guided walking tour (365 days a year) through the well-preserved medieval town. Local guides tell the stories behind Ljubljana's many bridges, including the famous Triple Bridge, the monuments, the open-air Central Market and the pink-marbled Cathedral of St Nicholas. Try Slovenia's national beverage, schnapps, at a local bar.

2. Day trip: A 1.5-hour bus ride from Ljubljana will lead you to the picture-postcard Lake Bled with its famous Bled Island and church in the middle of the lake, set against the background of the Julian Alps. Enjoy Bled's traditional *kremna rezina*, a cream-and-custard cake. Walk it off by strolling around the lake (two hours) and climbing up to Bled Castle (the oldest in Slovenia), which overlooks the lake and the town of Bled.

3. Ljubljana Castle: Take the funicular from the old town up to the castle, which has a permanent exhibition of Slovenian history as well as a 12-minute projection of the history of the castle and the 4500-year history of settlement in the city. Also visit the Museum of Puppetry, with much-loved Slovenian marionettes and glove puppets.

4. National and University Library: Architect Joze Plecnik is often compared to Spain's Antoni Gaudi. One of Plecnik's most monumental buildings is the library, built between 1936 and 1941, with its open-book-shaped windows. Inside, the entrance is black marble but as you climb the grand central staircase to the main reading room it becomes brighter, representing the light of knowledge.

5. Central Market: Sample local foods such as *potica* cake, Karst prosciutto, wild mushrooms, forest berries, sauerkraut and cow and sheep cheeses. The market, which is open every day and has open-air and covered areas, is set among a Renaissance-influenced colonnade designed by Joze Plecnik. ISABEL VAUGHAN

FAZA BIJAKSANA/ GETTY

DRIVING PASSION

Sporty wagons have best of both worlds

SUVs have all but replaced humble station wagons as the default family haulers of choice. But there's still just enough demand for a few low-riding, high-performance estates to hang on, to offer the best of both worlds in terms of driver enjoyment and practicality.

These range from top-end European models such as the Audi RS 6 Avant, Jaguar XF Sportbrake and Volvo V90 – all priced around $100,000 – to relatively affordable models like the Renault Megane GT, Skoda Octavia RS, Subaru Levorg, Volkswagen Golf and, of course, the outgoing Aussie-built Holden Commodore SS-V Redline Sportwagon.

All of the wagons mentioned are arguably more elegant than the sedans and hatches on which they're based, and offer greater boot space without losing much in terms of performance and handling. And, perhaps more importantly, they offer an alternative for keen drivers who don't want to give up on passion when practicality is top priority.

DAVID BONNICI, WHICHCAR.COM.AU

$42,490

Renault Megane GT

The wagon version of Renault's popular performance hatch has a longer wheelbase yet similarly tight handling and performance thanks to the Renault Sport suspension, four-wheel steering and the same 1.6-litre turbo engine. Its cabin is roomier than the hatch's, with a considerably bigger 580-litre cargo area.

Pros: Zippy performance. Long standard features list.

Cons: Poor cabin storage, awkward infotainment system.

renault.com.au

$51,990

Subaru Levorg STI Sport

The Levorg replaced the Liberty wagon and provides WRX thrills but with a more spacious interior and 489 litres of boot space. It's powered by a 2.0-litre, four-cylinder turbo engine that sits flat to provide a lower centre of gravity for improved handling. Acceleration off the line is impressive, with a 0-100km/h time of 6.6secs, and there's plenty in the tank for efficient overtaking.

Pros: "EyeSight" active safety system.

Cons: Tyre noise; no manual option.

subaru.com.au

$47,390

Skoda Octavia RS245

Skoda has three RS versions of its popular mid-sized car in sedan and wagon configurations. Sitting above the RS169 and RS135 turbo diesel is the new RS245, featuring a more powerful version of the RS169's 2.0-litre turbocharged petrol engine, also found in the legendary Golf GTI. It's capable of sprinting from 0-100km/h in 6.7 seconds.

Pros: Manual and auto options; track-focused handling.

Cons: No active safety as standard.

skoda.com.au

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WINE SPOTLIGHT

2015 Schild Estate Grenache Mourvèdre Shiraz $18

The profile of grenache is on the rise and so it's good to see a quality quaffer from this traditional Australian blend at a reasonable price. This is an easy drinking medium-bodied Barossa style, neatly integrating rich red cherry and mulberry flavours, silky smooth texture and supple, gentle tannins.

SPLURGE

2016 Yabby Lake Single Vineyard Pinot Noir $60

A vertical tasting of the chardonnays and pinot noirs made by Tom Carson after a decade on Mornington was both intriguing and satisfying. This trophy-winning 2016 pinot is among the vineyard's best: voluminous black cherry and deep redcurrant aromatics, power and concentration of brambly flavours, fleshy, velvety texture and a long, lingering finish.

PETER FORRESTAL

SMART SPENDING

SMART TECH

Virtual assistants are right at home

It's not often that personal technology converges around a useful new user interface which really takes off in the mainstream. We saw it about a decade ago, when smartphones and tablets leveraged recent advances in capacitive touchscreen technology. Now we're witnessing it again, with a new generation of virtual assistants setting up camp in our homes.

For a long time, voice recognition remained a niche concern on PCs, until the emergence of virtual assistants like Apple's Siri, which made speech a useful new way of performing basic interactions with devices. Now, largely thanks to the success in the US of Amazon's Echo speakers and their onboard assistant Alexa, there's been an explosion in similarly envisioned products.

In lots of ways, grounding virtual assistants in a home speaker like this may be even more useful than having them on a phone. In the home, your spoken interactions remain private; devices can be tethered to wall power (not to mention wi-fi) for always-on convenience. And if you pack in decent speaker components, you've got the makings of a flexible new sound system. PETER DOCKRILL

What is it? Google Home Mini
How much? $79
Pros: Arguably the cheapest and most accessible entry point into the new generation of smart speakers, Google's Home Mini is available for under $80 (and even less when on sale). You can use the Mini – which is about the size of a paperweight – to ask Google Assistant questions, and also cast content to your TV via a Google Chromecast.
Cons: Given its extremely small pebble-shaped size, the Home Mini's speaker isn't a strong choice for audio playback.
store.google.com/au

What is it? Apple HomePod
How much? TBC
Pros: Over a decade ago, Apple made a splash with its iPod Hi-Fi all-in-one, and its imminent speaker sequel looks to be a revival for modern times. Designed to set itself apart on audio quality, the stylish HomePod incorporates a powerful speaker system that auto-tunes itself to the room it's in, and is built around Siri and tight integration with Apple Music.
Cons: Delayed until early 2018, but expect a fairly closed, non-extendable (and likely pricey) unit when it hits.
apple.com/au

What is it? Sonos One
How much? $299
Pros: Like the HomePod, the Sonos One also bills itself on audio quality, with a sturdy speaker unit that allows for boomy, room-filling sound. A benefit of the system is that in addition to voice control (see below), the One supports playback from multiple streaming (or network) services, including Spotify, Apple Music, Plex and internet radio.
Cons: While the Sonos One is available now, voice control via Amazon's Alexa is not yet supported (but should be coming in a software update).
sonos.com

GIVE IT UP

Bears of Hope

What is it? Bears of Hope provides support and care for families who experience the loss of their baby through miscarriage, stillbirth or neonatal or infant death. Sadly, in Australia, 2000 babies are stillborn each year and one in four women will experience a miscarriage.

Where your money goes: Some of the main services that Bears of Hope offers to parents and families who have lost a baby include online support groups; facilitating face-to-face support groups; offering hospital and home visits by Bears of Hope members and counsellors as well as providing phone and email support. The charity also offers a service that puts families in contact with other families who have experienced a similar loss.

How to donate: You can donate, make a one-off donation or arrange an ongoing contribution online at bearsofhope.org.au or call 1300 11 BEAR (2327) for details. You can also donate a "Bear of Hope" to a newly bereaved family.

WEBFIND

SHIPSTER.COM.AU

If you're a regular online shopper, it could be worth checking out Australia Post's new service Shipster. For $6.95 a month you can get free domestic shipping on "eligible" purchases – orders totalling $25 or more where shipping would cost less than $20 – from more than 50 retailers. You can try it out for free for two months.

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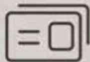
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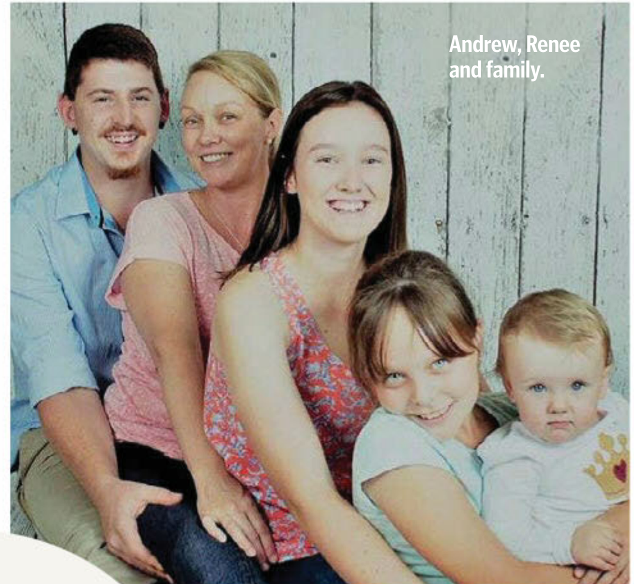
PAUL'S VERDICT **Paul Clitheroe**

Big inheritance is a life changer



Andrew, Renee and family.

I have big questions. I am 38 years old and I live with my partner, who is 26. We have recently combined all of our assets and finances. We have a two-year-old daughter and I have two children from previous relationships. I am about to inherit $600,000 plus the home we live in, which is worth $350,000.

I have never had much of a clue about investing and creating wealth. We have a combined income of $80,000. I have $25,000 in super and my partner has $16,000 in super. We have combined debts of $45,000. I am currently salary sacrificing and pay 15% of my income towards super. I would like my partner to do the same.

What would be the best way to really make this inheritance change the shape of our lives for my children and grandchildren? I like the idea of buying property to invest in but would also like to finance a home to suit our family needs.

Renee

Paul's verdict: You will need to answer a tough question: "Whose money is it?"

Decide whether you want to buy a new home or renovate

No argument, Renee – these are big questions. But initially, anyway, it is not about investing, it is about your long-term plans, which should be reflected in your estate planning and your will. You have given me an important clue when you say that you have merged finances with your partner and that you want to "change the shape of our lives for my children and grandchildren".

With this large amount of money coming into the family, one of the first issues for you is how this money is seen. Will you hold it in your name and potentially invest and buy a home in your name, or will you also merge this money with your partner's and invest jointly?

This is a really important issue where you and your partner need to discuss and agree on a path that works for you. Obviously, as you are both well aware, relationships break up. If this were to happen with your new relationship, is the plan to look at who brought what into the relationship or would it be split between you? This is not an easy conversation but over the decades it seems to me that couples who have a plan for the worst, such as a break-up, in my experience tend to have fewer relationship problems. This is better sorted sooner than later and, given the very large amount involved, I would be discussing the issue with a solicitor and also getting your wills done as part of the process.

So once the issue of "whose money is it?" is agreed, then the next big discussion is your home. Is this where you will keep on living? If so, will you do a renovation? This conversation with your partner should be fun. You have the opportunity to buy a bigger home or move to another area. Things that might impact this are access to schools and things such as health, entertainment and other facilities that suit the way you and your family want to live.

It would make a lot of sense to put aside in a safe investment, such as a term deposit, the amount of money needed to renovate or buy a new home. If you decide to buy a new home, you would need to think about whether you would keep the old home and rent it. Depending upon your plans, this could use quite a bit of the $600,000, or if you are staying put and not renovating, it will use none of it!

The investing part is not really that difficult. First up, you would pay off your combined debts of $45,000. Next you would invest the balance in something safe, such as a term deposit, while you do your planning. Clearly, the amount to be invested would depend on your housing plans but whether the amount left over is large, medium or small the same principles apply.

Given the amount you are likely to be investing and your lack of experience, I really do think a trip to see a professional, fee-charging adviser is the way to go. Avoid anyone who offers you "free advice" – the reality is they will want to sell you product. You need an adviser, not a sales person. Take a look at the Financial Planning Association website to find qualified advisers near you but do not be afraid to ask how they charge. A good adviser will be pleased to answer this question and supply it in writing.

In terms of your super, topping it up via salary sacrifice is a good plan, as you know this locks it away until your retirement, which is many decades away. Incidentally, you could use some of the inheritance to add to super as a contribution of your own money. This could be as high as $300,000 into your fund. Again, you really need to talk to your fund or an adviser about this.

You are about to receive nearly $1 million. Wisely invested in a home, shares or other assets this money can care for your future and assist your kids and grandkids. But it is far too important an issue to deal with in the few words I can write here. I have tried to give you a picture of what is important in your decision-making process but there is no doubt in my mind that good advice, both legal and investment, is the key next step for you.

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.

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TOP 50 SHARE BUYS & PROPERTY HOTSPOTS

With 2018 shaping up as a challenging year for investors, property guru Terry Ryder and the sharemarket experts at Skaffold reveal, for the seventh year, where they see the greatest value. Property winners in 2017 included Indented Head and Jan Juc (both 20%-plus) in Victoria, Werrington (19%) in NSW and Sunshine Beach (21%) and Noosa Heads (19%) in Queensland. The Top 5 share portfolio delivered 4.7%, with individual returns ranging from an impressive 71% (Northern Star Resources) to a disappointing -50.8% (Vita Group).

- **5 standout locations, p42**
- **5 standout shares, p46**
- **Portfolio review: 16%pa over six years, p50**

STORY TERRY RYDER

Top property

News of the death of the property boom has been greatly exaggerated. Last year provided undeniable evidence of the wind-down of the Sydney boom but other cities are only getting started and show promise of strong growth in 2018.

Because far too much of media commentary about residential real estate comes from economists who don't understand the complexities of our markets, you're going to be reading a lot this year about "the end of the Australian property boom" and the likely decline in "Australian property values". If you do come across this kind of coverage, which generalises about Australia as a single market, ignore it.

The eight capital cities delivered a five-speed market in 2017 and the coming year is likely to show similar diversity.

Sydney's growth will reduce to around zero, or be slightly negative, but some of the apartment markets with rising vacancies may have greater price declines.

Melbourne will show increasing signs of slowdown, with most of the standout growth markets being the affordable outer-ring suburbs or regional towns not far from the city.

But while the two big cities will no longer be booming, other capital cities and some of the regional centres will step up.

Canberra is just beginning its run and may be the price growth leader for 2018. Hobart, which ended 2017 as one of the strongest markets, will continue to attract mainland investors and show strong price growth.

Brisbane and Adelaide, which have shown only minor growth to date, are likely to be stronger performers in 2018. Both will be boosted by improved performance in their state economies.

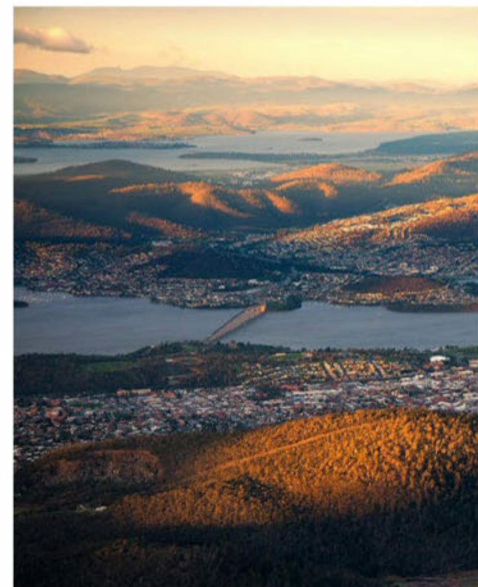
Brisbane has created a serious oversupply in its inner-city unit market and smart investors will stay away, but some of its suburban house markets will do well.

Perth is the recovery market and, after four years of decline, will show the first price growth since 2013. Those deterred by the city's recent weak performance should remember the period from 2002 to 2007, when it showed the most sustained period of strong price growth in recent Australian history – including 2006 when the ABS House Price Index shows the annual growth rate topped 40%.

Damian Collins, of Momentum Wealth, agrees revival is under way and says: "It's an owner-occupier-led recovery. Investors are a bit thin on the ground because vacancy rates are still high."

Darwin's recent performance has been similar to Perth's. Vacancies have now fallen to acceptable levels and there are incentives for first-home buyers. But the local economy remains weak and price growth is likely to be muted.

Key regional cities will be among the strongest markets. Those who doubt the ability of regional areas to match the big cities on price growth should examine the recent outcomes in Newcastle in NSW, Geelong in Victoria and the Sunshine Coast in Queensland.



Regional markets in the eastern states, in particular, will do well, headed by the Hunter region in NSW, regional centres close to Melbourne, such as Ballarat in the north and Pakenham in the south-east, and Townsville and the Sunshine Coast in Queensland.

The Gold Coast, which levelled off in 2017 after a couple of strong years, may surge again on the back on the Commonwealth Games. But beware the high-rise suburbs where yet another glut is looming.

Resources-related towns, which have suffered major price decline since the end of the mining investment boom, will start to show price growth again.

In the latter part of 2017 there was a marked upturn in sales activity in markets such as Port Hedland and Karratha in Western Australia; coal-related towns like Muswellbrook, Singleton and Mudgee in NSW; and Emerald, Mackay and Dalby in Queensland.

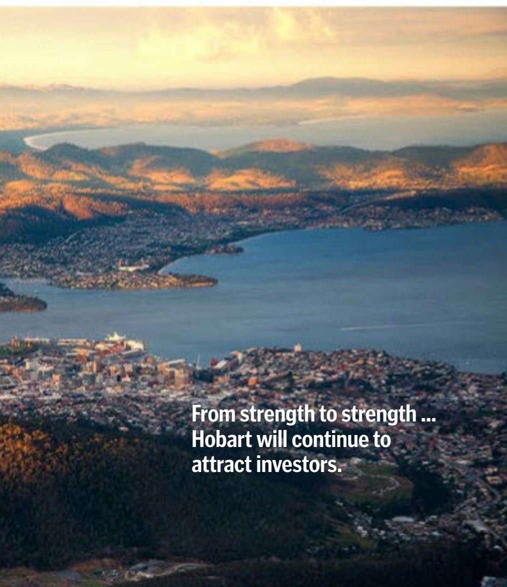
The worst also appears over for oversupplied Gladstone, with vacancies having dropped steadily over the past two years.

But while things are looking up in these places, investors need to remember their inherent volatility and the high-risk nature of owning real estate in places reliant on mining for prosperity.

The secret to profiting from real estate will lie in understanding that Australia has many different property markets – and some of them will be rising strongly in 2018, even as the most high-profile ones are fading.

This will run contrary to TV talking heads who will keep referring to the slowdown in "the Australian property market". Remember that they're mostly Sydney-based boffins thinking about the Sydney scenario but extrapolating that nationwide.

The core message is that we don't have an Australian property market. We have many different markets, all influenced by local economic conditions. Even within one city there are myriad different scenarios in play. Brisbane has rising markets, stagnant precincts and downturn markets that need to be avoided (notably inner-city units).



From strength to strength ... Hobart will continue to attract investors.

Expect more diversity of market performance in 2018 but with different growth stars. This year we won't be talking so much about Sydney or Melbourne. It's more likely to be about Canberra, Hobart and Perth, and possibly also Brisbane and Adelaide.

Beware unit markets

A lot has been written about oversupply in city apartment markets and this is likely to become an even bigger issue in 2018.

Brisbane has the most serious situation, with the vacancy rate in the CBD now around 9%, according to SQM Research. Neighbouring Fortitude Valley is about 7% and half a dozen near-city suburbs have similar problems.

The inner city has been the weakest point of an overall down Perth market in recent years and the unit market is likely to lag the general recovery in the capital in 2018. Residential vacancies in the CBD and near-city suburbs remain around 6%.

The consensus about the looming inner-city glut in Melbourne was broken when BIS Oxford Economics issued a reassessment late in 2017, suggesting higher-than-expected population growth would absorb the high levels of new supply.

Most, however, remain in the oversupply camp, as 2017 ended with Southbank and Docklands showing vacancies rising towards 4% and lots of new high-rise coming out of the ground, at a time when the Melbourne market is winding down and government is discouraging foreign investors, who were the primary targets for many developers.

Sydney will have emerging issues in its apartment markets in 2018. The suburbs in and around the Olympic Park precinct have vacancies rising while sales activity generally is falling. The Homebush, Breakfast Point and Wentworth Point postcodes all have vacancies in the 5%-6% range.

There are potentially similar issues for suburbs between the Sydney CBD and the airport, where unit development has proliferated and lenders are increasingly reluctant to finance purchases. Parramatta and its neighbours are another danger precinct.

Terry Ryder is the owner and creator of hotspotting.com.au, which helps identify emerging markets. He has three decades of experience as a researcher and commentator.

HOW 2017 TURNED OUT

This time last year I wrote: "The story in the coming year will be much less about Sydney and Melbourne and a lot more about Hobart, Canberra, Adelaide and some of our more vibrant regional cities."

CoreLogic figures in December 2017 indicated that Hobart had the highest annual house price growth, up 12%, while Sydney's growth rate was down to 4.4%. Melbourne's growth rate contracted also but was still a little above 10% at year's end, while Canberra recorded a solid 7%, with some forecasters suggesting Canberra will be a market leader in 2018 and beyond. Several regional cities also had double-digit growth, led by Newcastle and Geelong.

This time last year I wrote: "One research source, Simon Pressley of Propertyology, has forecast that Hobart will lead the capital cities on price growth in 2017."

Reports from the ABS and CoreLogic in December 2017 both had Hobart leading the capital cities on price growth.

This time last year I wrote: "Canberra is the Mr Consistent of the capital cities and usually delivers moderate performance. Expect better than moderate in 2017, but not a boom."

Canberra led the capital cities on rental growth in 2017 and most sources recorded house price growth around 7% for the year.

This time last year I wrote: "We are unlikely to see major price growth in Sydney in 2017 ... Sydney is very fully priced and affordability is a barrier."

By the end of 2017, CoreLogic recorded an annual house price growth rate of 4.4%, while SQM Research reported 6.9% for houses and 4.6% for units.

This time last year I wrote: "The coming year may see revival in some of the resources-related regional towns and cities ... There are glimmers of hope that the worst may be over for Gladstone, Mackay, Emerald and the towns of the Bowen Basin and the Surat Basin."

All of those Queensland resources-related areas saw vacancies fall markedly and there were signs of revival in sales activity, although prices remained weak.

NEW SOUTH WALES

STANDOUT LOCATION:

1 Newcastle region:

While Sydney faded, Newcastle rose strongly last year, with several suburbs topping 20% growth and others rising 17%-18%. In 2018, the growth will ripple to neighbouring areas including the Lake Macquarie LGA and the key centres of the Hunter region, including Maitland, Cessnock, Singleton and Muswellbrook.

2017 reviewed

Penrith City: The suburbs of Penrith LGA outperformed the overall Sydney market where, according to CoreLogic data, the annual growth in house prices dropped to 4.4% by year's end. Numerous Penrith suburbs rose 13%-14% in 2017, while Werrington rose 19% and North St Marys 17%.

The media have obsessed over the Sydney boom and many were talking it up after it had passed its peak. Sydney's wind-down, charted by a steady decline in sales activity since 2016, showed up in price data in 2017, with most sources recording growth rates in single digits by year's end.

Now commentators have switched to the downturn storyline, with dire warnings about values plummeting. But don't expect anything dramatic. The likely scenario is the one we saw in 2004 after the 2001-03 boom. ABS data shows there was no dramatic price decline in Sydney – the annual growth rate dropped from double digit to slightly negative for 18 months, before resuming moderate growth.

Sydney has high property values but they're underpinned by the factors that caused the rises in the first place: a strong economy, huge spending on infrastructure and population growth. The affordability factor has brought the price rises to a halt. But the fundamentals that got prices to those levels remain, so they're unlikely to fall – much.

The exceptions will be the places building too many units. The greatest killer of markets is oversupply and some sectors look precarious, such as Parramatta and the Olympic Park precinct.

There's more to NSW than the capital city and many regional centres are coming into good growth periods.

Several Newcastle suburbs grew their median house prices by 20%-plus in 2017 and neighbouring areas have the potential to catch a ripple effect, including the Lake Macquarie LGA, the Port Stephens area and the Hunter region.

Other centres that have already had good growth include Wollongong, the Central Coast, the Southern Highlands, Dubbo, Port Macquarie and Coffs Harbour.

Locations less advanced in the cycle and coming into growth periods include Queanbeyan, Armidale, Wagga Wagga and Tamworth.

VICTORIA

STANDOUT LOCATION:

2 Ballarat:

This regional centre stands out, offering affordability with good transport links to Melbourne, underpinned by a strong economy. Sales activity has been rising in a city where most suburbs have median house prices of $250,000-$350,000.

2017 reviewed

Greater Geelong: This time last year I wrote that "while much of the publicity about Geelong focuses on the closure of the Ford motor plant, positive job-creating events far outweigh the negative impacts of the Ford shutdown." Most suburbs in the City of Greater Geelong recorded double-digit median price growth in 2017, including several above 15% and two (Indented Head and Jan Juc) above 20%.

There will be growing signs in 2018 that Melbourne is following Sydney into a wind-down phase. Melbourne got on its growth path later than Sydney and so still has momentum. But the important indicators show Melbourne has already passed its peak.

The ripple effect has taken the growth cycle to the affordable outlying suburbs. The strongest market now is Wyndham City in the far south-west, where suburbs such as Werribee, Hoppers Crossing and Point Cook are selling homes in record numbers.

The elements that drove Melbourne's boom – a strong state economy and the nation's highest population growth, fuelled by migrants – remain. But there are powerful forces that can overpower the growth drivers, including affordability and oversupply. So we can expect the 2018 growth to be seen in the outer suburbs and in regional centres within commuting distance.

Geelong has one of the hottest markets and will continue to surge in 2018. Ballarat is warming up as well and homes are selling fast there, thanks to the city's affordability, strong economy and transport links to Melbourne.

Other busy markets include Macedon Ranges Shire north of Melbourne (towns like Gisborne, Kyneton, Woodend and Romsey); Mitchell Shire, also on the northern fringes (Kilmore, Wallan, Seymour and Broadford); and Cardinia Shire in the far south-east (Pakenham and Officer).

Warming up ... Ballarat has a strong economy and is affordable.

QUEENSLAND

STANDOUT LOCATION:

3 Moreton Bay LGA:

As economic improvement and attractive affordability put the focus on Brisbane, the most active market is the north. The Moreton Bay LGA includes key centres such as Caboolture and the Redcliffe Peninsula, where the new rail link adds to the bayside appeal.

2017 reviewed

Sunshine Coast: Many Sunshine Coast suburbs had double-digit growth in median prices last year, headed by Sunshine Beach (21%), Buddina (19%), Noosa Heads (19%), Caloundra (16%), plus Bokarina, Golden Beach, Moffat Beach and Woombye (all 14%-15%).

Queensland will be a state of contrasting fortunes in 2018. There will be growth markets, recovery markets, still-struggling resources locations and apartment markets that need to be avoided. Big investment is pouring into Queensland projects – mining, energy, transport, retail, commercial and residential – and this bodes well for real estate demand.

There are improved prospects for regional centres impacted by the resources sector. Vacancy rates have dropped in locations like Gladstone and sales activity has lifted in Townsville, Mackay, Rockhampton and Emerald.

The Sunshine Coast is being transformed by major spending on infrastructure and other developments, while Townsville is recovering after some difficult years and will be boosted in 2018 by major new developments.

The Gold Coast will generate hype over the Commonwealth Games but much of the lift has already been felt by the property market. The biggest impact may be negative: unit oversupply as developers overreact to a major event that might otherwise generate a boom.

Many investors have switched focus from Sydney and Melbourne towards Brisbane because of its cheaper prices and better yields. Affordable areas will do well in 2018, headed by the Moreton Bay LGA on the northern fringes and Ipswich City in the far south-west.

Be wary of the Brisbane inner-city unit market: vacancies are high and values are falling.

Affordable ... the Moreton Bay area will lead the charge.

WESTERN AUSTRALIA

STANDOUT LOCATION:

4 Joondalup precinct:

As the Perth market recovers, one of the standout precincts is the cluster of suburbs around the suburban regional centre of Joondalup, where infrastructure, lifestyle and affordability make an attractive package. Suburbs such as Edgewater, Joondalup and Duncraig will show growth.

2017 reviewed

Mandurah City: This time last year I wrote that "It's unlikely that anywhere in WA will grow in 2017 ... Mandurah may be among the first to recover but it's unlikely to be in 2017." Most suburbs in the Mandurah LGA saw prices fall 4%-5% in 2017. Given the recovery signs in Perth, 2018 may be better in this region.

Perth is recovering after four tough years and there are opportunities for investors, because prices are down, buyers are scarce and the future looks brighter. Hotspotting has charted a big turnaround in sales activity. For several years sales volumes fell, with property values following. But since mid-2017 we've seen many suburbs recording improved sales activity and now there is serious momentum in the market.

"The sentiment has changed," says Tim Guest, of Infinite Wealth. "People are starting to feel a lot more positive."

The Joondalup precinct in the north of the Perth metropolitan area looks particularly promising. It has education campuses, major medical services, government offices, a transport hub, good links to the Perth CBD, big retail facilities and plenty more. Many of the suburbs in this precinct are affordable.

Neighbouring Wanneroo is Perth's leading growth LGA and is a magnet to young buyers (in suburbs like Clarkson, Carramar and Banksia Grove). Other affordable precincts around Perth include Forrestfield in the east, Armadale in the far south-east and the coastal precinct around Rockingham in the far south.

Re-emerging middle-market areas are headed by the Stirling LGA (suburbs such as Innaloo, Gwelup and Doubleview) and the Melville LGA (Bicton, Leeming and Kardinya).

Some investors are showing renewed interest in the resources-related towns, because prices are a fraction of their peak levels at a time when the resources sector is recovering and hiring again.

Popular targets, as in the boom times, are Port Hedland and Karratha. But investors need to be very cautious. Prices won't return to the massive levels of the past any time soon and those markets will always be volatile.

SOUTH AUSTRALIA

Rising star ... an upward trend in Adelaide's busy property market is forecast for 2018.

STANDOUT LOCATION:

5 City of Marion:

The Marion LGA is typical of middle-market Adelaide, offering quality homes close to infrastructure and jobs nodes at prices that Sydney and Melbourne buyers can only dream about. Expect suburbs like Mitchell Park and Sturt to show growth in 2018.

2017 reviewed

Onkaparinga: Most research sources had Adelaide growing an average 4%-5% in 2017. Many suburbs in the Onkaparinga LGA did considerably better, headed by Old Noarlunga (12%), O'Sullivan Beach (10%), Seaford Rise and Willunga (both 7.5%).

Improvement in the state economy and upcoming major infrastructure events bring overdue focus to Adelaide, where affordability is attractive compared with the big cities.

CommSec's State of the States report has elevated South Australia from No. 6 to No. 4 in the ranking of state and territory economies. And the latest employment data from the ABS shows the SA jobless rate (trend data) dropping to 5.6%, the lowest in five years.

Given the correlation between the health of the state economy and the performance of the property market, this bodes well for Adelaide. I expect the SA capital will surprise property observers with its positive progress in 2018.

Adelaide already has a busy property market, headed by the Marion LGA in the south-west of the metropolitan area. This is middle-market Adelaide but its price levels look like the affordable lower end in Sydney and Melbourne. Another growth precinct is the far northern suburbs (Playford and Salisbury LGAs), which contain some of the cheapest houses in capital city Australia.

Outside Adelaide there are plenty of solid regional centres – Port Lincoln, Mount Gambier, Goolwa, Victor Harbor, the towns of Barossa Valley – but none with compelling reasons to grow strongly in the foreseeable future.

But Port Augusta, where the median house price is below $200,000, has the potential to become a boom town if some of the proposed energy projects come off.

OTHER STATES AND TERRITORIES

Canberra is an example of the diversity in Australia's many different property markets. While Sydney has been booming, Canberra has been quiet and now, as Sydney winds down, Canberra is rising.

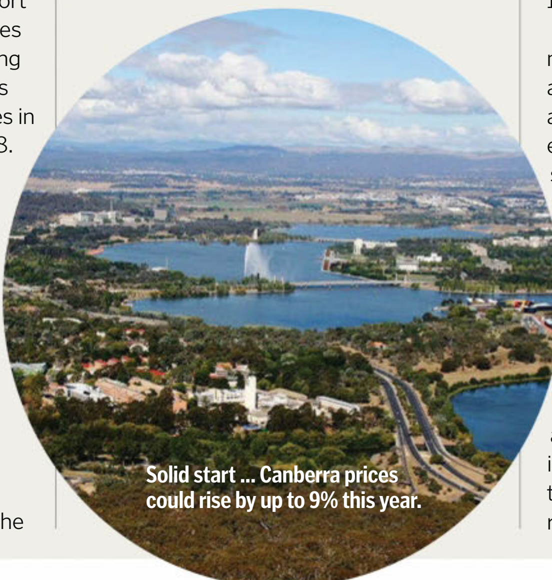
The median house price in Canberra is forecast by the QBE Housing Outlook Report to have the strongest growth of all the cities over the next three years, while the Housing Boom and Bust Report by SQM Research's Louis Christopher suggests dwelling values in Canberra will increase by up to 9% in 2018.

Canberra has been delivering some impressive statistics, with low vacancy rates, consistent sales activity and solid price growth. According to SQM's Weekly Rents Index, house rents in Canberra are up 12.5% in annual terms.

Putting all those solid statistics together with forecasts of good growth in coming years suggests Canberra will be a leading property market in 2018.

The strongest markets, in terms of forward movement in sales activity and the influence of infrastructure spending, are the northern precincts – the Belconnen and Gungahlin districts.

The strong recent performance of the Hobart market has coincided with the strengthening of the Tasmanian economy. According to some research sources, Hobart was the leading capital city on annual growth in house prices in 2017.


Solid start ... Canberra prices could rise by up to 9% this year.

Hobart has been dominating national lists of locations where homes are selling the fastest. One report found that, of the Australian suburbs where houses are selling in under 10 days, half were in Hobart.

Mainland investors are now targeting Tasmania, especially Hobart, because it's so affordable compared with the biggest cities and offers much better rental yields. Real estate performance is underpinned by a strong state economy and improved population numbers.

Hobart continues to deliver the lowest vacancies in capital city Australia. A recent report from Louis Christopher, at SQM Research, found a vacancy rate of 0.3%. It's been like that for a long time.

While Perth has shown clear signs of recovery, the other downturn market among the capital cities, Darwin, is still mired in negativity – but with some hope for better things in 2018. One positive statistic is the reduction in Darwin's overall vacancy rate.

HOTSPOTTING'S TOP 50 LOCATIONS FOR 2018

SUBURB	MUNICIPALITY	STATE	MEDIAN PRICE (FOR HOUSES UNLESS UNITS INDICATED)	GROWTH (%PA)			MEDIAN WEEKLY RENT	MEDIAN YIELD
				HISTORICAL		FORECAST		
				1 YEAR	3 YEAR	3 YEAR		
East Maitland	Maitland	NSW	$423,000	8.3%	14.7%	20%	$370	4.8%
Muswellbrook	Muswellbrook	NSW	$279,000	-2.1%	-9.8%	20%	$270	5.0%
Charlestown	Lake Macquarie	NSW	$591,000	11.5%	28.5%	15%	$430	3.8%
Toronto	Lake Macquarie	NSW	$428,000	9.7%	15.7%	15%	$365	4.4%
Cessnock	Cessnock	NSW	$322,000	9.0%	20.6%	20%	$305	4.9%
Queanbeyan	Queanbeyan-Palerang	NSW	$505,000	11.6%	22.1%	25%	$450	4.6%
Blue Haven	Central Coast	NSW	$480,000	16.3%	44.3%	15%	$400	4.2%
Corio	Geelong	VIC	$280,000	15.2%	16.7%	15%	$270	5.8%
Waurn Ponds	Geelong	VIC	$525,000	7.1%	16.7%	15%	$420	4.2%
Pakenham	Cardinia	VIC	$430,000	14.0%	27.5%	15%	$350	4.1%
Wendouree	Ballarat	VIC	$250,000	1.6%	3.8%	20%	$260	5.4%
Ballarat East	Ballarat	VIC	$290,000	-0.9%	11.5%	20%	$280	5.0%
Kilmore	Mitchell	VIC	$355,000	6.7%	10.9%	20%	$330	4.8%
Wyndham Vale	Wyndham	VIC	$415,000	13.5%	28.2%	15%	$330	4.1%
Hoppers Crossing	Wyndham	VIC	$475,000	20.3%	39.7%	15%	$340	3.7%
Mernda	Whittlesea	VIC	$470,000	10.6%	27.0%	15%	$360	4.0%
Burpengary	Moreton Bay	QLD	$420,000	-1.2%	7.7%	20%	$385	4.8%
Kippa Ring	Moreton Bay	QLD	$415,000	1.6%	11.1%	20%	$385	4.8%
Petrie	Moreton Bay	QLD	$410,000	2.4%	13.5%	25%	$390	4.8%
Algester	Brisbane	QLD	$495,000	1.6%	12.4%	15%	$420	4.4%
Springfield	Ipswich	QLD	$425,000	5.1%	13.2%	15%	$385	4.7%
Tewantin	Noosa	QLD	$533,000	12.1%	22.9%	20%	$475	4.6%
Sunrise Beach	Noosa	QLD	$720,000	5.1%	16.4%	20%	$575	4.2%
Molendinar	Gold Coast	QLD	$598,000	4.8%	19.6%	15%	$500	4.9%
Varsity Lakes	Gold Coast	QLD	$615,000	7.6%	28.5%	15%	$550	4.7%
West Lakes	Charles Sturt	SA	$725,000	0.2%	7.4%	20%	$580	4.2%
Mitchell Park	Marion	SA	$470,000	5.3%	10.7%	25%	$380	4.2%
Sturt	Marion	SA	$450,000	0.2%	15.3%	25%	$370	4.2%
Salisbury North	Salisbury	SA	$265,000	2.8%	7.2%	20%	$300	6.0%
Davoren Park	Playford	SA	$180,000	1.5%	4.8%	20%	$255	7.2%
Campbelltown	Campbelltown	SA	$515,000	2.4%	18.6%	20%	$370	3.7%
Port Augusta	Port Augusta	SA	$160,000	14.3%	-8.6%	25%	$250	8.1%
Duncraig	Joondalup	WA	$710,000	-2.1%	-2.8%	20%	$450	3.3%
Edgewater	Joondalup	WA	$520,000	-7.1%	-5.4%	25%	$400	4.0%
Morley	Bayswater	WA	$500,000	-4.8%	-10.0%	25%	$350	3.7%
Woodvale	Wanneroo	WA	$620,000	-4.1%	-9.5%	20%	$485	4.1%
Clarkson	Wanneroo	WA	$400,000	-1.3%	-7.0%	20%	$330	4.2%
Innaloo	Stirling	WA	$580,000	4.3%	-4.1%	25%	$440	3.9%
Karrinyup	Stirling	WA	$800,000	-1.3%	-4.5%	20%	$500	3.2%
Kardinya	Melville	WA	$635,000	-2.3%	-7.6%	25%	$400	3.3%
Glenorchy	Glenorchy	TAS	$290,000	14.0%	22.5%	15%	$340	5.9%
Moonah	Glenorchy	TAS	$330,000	16.1%	23.6%	15%	$360	5.6%
Lindisfarne	Clarence	TAS	$455,000	7.7%	24.7%	15%	$398	4.5%
Bellerive	Clarence	TAS	$455,000	0.9%	18.4%	15%	$380	4.4%
Newstead	Launceston	TAS	$370,000	16.7%	8.8%	20%	$330	4.6%
Devonport	Devonport	TAS	$235,000	1.2%	1.6%	15%	$270	6.0%
Gungahlin	Gungahlin	ACT	$704,000	12.2%	30.2%	20%	$525	3.9%
Nicholls	Gungahlin	ACT	$815,000	7.8%	8.7%	20%	$593	3.8%
Holt	Belconnen	ACT	$499,000	8.5%	11.0%	20%	$450	4.7%
Flynn	Belconnen	ACT	$586,000	8.6%	17.3%	20%	$490	4.3%

SOURCE: CORELOGIC AS AT NOVEMBER 2017.

STANDOUT SHARES:

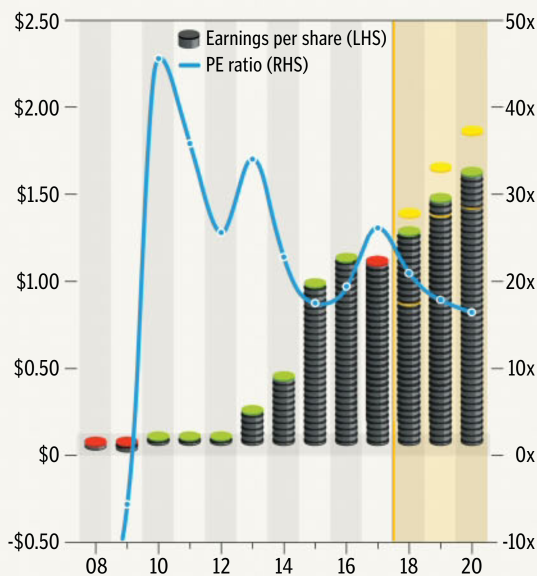
1 Magellan Financial Group

Magellan is an Australian-based global equities fund manager. Starting in 2006 it has grown funds under management rapidly to almost $58 billion (as at December 31, 2017) to become one of Australia's pre-eminent global equities managers. It is relatively unique among Australian peers as it sources more than half its funds from outside Australia. It has been able to do this by building strong distribution capabilities and relationships as well as delivering a strong long-term investment performance track record of funds.

Being able to get fund flows from much larger markets offshore gives it a higher growth potential than Platinum Asset Management, for example, which primarily sources funds locally. Analysts are forecasting earnings per share growth of 12.9%pa over the next three years versus 7.1% for Platinum. Continued strong offshore growth potential comes from being a smaller player in a very large global market.

Locally Magellan is well positioned to benefit from expected growth driven by the increasing mix of global equities in retirement savings over time due to a number of reasons, including: the domestic investable asset pool will not be large enough to meet compulsory superannuation flows; and the diversification benefits in terms of industries and geographies available in overseas markets.

This fund manager is not resting on its laurels and continues to invest in its brand, staff and new products and investment strategies. Like other asset managers Magellan is a capital-light business so generates strong cash flows and has a relatively high dividend payout between 75%-80%. However, it is also highly leveraged to equity markets.



Top shares

For the seventh successive year Skaffold has identified 50 of the best stocks for the year ahead for *Money* magazine and then filtered that down to a Top 5 portfolio. Skaffold is an objective, quantitative share research tool. By applying a process methodically, it can remove the emotion that often clouds investing and stick to fact-based decisions.

There are about 2000 companies listed on the ASX. We use this approach to whittle them down to 50 and then to five. Time is the ultimate test as to whether a process works or not, and the evidence is mounting that this is an effective methodology.

Over the previous six years this approach has led to the initial notional capital of $50,000 growing to $124,401. The initial amount was spread evenly over five stocks then updated at the start of each year. Overall the performance equates to a return of around 16%pa – the sharemarket, as measured by the S&P/ASX All Ordinaries total return index, returned around 10%pa.

Our search for five standout shares for 2018 has proven difficult, as all our regular metrics point to a stockmarket that is currently representing full value. Despite this, we remain committed to our investment process and continue to follow a disciplined selection process. We use our traditional criteria to select the stocks that we know represent high-quality businesses.

Consistency is key

Reading about a track record is interesting but history is only useful to the extent it provides lessons for the future. The question we all want answered

is, "Is this performance repeatable?" The future by its very nature is uncertain. We cannot predict with any accuracy whether the 2018 portfolio will outperform the market, or even provide a positive return.

The first thing to understand is that we are investing, not trading and certainly not gambling. When you invest in a share, you are buying partial ownership of a business. That business is engaged in activities to try to generate a profit. At least at a high level, you should try to understand what it does to make those profits. It could be digging up dirt to sell, or taking a bunch of commodities and turning them into a physical product, or providing a service such as education, banking or healthcare. And, of course, there are many other things that companies do to create something of value for their customers.

Traders and speculators are not so concerned with what the business does. They are hoping that the shares will go up in price today because they did yesterday or betting that next month the company will strike gold. Warren Buffett reads annual reports for fun and can process the financials for thousands of companies in his head. If that doesn't sound like you, then you will need a tool to help you sift through the ASX's 2000 stocks as well as thousands more listed around the world. We use the Skaffold research tool to analyse 10 years of financial statements for each company as well as distil three years of forecasts.

Using a consistent process helps us to make objective decisions rather than emotional ones. This enables us to arrive at a portfolio of stocks that

STANDOUT SHARES:

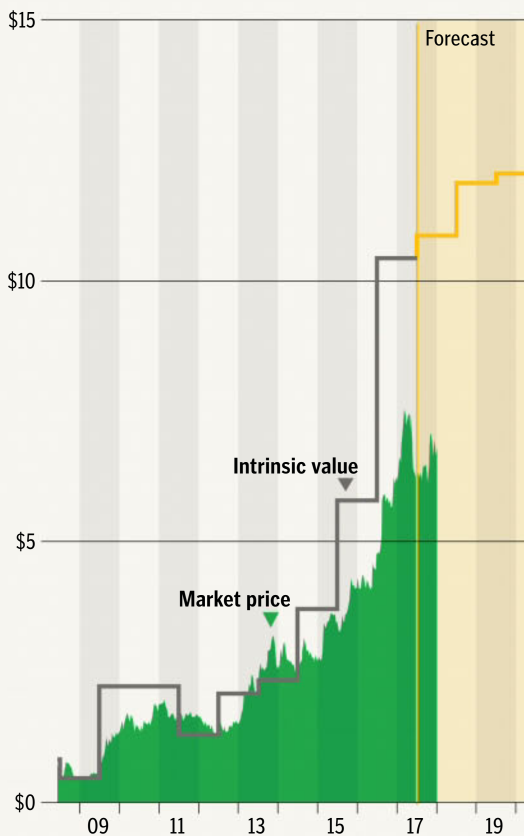
2 Nick Scali

This is the fourth year in a row that Nick Scali has been included in our Top 5. In 2015 and 2016, it was the best-performing stock, having generated a total return of 139%. In 2017, the total return was lower at 13.3% but was still ahead of the S&P/ASX 200 Accumulation Index return of 11.8%.

The stock continues to look attractive as a high-quality business with good prospects. Its Skaffold Score has been A1 for seven of the past eight years, only dipping to A2 in 2011. This is the hallmark of a very well-run business with a strong management team. Nick Scali has been a beneficiary of the residential property construction boom and rising property prices. This has had a flow-on effect as people furnish their new houses and apartments and upgrade furniture in existing homes.

Key risks come from an oversupply of apartments, the negative wealth effect from lower property prices and a slowdown in the economy. Being a relatively small consumer cyclical stock with a market capitalisation around $550 million, it can be volatile. During the last slowdown in 2009 the share price fell over 80%. Despite this caveat, market analysts forecast earnings per share to grow at 8.7%pa over the next three years.

MARKET PRICE



STANDOUT SHARES:

3 Flight Centre

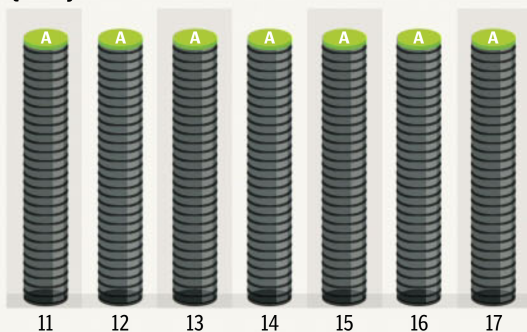
For the fourth time since 2012, Flight Centre is in our Top 5 portfolio. It has continually shown that its business is profitable, and its financials are healthy as it attained a Skaffold score of A1 or A2 for seven years in a row. With a low level of debt and over $1.4 billion in cash and short-term investments on its balance sheet, Flight Centre is in a good position to invest in its business as well as to pay shareholders a dividend. Moreover, it managed to achieve its key targets of yielding a total transaction value (TTV) of more than $20 billion and growing its online leisure sales beyond $1 billion in the latest fiscal year. This marks the 21st year of TTV growth in the 22 years since listing.

During the past three years, Flight Centre has been investing in its travel experience network, which includes tour operators, destination management companies and hotel management businesses. This aspect of the business has been earmarked as a key growth driver as it opens new sales opportunities through vertical integration and external business-to-business sales of in-destination products. Management also expects net margin to improve after the decline in the 2017 financial year as revenue growth and cost management initiatives gain momentum.

Even though the share price increased 37.8% in the past year, there is still room to grow as it is trading at a 10.2% discount to its estimated intrinsic value.

SKAFFOLD SCORES

Quality score



Performance score

meet stringent quality criteria and also ensures that we only buy them at an appropriate price.

When constructing a portfolio, you also need to ensure you have a good mix of stocks. Risk is reduced by choosing stocks from different industries, different sized businesses, different risk profiles and stocks exposed to different factors. That way an adverse event is unlikely to impact all your stocks in the same way. Spreading your investments reduces your downside risk but also increases your chances of catching the standouts.

Filter out the companies that don't make any profits

Most companies listed on the ASX make money, right? Wrong – close to half are making losses. Most years around two-thirds of ASX-listed companies do not earn a profit. Some of these had a bad year and will return to profitability next year but most are yet to consistently turn a profit. While some of these would be considered start-ups, many have been in business for many years but are yet to make money. Rather than speculate that they are about to strike it lucky, we simply avoid these stocks.

Focus on quality companies

When looking for high-quality stocks we focus on two things: the business's financial strength and its profitability. To simplify the process, Skaffold has developed a unique rating system, known as the Skaffold Score. Based on a comprehensive analysis of a company's financial statements, each stock is assigned a score ranging from A1 to C5. Stocks with an A or B score exhibit financial strength and are unlikely to suffer from a major financial problem such as bankruptcy. Stocks with a 1 or 2 are businesses that rank highly in terms of profitability. Their profitability measures are at a healthy level and trending in the right direction. Consequently, when selecting stocks for our investable universe, we only choose stocks that have a Skaffold Score of A1, A2, B1 or B2.

Selectively reduce risk

Debt can be a useful source of funding but it can also lead to trouble if the going gets tough. To ensure that our portfolio is insulated against major shocks we prefer to choose stocks that have little or no debt. The best way to measure a company's debt exposure is the net debt/equity ratio. In constructing our filter for the Top 50 stocks we have set a maximum net debt/equity ratio of 50%.

The next factor we considered was the size of the business using market capitalisation. This is the value of the equity in the business as determined by the sharemarket (the number of shares multiplied by the share price). Stocks that have a market capitalisation of less than $50 million are known as nano-cap stocks. We have excluded these stocks as they are often very volatile and can be difficult to trade if there are not enough buyers and sellers.

Various stockbroking firms and independent research houses employ analysts to carry out research into stocks. These analysts then produce forecasts for earnings and dividends. While all forecasts are uncertain, these analysts are industry experts and have insights into the issues likely to affect a business. By limiting our universe to only those stocks that have forecasts produced by external analysts, we further reduce the risk in our portfolio.

Focus on the growth outlook

Ultimately, we all want to buy businesses that will grow. The first measure of growth we look at is the change in earnings per share from the last reported year to the next forecast year. We have set our threshold at -10%, meaning that while we prefer stocks with a positive growth expectation, we are prepared to accept stocks where there is a short-term dip in the expected earnings, provided the market has taken this into account with the share price.

The best way to measure growth in the long term is to look at the change in the intrinsic value of the business. Over time share prices will reflect the underlying value of the business. At the bare minimum we want to find companies whose forecast growth in intrinsic value is expected to keep up with inflation of about 2%. A company whose intrinsic value is declining will also lead to the wealth of its shareholders declining, unless it can come up with a way to turn things around.

Some quality stocks deserve a premium

The above steps were all about identifying great businesses. But a great business does not always make for a great investment. It all comes down to how much you pay for the shares. A great business bought at an expensive price will probably yield a mediocre return.

To determine an appropriate amount to pay, we look for stocks that are trading near or below their intrinsic value. Like any sensible shopper, we are shopping for stocks that have been discounted by the market. The discount is measured as the difference between the intrinsic value of the share and the price the market is charging you for it, often referred to as the safety margin. While we are always looking for a discount, the market is savvy and doesn't always provide one on good-quality stocks. Sometimes we will need to pay a bit of a premium to get access to these businesses. Also, it is important not to look at the discount in isolation. If the value of the business is growing strongly, it is okay to pay a small premium now for higher future value.

To get to our final 5, we tighten our selection criteria

To compress 50 stocks down to the Top 5 that will be added to the 2018 portfolio we put in some additional criteria and tighten up some of the existing ones. First, we need to focus on cash flow. At the end of the day, it is a business's ability to generate sufficient cash that ultimately determines its success or otherwise. In the short term, cash may fluctuate but, in the long term, cash generated must be sufficient to cover all outgoings, including operating expenses, investments and dividends. Otherwise, the business will have to look to external funding sources to stay afloat.

We focus on two measures to help with this, both measured over 10 years. We look at the cash flow ratio first, which measures operating cash as a proportion of net profit after tax. We want this to exceed 80%. Next, we look at the cash left over after all outgoings have been accounted for. We want this to be a positive number.

As well as introducing cash measures, we also tighten our earnings per share growth measure to require growth, insist on at least three analysts covering the stock, reduce our maximum net debt to equity ratio to 40% and insist on a price that is at a discount to intrinsic value.

All of this results in these five stocks for 2018: Magellan Financial Group (ASX: MFG), Nick Scali (NCK), Flight Centre (FLT), Adairs (ADH) and Mineral Resources (MIN).

Mainstreet Financial Group is a financial services group specialising in investment research and portfolio construction and management.

STANDOUT SHARES:

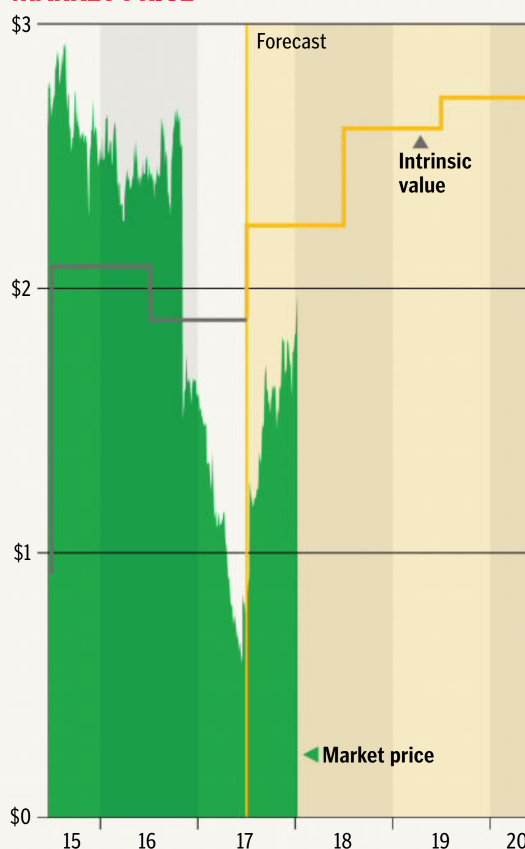
4 Adairs

The specialty retailer of home furnishing has more than 160 stores across Australia. Since it listed on the ASX in June 2015 the share price has been volatile and is currently trading about 25% below its listing price of $2.60. The major fall happened at the end of October 2016 when the company provided an update that its bed linen category (about 40% of revenue) was underperforming due to shifting fashion trends. After the management rectified the issue, sales momentum started to pick up again and the stock price has rebounded strongly over the past six months.

As part of Adair's growth strategy the management has said it will continue to expand its product offering and drive incremental sales. It expects to roll out about eight new stores every year over the next three to five years and continue its international expansion. It has opened four stores in New Zealand that are all trading at or above expectations.

Analysts forecast a strong earning per share (EPS) growth of 11.5%pa over the next three years while providing a dividend yield of 5.2% in the 2018 financial year. With the share price trading at a 19.3% discount to its estimated intrinsic value, there is potential upside even if the forecast proves to be too optimistic.

MARKET PRICE



STANDOUT SHARES:

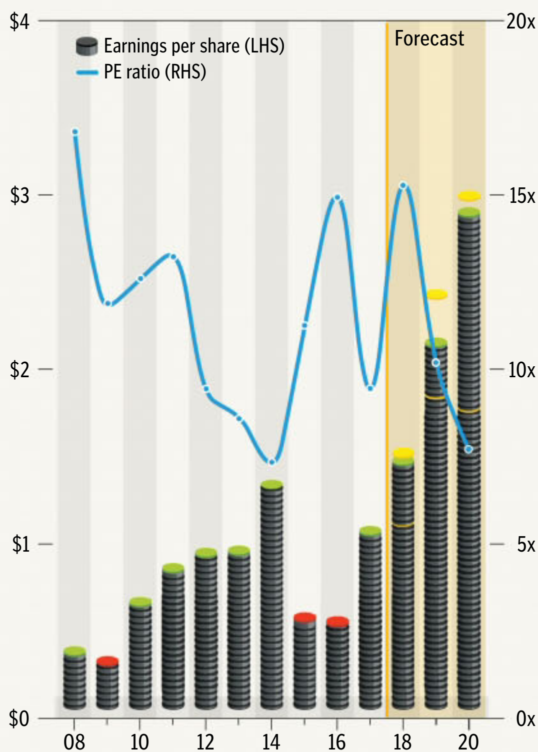
5 Mineral Resources

As a diversified mining infrastructure services and commodities production company, Mineral Resources provides leverage to commodities, though earnings are less volatile than those of a pure miner and more than a sole mining services business.

Mining services has an annuity income component from crushing, processing and handling. Income from the transaction side provides engineering, procurement and construction (EPC) services, and it can be lumpier.

The mining operations segment is involved in iron and lithium production through profit share partnerships. The company is looking at opportunities across other commodities. Revenue from this business is linked to commodity prices. However, these profit share agreements also allow Mineral Resources to leverage its mining services capabilities from mine development and construction through to operating and handling services.

Analysts expect strong earnings growth, with EPS forecast to increase 39.3%pa over the next three years. In late 2017 the company made a $530 million cash/scrip bid for AWE to get exposure to the oil and gas space. While this diversifies Mineral Resources' commodities exposures, acquisitions of this size bring risk. The proposal has the backing of AWE's board but requires shareholder approval.



2017 PROGRESS REPORT

The Skaffold Top 5 portfolio has been published each year since 2012. At the start of each year five stocks are chosen. In 2017, the portfolio comprised Northern Star Resources (ASX: NST), Vita Group (VTG), Nick Scali (NCK), OFX Group (OFX) and Commonwealth Bank (CBA). These are held for 12 months and then sold, with the proceeds, plus dividends, reinvested equally across the five stocks chosen for the next year. Note this is a hypothetical portfolio.

Australian gold miner Northern Star Resources is experiencing strong organic-driven growth as it benefits from $250 million invested over three years in the business. This has extended mine life by 10 years and increased reserves by 2.3million oz to 3.5m oz. Rebalancing the portfolio and strong cost management are also improving earnings margins.

Nick Scali continued to outperform the broader market. The furniture retailer has benefitted from the residential construction boom and the positive wealth effect from rising property prices. The stock has made the cut again for the Top 5 portfolio in 2018.

Commonwealth Bank returned 2.7% in 2017. As with the other three major banks, the underperformance was due more to sentiment than their financial performance, which has been solid. The banks faced a hostile political environment, negative media publicity and a tougher regulatory environment. Specific to Commonwealth Bank were claims filed by AUSTRAC alleging the bank had contravened anti-money laundering and counter terrorism financing laws. Ongoing speculation about a royal commission did not help either. The royal commission was finally announced at the end of November after the major banks took the unprecedented step of writing to the federal treasurer to ask for an inquiry to be established to remove uncertainty caused by ongoing speculation. This pre-emptive move helped them manage the scope of the inquiry.

Technology retailer Vita Group had a dismal year as the risk of being tied to one major partner came to fruition. In May 2017, its key partner, Telstra, announced further cuts to remuneration arrangements from those agreed earlier between December 2016 and February 2017. After falling below 90c, the share price has recovered somewhat but is still way below where it was at the start of the year.

Foreign exchange services provider OFX Group delivered a negative total return in 2017. After a very challenging 2016 and a weak trading update in February, the share price began to recover after the company reported a fiscal 2017 result in May which showed promising signs. However, the interim fiscal 2018 result was underwhelming, and the competitive environment is becoming tougher along with rising risks that the regulatory regime around international money transfers may increase and bring higher costs.

The 2017 portfolio delivered a 4.7% return over the 12 months versus 12.5% for the S&P/ASX All Ordinaries Accumulation Index. The two best-performing stocks in the portfolio were Northern Star Resources and Nick Scali, which returned 71.0% and 13.3% respectively in 2017. The overall portfolio performance was weighed down by Vita Group, which returned -50.8%, and OFX, which delivered a -12.5% return. **M**

SKAFFOLD'S TOP 50 STOCKS FOR 2018

RANKINGS (3-JAN-17)			ASX CODE	COMPANY	SKAFFOLD SCORE	FORECASTS		MARKET PRICE	DISCOUNT[1]	INTRINSIC VALUE
GROWTH	INCOME	DISCOUNT				3YR GROWTH (%PA)	DIVIDEND YIELD			
36	9	1	NCK	Nick Scali	A1	8.7%	5.5%	$6.75	40.2%	11.28
42	4	2	SHM	Shriro Holdings	A1	5.3%	6.4%	$1.57	35.7%	2.44
48	1	3	SSG	Shaver Shop Group	A2	3.1%	8.5%	$0.50	29.3%	0.70
26	2	4	MWY	Midway	B1	11.9%	7.7%	$2.50	25.6%	3.36
38	23	5	MNY	Money3 Corporation	A2	6.9%	3.6%	$1.69	23.1%	2.19
28	11	6	ADH	Adairs	A2	11.5%	5.2%	$1.96	19.3%	2.43
22	42	7	SRX	Sirtex Medical	A2	14.0%	1.7%	$16.12	21.7%	20.60
24	21	8	MFG	Magellan Financial Group	A2	12.9%	3.8%	$26.81	17.0%	32.30
31	23	9	FID	Fiducian Group	A1	10.0%	3.6%	$5.35	13.7%	6.20
40	15	10	MTS	Metcash	B2	5.7%	4.1%	$3.16	12.2%	3.60
33	25	11	FLT	Flight Centre Travel Group	A2	9.3%	3.5%	$44.10	10.2%	49.13
4	28	12	MIN	Mineral Resources	A2	39.3%	3.3%	$21.55	7.0%	23.18
5	32	13	SFR	Sandfire Resources NL	B1	36.5%	3.0%	$7.31	5.1%	7.70
25	30	14	BLX	Beacon Lighting Group	A1	12.5%	3.2%	$1.49	8.0%	1.62
14	31	15	SIQ	Smartgroup Corporation	A2	20.9%	3.1%	$11.49	-0.7%	11.41
39	5	16	DWS	DWS	A1	6.1%	6.1%	$1.63	1.8%	1.66
45	10	17	PPT	Perpetual	A1	4.3%	5.3%	$50.59	1.0%	51.11
10	42	18	MUA	Mitula Group	A2	25.0%	1.7%	$0.61	-1.7%	0.60
23	8	19	GAP	Gale Pacific	B2	13.8%	5.6%	$0.36	0.0%	0.36
19	40	20	ALL	Aristocrat Leisure	B2	16.1%	1.9%	$23.06	-1.4%	22.73
34	7	21	DTL	Data#3	B1	9.2%	5.8%	$1.77	-4.5%	1.69
44	17	22	LLC	Lendlease Group	B2	4.9%	4.0%	$16.33	-3.0%	15.84
6	39	23	WEB	Webjet	A2	34.9%	2.1%	$10.22	-2.4%	9.97
50	22	24	MPL	Medibank Private	B1	1.4%	3.7%	$3.26	-6.7%	3.04
7	47	25	OTW	Over The Wire Holdings	A2	34.2%	1.1%	$2.86	-7.3%	2.65
35	15	26	MHJ	Michael Hill International	A2	9.2%	4.1%	$1.24	-9.7%	1.12
29	28	27	WOW	Woolworths	B2	11.4%	3.3%	$27.21	-9.2%	24.71
46	13	28	SRV	Servcorp	A2	3.1%	4.6%	$5.67	-13.4%	4.91
30	44	29	NST	Northern Star Resources	A1	10.9%	1.5%	$6.15	-14.3%	5.27
15	35	30	IRI	Integrated Research	A1	20.8%	2.3%	$3.92	-17.1%	3.25
16	35	31	PWH	PWR Holdings	A1	19.9%	2.3%	$2.67	-18.4%	2.18
20	35	32	IEL	Idp Education	A2	15.2%	2.3%	$6.17	-19.3%	4.98
21	20	33	ONT	1300 Smiles	A2	14.4%	3.9%	$6.70	-18.4%	5.47
1	48	34	APX	Appen	A1	44.8%	0.9%	$8.31	-20.8%	6.58
47	17	35	APO	APN Outdoor Group	A2	3.1%	4.0%	$4.97	-24.1%	3.77
2	50	36	A2M	A2 Milk Company	A1	43.1%	0.0%	$7.68	-25.5%	5.72
9	46	37	NWH	NRW Holdings	B2	28.7%	1.2%	$1.66	-24.1%	1.26
17	44	38	REA	REA Group	A2	19.7%	1.5%	$77.55	-25.3%	57.94
18	34	39	TNE	Technology One	A2	17.7%	2.4%	$4.94	-25.3%	3.69
37	17	40	PTM	Platinum Asset Management	A1	7.1%	4.0%	$7.80	-25.9%	5.78
43	33	41	NHF	NIB Holdings	B1	4.9%	2.9%	$6.52	-26.1%	4.82
27	13	42	IPH	IPH	A2	11.5%	4.6%	$5.41	-29.6%	3.81
41	12	43	API	Australian Pharmaceutical Industries	B2	5.4%	4.7%	$1.64	-29.3%	1.16
32	26	44	PSQ	Pacific Smiles Group	A2	9.8%	3.4%	$1.74	-31.0%	1.20
8	35	45	AHX	Apiam Animal Health	B2	30.1%	2.3%	$0.87	-32.2%	0.59
13	41	46	CL1	Class	A2	21.3%	1.8%	$2.81	-31.0%	1.94
3	3	47	QIP	QANTM Intellectual Property	A1	40.5%	6.5%	$1.55	-32.0%	1.05
11	49	48	BAL	Bellamy's Australia	A2	23.4%	0.7%	$10.34	-32.2%	7.01
12	26	49	IFM	Infomedia	A2	22.1%	3.4%	$0.88	-31.8%	0.60
49	5	50	TGH	Tegel Group Holdings	A2	2.2%	6.1%	$1.12	-31.8%	0.76

SOURCE: Skaffold.com.au as at 3-Jan-17. [1]Discount is the percentage discount the share trades at compared with Skaffold's estimated intrinsic value of the stock.

STORY ANTHONY O'BRIEN

Parents need to plan well ahead to ease the financial burden of their kids' education, whether it's public or private

Crunch the numbers

No matter whether you're sending your child to an elite private school or the local government school, you're going to need to dig deep into your pocket. And for an education likely to span 13 years from kindergarten to Year 12, it's worth putting plans in place at an early stage to cover the costs.

As Andrew Dunbar, director and senior financial planner at Apt Wealth Partners, points out: "Schooling always costs more than you expect – parents need to plan for much more than tuition fees."

In fact, the key to managing the cost of education is planning. Tim Howard, technical consultant at BT Advice & Private Wealth, says parents should take a three-pronged approach: "Work out how much you need, how much you can save regularly and where you're going to put that money."

Although public schools are at the more affordable end of the spectrum, as I have discovered as a parent of Jack (10) and Harry (8), they're not altogether free. Families are asked to pay for uniforms, stationery, textbooks, excursions and digital devices such as laptops or tablets for children to use in the classroom. Some public schools also ask parents to pay a voluntary contribution to help with administration.

At the end of the day, it all adds up. According to the online calculator of the education fund provider Australian Scholarships Group (ASG), for a child born in 2017 an education could cost as much as $76,735 for the 13 years from kindergarten to Year 12 in the government school system.

The Catholic system is more financially demanding, with a total K-12 cost of around $229,640.

But even this pales in comparison with the $556,472 it can cost to educate a child in the private (independent) system. At Melbourne Girls Grammar, for instance, the class of 2018 will pay an annual fee of $35,288 for Year 12. At the King's School in Sydney, the 2018 annual fee for Year 12 students is $35,697. Boarding costs at many private schools can add another $30,000 annually.

Be realistic

Faced with this sort of expense, parents need to be realistic about which school they can afford. "Most of the parents we see who are making financial plans for their child's education are not high income earners," says Dunbar. "They are typically middle-class families worried about how they'll meet the cost but eager to give their children the opportunity to attend a highly regarded school. We crunch the numbers to show parents how much their preferred school is going to cost. Sometimes the figures show it's just not affordable and families have to alter their plans."

That makes selecting a school you can realistically afford an important first step. From here it's time to knuckle down to decide a choice of investment. It's not just the type of investment that matters; it's also worth considering whose name the investments will be held in. This determines how much of any returns will be lost to tax and, as we'll see, some investments offer attractive tax savings. Our comparison ("Do your homework", page 54) assumes one parent is a homemaker with no employment income and a low personal tax rate – the ideal candidate to be the investment holder.

A big no-no, according to Dunbar, is to save for education through a savings account held in the name of your child. "There is a very small window of returns before investment income earned by children is heavily taxed," he warns.

In addition, returns on savings accounts, for both adults and children, are very low. That's a problem because some private school fees are rising by 4%-5% annually, far outpacing inflation of 1.5%. The only way for your money to keep abreast of rising fees is to opt for growth investments, and this highlights the need for forward planning and saving for education long before your child is due to walk through the school gate.

"Sometimes the figures show it's just not affordable and families have to alter their plans"

Investment bonds

Also known as insurance bonds, investment bonds are a type of managed investment generally offered by large fund managers. While details such as fees and returns may differ, they all operate in much the same way.

The income earned on the bond's underlying investments is taxed at the company rate of 30%, which is paid by the investment company over the life of the bond if it is held for at least 10 years.

After the 10-year period, earnings are returned to the investor "tax paid". This is a plus for parents whose marginal tax rate is above 30% – though bear in mind that a marginal tax rate of 32.5% (plus Medicare) kicks in at an annual income of $37,001, so you don't need to be a high income earner to benefit from insurance bonds.

It is possible to make additional contributions to insurance bonds. However, these contributions are capped by the 125% rule. This states that for second and subsequent years of holding the bond, additional contributions must be less than 125% of the previous year's investment. So if your initial investment is $5000 the maximum that can be contributed in the second year is $6250.

"The 125% rule is reasonably inflexible in terms of how much parents can add to their bond," says Dunbar. "The upside is that the money isn't restricted to meeting the costs of education. The cash can be used for a family holiday or helping your child buy a first car, and that's a big plus because it's very difficult to know exactly how a child's school career will shape up."

That said, Dunbar notes that the real benefit of insurance bonds comes after 10 years, and this calls for parents to plan. "If you've left your run too late or one parent has a marginal tax rate below 30%, these may not be the right choice for you."

As the table shows, the monthly contribution required to save for a child's education using insurance bonds can range from $266 for the public system through to $1707 for the private system.

Education bonds

Education bonds, also known as education savings funds or scholarship plans (no resemblance to merit-based scholarships offered by individual schools), are offered by the likes of ASG and Australian Unity.

They work in a similar way to investment bonds. The fund is taxed on its investment earnings at 30% but when money is drawn down to pay for school costs the fund can claim this 30% tax back – a saving that is passed onto parents.

The downside of these funds is the unknowns. "Parents don't know which school will be best suited to their child, or if their youngster will continue on to tertiary education. So it pays to have a flexible savings strategy," says Dunbar.

The trouble is that education bonds can call for parents to lock themselves into an approach that may not allow for life changes. Some education plans, for instance, only pay parents their own contributions during a child's secondary school years, with investment returns paid out when a child enters post-secondary education. But not all children will head off to TAFE or university.

Dunbar sums up the situation: "Insurance bonds can be a more flexible investment than education-focused bonds. Insurance bonds offer a greater choice of underlying investment options and the growing number of providers is helping to lower fees."

> It can be a challenge to maintain the discipline and not dip into savings for other purposes

DO YOUR HOMEWORK

INVESTMENT OPTION[1]	MONTHLY INVESTMENT REQUIRED TO COVER COSTS[2] FROM K-12		
	PRIVATE SYSTEM – TOTAL COST $556,472[3]	CATHOLIC SYSTEM – TOTAL COST $229,640[3]	GOVERNMENT SYSTEM – TOTAL COST $76,735[3]
Investment bond[4]	$1707	$699	$266
ETF/unlisted managed fund[5]	$1627	$664	$255
Pay extra into home loan[6]	$1766	$724	$274

Source: Apt Wealth Partners aptwealth.com.au.
[1] Assumes savings start at $1000 and rise by 3% annually over a 17-year period.
[2] Assumes household income of $90,000pa (ABS 2016 census data), where investments are held in the name of one parent who is a homemaker earning zero employment income and has a 0% personal marginal tax rate.
[3] Total education costs for a child born in 2017, commencing kindergarten in 2023 and completing Year 12 in 2035. Figures sourced to ASG education calculator.
[4] Assumes 5.45%pa return.
[5] Assumes underlying investment in equities with 6.8%pa return.
[6] Assumes 4.44% rate on the average home loan of $375,000 (Finder) to allow for some increase from current lows.
Figures are indicative only and should not be regarded as applying to all families or taken as financial advice.

Managed investments

Exchange traded funds (ETFs) are typically index-based funds listed on the ASX. According to Dunbar, they can have higher one-off costs than unlisted managed funds – each time you buy into an ETF, for instance, you'll pay brokerage, an expense that can add up over the years. One way around this downside, says Howard, is to "buy reasonable-sized parcels".

Unlisted funds may not have the downside of brokerage but Dunbar says the distributions can be uncertain and can include capital gains. "The tax impact will depend on whose name the investment is held in."

The other drawback of unlisted managed funds, says Dunbar, is the MER (annual management fee), which can be considerably higher than for ETFs.

The table indicates that by using an ETF or unlisted managed fund parents would need to set aside anywhere from $255 each month for government schooling to $1627 for a private school.

Still in this vein, another option is a listed investment company (LIC) such as Argo or Australian Foundation Investment Company. "The returns can be more stable than with an unlisted fund, and some LICs have share purchase plans that allow investors to buy up to $15,000 worth of shares with no brokerage, which reduces the one-off costs associated with, say, ETFs," says Dunbar.

Tap into the home loan

For many parents, school fees often come at a time when they're trying to pay down a home loan. So it can make sense to marry the two, using a home loan to help pay for education through the use of an offset account or by making extra repayments and later redrawing cash to pay for school costs.

Dunbar says there are some upsides to this strategy. "On one hand, parents know exactly the return their money is earning through their home loan rate. However, one of the more challenging aspects is maintaining the discipline over the long term to keep up the extra payments and not dip into the funds for other purposes."

A further downside is that home loan rates are very low at present. BT's Howard says parents need to ask, "Could we do better investing elsewhere?"

Indeed, low interest rates can make your mortgage a slow way to save for education. As a guide, a family using their home loan to pay for a government school education would need to set aside $274 each month, rising to $1766 for the private system – more than for either insurance bonds or ETFs/unlisted funds.

The complexity of investment returns and tax implications mean professional advice can go a long way when it comes to saving for education. The MoneySmart website can be helpful when you're shopping around to find an adviser, featuring questions to ask potential advisers to be sure you find an expert you're comfortable with. *M*

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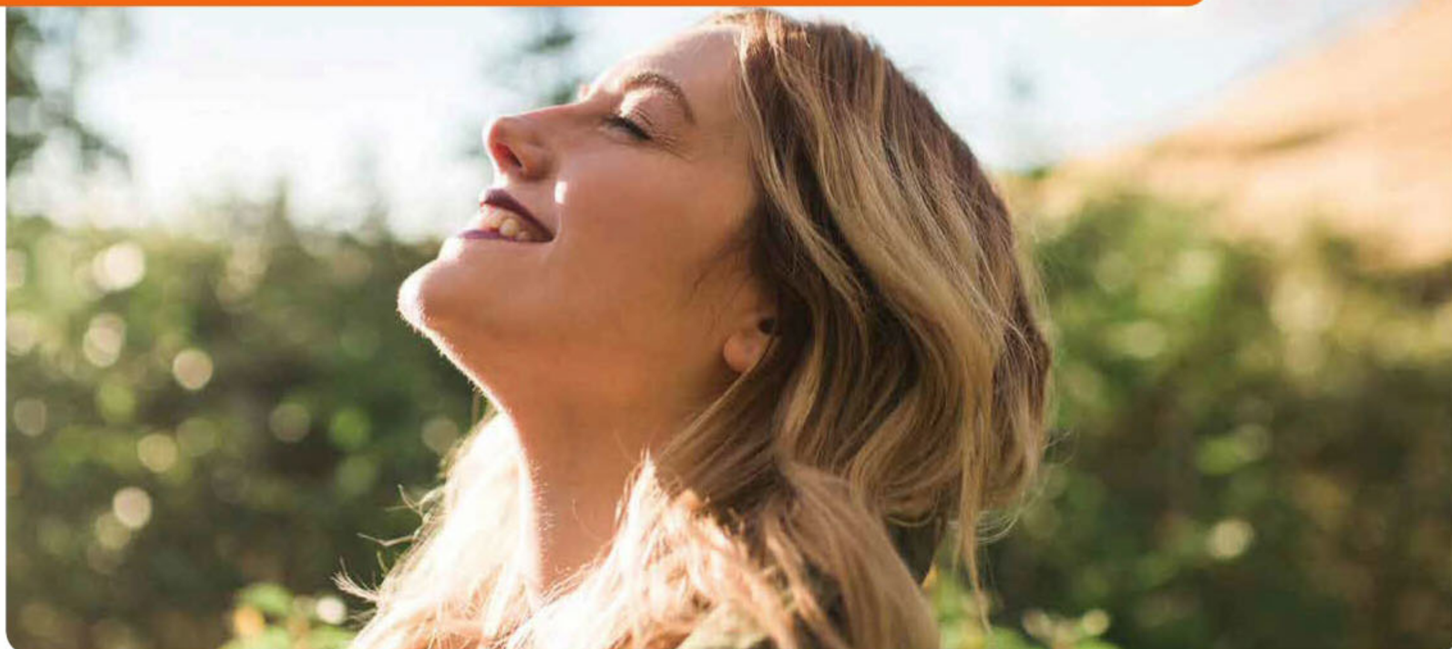

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Set your goal ... and go for it

STORY
NICOLA FIELD

Building up a decent household kitty can bring peace of mind as well as financial rewards

Across the nation something scary is happening to household savings. They're dwindling. These days, our savings ratio has fallen to 3.2%, meaning for every $100 we pocket after tax we're saving just $3.20. It's not enough to fund more than a few Freddo Frogs, yet just three years ago we were saving three times this amount. In the 1970s, Australians were tucking away more than 20% of household income.

The fact is we've lost our savings mojo. To find out why, we look at research commissioned by ING, putting Australia's savings habits under the spotlight to see what drives us to save, what we're doing well – and where we're going wrong – as well as talking to experts to understand the brain barriers that hold us back from saving.

The good news first. ING found that 70% of Australians have savings goals they're working towards and about the same proportion have a savings plan in place to set money aside on a regular basis.

Building a pool of emergency money is the big driver for saving, and while the average level of savings that would make us happy is a lofty $350,000, plenty of Australians have far more modest targets, with one in five saying they'd be happy to have just $10,000 in the kitty.

On the downside, one in four Aussie adults do not have a regular savings plan in place, preferring a hit-and-miss approach of saving when they've got some spare cash (and, let's face it, who has spare cash?). Even among those who do have a savings plan, only one in four actually achieve their savings goals.

Guido Swinkels, ING Australia's savings product manager, is not surprised by these findings. "It's recently been reported in the news that two-thirds of Australian households could not easily raise $3000 for an emergency, and one in four Australian households have less than $1000 in savings," he says. "This really highlights

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why it's so crucial to find a savings account that will help you to get ahead."

Why it's so hard

Sure, we can all face practical barriers to saving. Two out of five Australians, for instance, say they have copped a larger-than-expected bill.

But it's often simply the case that saving draws the short straw in our money management. ING's study found that one in three of us admits to spending up big on unplanned purchases such as a holiday or new car. One in five confesses to being an impulse buyer and 24% blame having kids for sabotaging their plans.

The thing is, lots of people are successful savers – and no, they're not just the high income earners. As a guide, close to 30% of both high and low income earners say they're able to tuck away savings every fortnight.

Beat the brain barriers

When it comes to saving, our brain isn't always our best friend. Economists and

Money 8 WEEK $AVINGS challenge

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Over the next eight Fridays you'll receive an email. Each email will give you specific instructions on what you need to do over the following week. You can choose to follow the instructions to a T or take what you like from the information and then customise it to fit your personal situation.

Either way, this challenge is designed to help you kickstart your very own savings program. How much will you save in eight weeks? Week 1 of the program kicks off on February 16, so register early. If you can't register by then, be sure to get in by April 6, as the program will close then.

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psychologists have long recognised the behavioural science issues that can hold us back from saving. Seen through this lens, the hurdles to building a nest egg of cash become a lot clearer.

Shane Oliver, chief economist and head of investment strategy at AMP Capital, says one of the main stumbling blocks is "present bias". That's our tendency to value things we can enjoy today more highly than those we have to wait for. This bias can be overcome if the future payoff is good enough but right now that's not the case.

"Interest earned on savings is the compensation for giving up current consumption, and today's savings accounts are paying low returns," he says. "So while present bias is always a phenomenon, it can be accentuated in a low-rate environment."

Claudia Hammond, UK-based psychologist, agrees that "our minds are always going to prioritise the present over the future". But she believes there is another aspect to the savings dilemma.

"The vast majority of people believe that in the future they will earn more, become better at saving and better at spending less. If you're lucky and your career and the economy go well, then maybe you will earn more in the future, but unless you make a deliberate change there's no reason why you should automatically get better at saving instead of spending. It's much more likely that if your income rises your tastes for the finer things in life will gradually rise too."

A further pressure to put spending ahead of saving comes down to what Oliver calls "crowd psychology", which works like peer pressure. "We see people around us with lots of possessions and gadgets and we want to enjoy the same things," he says.

There are ways to overcome these behavioural traps. "You can try tricking yourself," says Hammond. "If you're considering when you need to save for your old age, work out how many days it is until you retire. Research has shown that 3652 days feels shorter than 10 years, so it might make you save faster."

Another strategy is to put your savings in an online account with a name that makes it sound far away. "If your money feels geographically distant, you're less likely to dip into it."

A bit of self-analysis doesn't go astray either. "If you've found saving difficult until now, it's no good just deciding to turn over a new leaf. You need to look back at why you found it hard to save before."

Ultimately, Oliver believes overcoming psychological hurdles can come down to "thinking about what we really want from life. How much does the pleasure of current consumption outweigh the reassurance of having savings to cope with possible future emergencies?"

The joy of saving

Oliver could be onto something. Studies show it's the anticipation rather than making a purchase that gives our brains a boost of the feel-good chemical dopamine. This leads to so-called "shopper's high" though the effect lasts only a short time and is often followed by regret or "buyer's remorse".

The flipside, according to Hammond, is that having rainy day savings can be very reassuring. "It can reduce the anxiety that things might go wrong and leave people freer to make the decisions that will make them happiest.

Some people leave more than they need to in savings accounts, rather than investing it. This can leave financial planners in despair because you might well be getting a low interest rate but this doesn't take into account the psychological benefits of having savings."

Sign up to our eight-week challenge for practical tips to beat the brain barriers and ignite your savings strategy.

> **The shopper's high is short-lived and is often followed by buyer's remorse**

Beware the honeymoon trap

Even when we actively follow a savings plan, there are stumbling blocks to avoid. ING found a remarkable one in two Australians has signed up for a savings account with a special introductory offer. But despite an eye-catching honeymoon rate, these accounts can end up costing savers dearly.

"The average end-of-honeymoon interest rate drop, recalled by the research respondents, was about 2%," says ING's Swinkels. "So if you don't do anything when the honeymoon rate ends, you could be missing out on better returns."

It turns out that plenty of savers are being caught out this way. Among those who've used this type of savings account, 13% weren't aware the interest rate was only for a limited time (rising to one in five millennials) and 12% didn't really think about how long it lasted because it was such a good rate. Not surprisingly, the miserly revert rate has left plenty of savers disappointed.

"The stats suggest that more than one in 10 Australian adults is not reading the fine print when it comes to putting their hard-earned savings in an account," says Swinkels. It's a reminder to be aware of exactly what you're signing up for, more so because, despite the letdown, most savers with a honeymoon rate savings account do nothing to earn a better return once the introductory rate ends.

Just as worrying, 33% of Australians say they have been penalised for withdrawing money from a savings account. "We do know that people are getting penalised for more than just withdrawing money," says Swinkels. "In some instances, they are getting penalised with rate reductions if they don't comply with the need to deposit a regular amount."

The key is to do your research, read the fine print and if something doesn't make sense question it. The bottom line? Always make sure your savings account is helping you to achieve your savings goal. *M*

This report was sponsored by ING but was independently researched and written.

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View by Sydney sets the scene

View BY SYDNEY

LAUREN TROMPP

Ian Patrick from Sunsuper – the winner of Best Super & Pension Fund Manager

Glen Foster and Anthony Aboud from Best Fund Manager, Perpetual Investments

1

4

2

3

1. Dean Semchyshyn and Paul Gillespie, Holiday Coast Credit Union. 2. Krystle Pascoe and Dhruv Nagrath, iShares. 3. Virginia Richardson and Sarah Chate, REST Industry Super. 4. *Money's* Effie Zahos. 5. Katy Treble and Katherine Choy, American Express. 6. Kevin Powell and Soraya Alali, CommSec.

5

6

End this credit card 'quirk'

A change to the way interest is calculated could bring welcome savings

It's hard to believe but, at one stage, some lenders would direct any additional repayments made on your home loan to pay off your accrued interest first rather than use it to knock down your balance. It may seem like a minor detail but because the interest is calculated on your daily balance and charged monthly in arrears, this sneaky process clearly favoured the lender.

Thankfully, as Canstar's Steve Mickenbecker says, "most interest rate quirks have largely been eliminated".

Still, the latest reform proposed by the Australian Bankers' Association highlights the need to understand how interest is calculated, especially on credit cards.

The ABA has made a number of proposals toward better banking (see The Buzz, page 12). For credit cards, the one that stuck out for me was the proposal that customers pay interest only on what remains on a credit card, and not on the full amount of purchase if a loan is being paid down.

Paying interest only on what you owe seems to make complete sense. You'd think this would be common practice but not so. Bendigo Bank is an exception, currently charging in line with the proposal.

Assuming you made a $3000 purchase and managed to repay only $1000 during the interest-free period, Mickenbecker says you can expect to save around $21 in interest under the change (see breakout).

But the proposal has a narrow impact, applying only to customers who qualify for an interest-free period by fully repaying their card by the due date but then only part-pay the account in the ensuing period. "It doesn't benefit customers who are carrying a longer debt," says Mickenbecker. "The savings are a one-off and don't apply to ongoing outstanding balances left on the card."

And that's an important point. When it comes to understanding how interest on credit card works, you need to first understand the interest-free period. While your card may offer you 45, 55 or up to 62 days interest free, this doesn't mean you have up to 62, 55 or 44 days interest free on every purchase you make. The total comes about through the monthly billing process (generally 30 days), plus the time between the end of your monthly billing period and the due date, which is generally 25 days if you have, say, a 55-day interest-free card. So if you make a purchase later in the monthly billing cycle, you'll have fewer interest-free days.

If you repay your balance in full by the due date, no interest will be charged to your card. If you don't pay the closing balance in full, interest will be calculated from the day the purchase was made.

Mickenbecker says this isn't surprising. "After all, this is the date when the debt has been incurred and is being funded by the bank." He says only a handful of card issuers charge interest only from the date of statement. Again Bendigo is one of these.

As for whether this will change, I would say let's not hold our breath. "It would require system changes for the majority of providers," says Mickenbecker.

To help you make your payments on time, ensure the statement period starts a couple of days later than your payday to allow for weekends and public holidays. Some banks allow you to change your statement period to match your pay cycle. It's worth asking your credit card issuer if it can do this.

If you find that you can't repay your card during the interest-free period, you may be better off with a card that offers a low ongoing rate. Generally, these cards tend not to offer any interest-free period. Canstar's website lists interest rates starting from 7.99%. You could save around $28 for every month that you have that $2000 debt hanging around.

How it would work

The customer has fully paid their credit card closing balance by the due date, meaning they qualify for an interest-free period in the ensuing billing period.

The customer's card has a 55-day interest-free period and they buy a $3000 fridge on the first day of the new cycle. On their next bill they repay $1000 by the due date, leaving a $2000 outstanding debt.

Under the ABA proposal, the customer could save $21.10, with interest being charged on the residual debt after the repayment.

	Total spend	Payment made	Principal charged interest	Number days	Interest rate*	Interest charge
Currently	$3000	$1000	$3000	55	14%	$63.29
Proposed	$3000	$1000	$2000	55	14%	$42.19

Source: Canstar. *Average interest rate for non-rewards credit cards

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.*

"A quarter of Aussie adults do not have a regular savings plan"

Research findings by ING

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FEB 16

"You don't need to save a lot but it has to be often, that's the key to building a strong financial plan."

Effie Zahos, Editor of *Money* magazine

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Generosity can backfire

Parents need to make it clear whether any handout is a loan or a gift

Australians are generous when it comes to lending money. A recent study by RMIT University found that Australians hand out $1.65 billion a year in informal and unprotected loans to their family and friends.

But too often you hear about loans going wrong. Misunderstandings about whether it is a gift or a loan are common. Adult children sometimes pressure their ageing parents – some already with dementia – to lend them money that they promise they will pay back. Fights over loans can often tear families apart.

For this reason, before you hand over any money to your family, no matter how much you trust your relatives, think it over carefully. There is a huge risk that you won't be repaid.

While some parents don't count on being repaid by their kids and view the loan as an early inheritance, it is more common for them to make sacrifices to lend them money and count on it coming back. Also parents may end up needing the money for their own needs after all – in the event of a health crisis, accident or aged care – so it is always best to consider it as a loan, rather than a gift.

Ideally, you want a formal agreement that is documented and signed. This avoids confusion, particularly if parents want to protect their family money from their kid's partner. If you borrow from a bank or draw down on your credit card, there are repercussions if the repayments aren't met. Without a formal lending agreement, it can be tricky to be confident that you will get your money back.

But a visit to the lawyer could be quite expensive. For a loan of $20,000, paying a lawyer $200 to $500 an hour can be unaffordable. Then if you need to chase up the loan, you have to pay legal fees.

For this reason, there are some semi-formal loan agreements emerging from entrepreneurs. The idea behind them is that both parties agree to the terms and conditions of the loan. They also bring up issues that families may find it hard to talk about. "Doing nothing is the worst possible outcome," says Tim Dean, CEO of the Credi lending platform.

> **Parents need to weigh up what is fair to all their offspring**

Dean says he didn't want to be the person who kept asking his son to repay him a $2000 loan, so he has designed a platform and app to take away the stress and friction from such arrangements. His app allows lender and borrower to personalise the loan by drawing up the terms and conditions through negotiation. It has payment reminders and triggers, plus late payment fees. "I want to educate him without arguing with him," says Dean about his son Josh.

Dean was alarmed to find out that his son was only making the minimum repayment on his credit card debt, rather than paying it off earlier. He had some money earning less than 2% in a savings account that he could lend his son. "As a parent, I want to make a real difference to my son's life," says Dean. "I'm terrified that our children are getting into a debt trap through interest-only payments on credit cards."

Certainly loans from parents can be a lifeline for their kids if they have a medical emergency or a car accident; or it can help them to pay off credit card debt or buy a car that they need for their job. Dean says the documentation helps because if you have a loose set of instructions, kids are secretly hoping that their parents will let them off the hook.

The average loan handled by Credi is $16,500 and the average term is 3½ years. Dean says he has priced the service for retail customers, with a fee of $10 to set up the arrangement plus $4 a month. There are extra fees for features such as attachments.

Dean says that people don't want to make money from loans. "If you look at the average interest rate that people charge the borrower on Credi, it is obvious that people don't want to make money from the loan. It is 1.5%, the same as the cash rate."

Parents need to weigh up what is fair for all their offspring. If they help one child, should they help any others? It is important to make it clear. And if parents don't expect to be paid back, should they take the loan into account in their will, so that their children are treated equally?

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

Join the lay-by revolution

The new deferred payment services can benefit both retailer and shopper

As households gear up for the peak spending season, retailers will be jostling to capture every dollar. But this year eye-catching displays and discount stickers may not be enough to tempt consumers to buy from your store.

A growing number of Australians are embracing digital "buy-now, pay-later" options such as Afterpay, PayItLater, Openpay and zipPay, and it's worth considering whether your business should join the trend.

Deferred payment options are a form of de facto lay-by with a twist. The purchase is paid off gradually. However, unlike traditional lay-by, the customer takes the goods home immediately – there's no need to wait until the purchase is fully paid off. And instead of the merchant receiving the payment directly, the customer makes payment to the deferred payment service.

For the retailer this model brings pluses and downsides. On the upside, the retailer receives revenue almost immediately (certainly far sooner than with regular lay-by) and credit risk, including the possibility of card fraud, is passed to the digital payment provider. Unlike traditional lay-by, there are no costs associated with having to contact customers to chase up outstanding payments, and as the goods go home with the consumer immediately the retailer doesn't have to wear storage costs.

The companies behind these buy-now, pay-later services also point to the potential for a higher spend per customer and increased repeat business. However, whether this occurs for your outlet is a wait-and-see issue.

Cost of convenience

Of course, this convenience comes at a cost. From the customer's perspective, there are no upfront fees and no interest charges associated with deferred payment options, though late payment fees apply. Purchases are required to be paid off gradually by way of regular instalments, and in the case of Afterpay late payments incur a $10 late fee, followed by a further $7 fee if a payment remains outstanding seven days later. zipPay customers need to make a minimum repayment of at least $40 a month and a $5 monthly fee applies if there is an outstanding balance.

These late fees are not the main game for deferred payment providers. As a guide, late fees accounted for just 20% of Afterpay's revenue for the 2016-17 financial year. It is fees paid by retailers that are the chief breadwinner.

Exactly what retailers pay to tap into deferred payment services varies between providers, though the structures are broadly similar. Merchants typically charge a flat fee of about 15¢-30¢ per transaction plus a commission of around 2%-6% per purchase. Merchant revenue is paid net of these fees.

When it comes to choosing between providers, the cost may not always be the deciding factor. It can come down to compatibility with your e-commerce and point-of-sale (POS) platform. Afterpay, for instance, is compatible with Magento, Neto, Shopify, Island Pacific, Infinity, Futura4Retail and Commerce Vision. PayItLater, on the other hand, integrates with WooCommerce, Shopify and OpenCart.

It usually costs nothing to bring deferred payment options on board and there are generally no commitment fees. Nonetheless, retailers need to consider whether customers would have made the purchase anyway, especially as payments need to be linked to an existing debit or credit card.

Without extensive credit checks or interest revenue, it stands to reason that these providers impose spending limits on the customer, particularly at the outset of the relationship. Afterpay allows retailers to set a dollar limit per transaction capped at a maximum of $1500. If this is below your outlet's average purchase, a deferred payment method may not be appropriate.

One thing is certain: the days of traditional lay-by look numbered. For small business owners who have reluctantly had to return unclaimed (and only partly paid for) lay-by items back to the shelf, often at discounted prices, that may not be such a bad thing.

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

Too close for comfort

Here's how to handle noisy neighbours, nasty committees and other hazards of apartment life

STORY SUSAN HELY

As more Australians take up strata living and move into apartments and townhouses, there is one group that is having an awkward time adjusting to community living. They are the downsizing baby boomers who are selling up their big homes and moving into expensive apartments.

Owners who are used to complete control over their home can find community living a challenge, particularly if there are noisy neighbours and a dictatorial owners corporation running its own agenda, not to mention surprise special levies.

"Before you buy into a strata apartment from a house, you need to ask yourself if you are suited to living in a strata unit," says Suzie Broome, a lawyer with 20 years' experience advising strata schemes at Sachs Gerace Broome, based in Sydney. "Your unit is not totally your own. You are encapsulated by common property such as common walls, ceiling, roof and floor."

Broome says she often comes across "square pegs in round holes" or people who simply can't adapt to the trials of strata living.

Tensions can boil over into disputes between co-owners or against the owners corporation or the developer. Broome says that five of the most fraught strata issues are neighbours and their noise levels, faulty building works, unreasonable by-laws, failure to repair common property and nasty people on committees.

So common are disputes that specialist lawyers are becoming a regular part of the strata landscape. They are called on for their understanding of owners' rights, strata by-laws, state legislation and the most effective ways to resolve a problem. But they can be costly, particularly if the disputes end up in court.

Ideally, it is best to avoid any strata problems and here are some tips to do this:

Faulty building works

Buy into an apartment building that is in good shape. Downsizers typically like new buildings but often brand new blocks have defects as developers rush to finish construction and cut corners. Leaks, mould, deteriorating balconies, fire compliance issues and cracking are common. Water problems can be complicated and expensive to fix. Before buying an apartment, Broome recommends carefully checking if the building has any leaks or rising damp. She suggests the "smell test" for stale water, especially around carpeted common areas such as the lift.

One way to determine any problems that could be expensive to fix is to look over the minutes of owners corporation meetings.

Before you buy, investigate the records of the owners corporation over the years to see if there is anything alarming. Instruct your lawyer to look at the finances. Has the building ever been under compulsory management? This may be a sign of disharmony.

What can new owners do about defects? "If the building is more than six years old, you can forget about making a claim for a major defect. If it is under two years old,

you may be able to make a claim for minor defects," says Broome.

From January 1 this year in NSW, there is a defects bond for new apartment blocks that requires developers to deposit 2% of the contract cost of their building in a fund for two years in case there are any problems. Broome says the amount of the bond is grossly inadequate.

Harsh by-laws

Many troubles for owners stem from not being familiar with the rules or by-laws that apply to all the people living in the strata scheme. "People really haven't involved themselves early enough in the conditions of the strata," says Broome.

The rules vary widely from building to building and cover issues such as safety and security, renovations, parking, drying clothes and pets. They will affect the way you live there.

By-laws can be quite specific. For example, they can restrict the type of planter boxes on your balcony. Certain plants, such as fast-growing hedges or those with strong root systems that can damage the waterproof membrane on the balcony floor, causing leaks, can be banned.

And if you have a pet, make sure the building allows them. Some buildings have restrictions on size or weight. "Don't try and get Fido into a building that doesn't take pets. You will instantly get into litigation," says Broome. "Similarly, if you don't want to live in a building with pets, don't buy into one that allows pets."

Strata schemes can adopt, and adjust, model by-laws that are set out in state legislation or they can make their own.

Beverley Hoskinson-Green, a strata lawyer and consultant with Sachs Gerace Broome, says by-laws are designed to be enforceable and complied with. "If you ignore by-laws, you do so at your own peril," she says.

She says by-laws have real cause and effect and there is case law to support this. They can be struck down if they are harsh or unreasonable.

If you breach a by-law you could face a penalty. Or if you challenge a by-law, be prepared to meet the cost. "It will cost the owners corporation and the owner challenging the by-law real money because it involves litigation," says Hoskinson-Green.

You can take your issues to the state bodies that govern strata law. Most states have specialist tribunals (NSW, Victoria and Queensland) or a combination of a tribunal and the court system. Each state has its own laws about strata living.

Nasty strata committees

The strata committee holds plenty of power and can contribute to or detract from your quality of life, so it is important to become involved. "Complacency in a strata scheme is fatal," says Broome. "Don't complain if you are being done over."

She recommends that owners go to committee meetings and take notes. "The minutes of the meetings record decisions, not discussions," she says.

Be aware of who is calling the shots and whether they are reasonable or a bully. Make friends with other like-minded people in the block. Then you can position yourself for the next annual general meeting.

If you need to change the owners corporation, Broome recommends you get a block of people to stand for the committee. "You need to be on the front foot."

She says being involved in the owners corporation is less important for quality of life if you are an investor but you still need to ensure that the building is being properly maintained.

Neighbours and noise

Diplomacy is always important when dealing with neighbours, no matter how inconsiderate they are.

"Often in strata schemes it is the way you ask that is important. Tone is so important when you are dealing with other people," recommends Broome.

Monitor your neighbour's renovations. Pay attention to any jackhammering, drilling, visiting tradies or skip bins outside the apartment block.

"Be a bit of a rubberneck and keep an eye on what they are doing," says Broome.

She recommends you introduce yourself to your neighbour and say you heard some noise and wondered what they were doing, rather than just demanding, "What are you doing?" This can put people offside and often you won't get the information you want.

Owners may do minor renovations but you need to pay particular attention if they are doing big renovations and taking out any load-bearing walls.

"When they sell the apartment and six months later there are cracks opening up in your apartment, it may turn out that someone has taken out a load-bearing wall," warns Hoskinson-Green.

Repairs to common property

The owners corporation must repair common property while owners repair anything within their lot. But sometimes it is not clear where the boundaries are. People think that their responsibilities are restricted to repairing property as set out under strata legislation and anything in the by-laws but that may not be the case.

"For example, if their personal property is damaged from water or sewerage coming from outside their apartment, the owners corporation may have a common law responsibility to repair that damage," says Broome.

If the owners corporation fails to act, the apartment owner can put a motion requesting repairs on the agenda for the next meeting. If the matter remains unresolved, an application for mediation may be made with the state body. If no agreement is reached, you may apply for an order from the relevant tribunal or court requiring the owners corporation to fix the damage.

Another strategy that may work in parallel with the tribunal or court order is to lodge an application to put the strata scheme under compulsory management. The tribunal or court can appoint a nominated person as a managing agent to carry out the functions of the owners corporation. *M*

"If you don't want to live in a building with pets, don't buy into a building that allows them"

WHAT IF? Annette Sampson

States dump stamp duty for a land tax

A proposed change in the way revenue is raised makes economic sense but it's political dynamite

WHY WOULD THEY DO THAT?

The idea of replacing an irregular tax like stamp duty with a tax that automatically applies every year has long appealed to state governments. While stamp duty can be a gold mine when the housing market is running hot, this income stream shrinks dramatically during the inevitable slowdowns. A broad-based annual property tax would deliver more stable and certain revenue.

There is also an economic argument that land tax is more efficient than stamp duty as it is broad based and doesn't depend on people's behaviour. In a 2015 report, the Grattan Institute argued that a land tax of $2 for every $1000 of capital improved land value could generate $16 billion a year for the states and territories and add up to $9 billion a year to gross domestic product. It said land tax was more efficient than stamp duty as it doesn't discourage activity such as moving house or jobs (due to longer commutes from the current home).

There is also a fairness issue as taxpayers who move house more often foot a higher proportion of the tax bill than those who stay put.

So far only the Australian Capital Territory has made the leap. It is phasing out stamp duty over a 20-year period though it has the advantage of being able to simply increase municipal rates rather than introducing a new tax. But in other states, councils control rates so this is not an option.

The idea has also been recommended by the Rudd government's Henry tax review and the Abbott government's 2015 tax reform discussion paper. In October, the Productivity Commission threw its cap into the ring. It cited a recent Treasury report which estimated that each additional $1 collected in stamp duties on residential property reduces the living standards of Australian households by 72¢ in the long run due to the effects of lower investment and mobility.

BUT ISN'T THAT TAXING US TWICE? I ALREADY PAID STAMP DUTY WHEN I BOUGHT MY HOME!

That's the main reason state and territory governments have shied away from the idea, fearing a voter backlash. They could, like the ACT, phase in the change but existing owners would still be hit by some degree of double taxation.

THE CHALLENGE Maria Bekiaris

Selling with tenants

Communication is the key to achieving a good result

If you are planning on selling an investment property, one of the key considerations will be whether you do it when it is tenanted or vacant.

There are plenty of reasons why selling a vacant home may be favourable.

Selling it with a tenancy in place limits its appeal, particularly with homebuyers who may wish to move in as soon as possible. Of course, on the flipside, if your property is likely to appeal to investors, the fact that it is tenanted might actually be a selling point.

Another disadvantage of selling a tenanted property is that you'll have less control over how the home is presented during the sales campaign.

At the end of the day, though, selling a vacant property also means there will be a period of time when you won't be

DID YOU KNOW

Because stamp duty rates are rarely adjusted, the rate of stamp duty paid on the average home has increased dramatically. In Sydney, according to the Productivity Commission, the stamp duty rate on the median house price in May was $51,419 or 4.3%. The Abbott government's discussion paper said stamp duty on a median-priced house in Melbourne had almost doubled over the past 20 years, rising from 2.67% in 1988 to 5.16% in 2011.

BEST-CASE SCENARIO

Putting a new tax on the family home is political dynamite so any move to replace stamp duty with an annual land tax would need to be carefully finessed to ensure homeowners are not worse off.

WORST-CASE SCENARIO

There are always unintended consequences from tax changes.

THE WILD CARD

Each state and territory has its own stamp duty and land tax regime and will make decisions in its own political interest.

In a recent policy brief for the Australian Centre for Financial Studies, Monash University's Kevin Davis proposed a way around this. He said state governments could abolish stamp duty immediately and only apply the new land tax to properties bought free of stamp duty. Existing properties where stamp duty had been paid on purchase would be exempt. To make up for the shortfall in state revenues, he said, future property taxes could be securitised and sold to investors like super funds who want a long-term income stream.

Fairness issues also arise to ensure households that may be asset rich but cash poor – such as owner-occupier retirees – are not adversely affected by the change. While abolishing stamp duty might encourage retirees to downsize, the Grattan Institute and Productivity Commission said welfare measures would need to be considered so that people are not forced to move. These could include allowing retirees to defer the tax to be paid from their estate or the sale of the property (if it was not exempt).

WON'T WE END UP PAYING MORE TAX OVER THE LONGER TERM?

It depends on the rate of land tax and whether any exemptions are granted. The Henry Review, for example, suggested that while all land should be included in the tax, a tax-free threshold per square metre could be set to ensure no tax was paid on most agricultural and low-value land.

The Grattan Institute argued that a flat rate tax on property values with no minimum threshold would be the simplest way to go as any progressive system could result in some people paying more. For example, if the tax was calculated on a per square metre basis, owners of smaller inner-city apartments would pay much more while owners of similarly priced outer suburban houses could pay less.

The Productivity Commission pointed to a 2011 NSW Financial Audit which proposed an annual rate of 0.75% on unimproved land values of less than $775 per square metre and 1% above this threshold. The Grattan Institute estimated a rate of about 0.4%.

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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earning a rental income, which may not be financially feasible.

Angus Raine, chairman of Raine and Horne, advises keeping the tenant in place and working closely with your agent to achieve the best outcome in the shortest time possible.

The first step is to talk to the tenant and let them know of your intention to sell. Depending on your relationship you can deal directly with your tenant or you may prefer to have the managing agent do this.

Don't be surprised if your tenant asks to leave when they find out that you want to sell. In some states they may be able to end their agreement, even if they are on a fixed-term lease, if you hadn't told them about your intention to sell before they signed the lease.

If you would prefer them to stay and you want to present the property in its best light then you could offer them an incentive. This might be discounted rent during the sales campaign or maybe you can pay for a cleaner to come in each week before the open for inspections. Have a chat to come up with something that works for both of you.

You may also have to get permission from the tenant to take photos of the inside of the property. The tenants should keep the house in a reasonable condition overall but are not obliged to do anything extra. You could offer to have someone mow the lawns and weed the garden at your expense before the photos are taken.

Tenants must allow your real estate agent to show potential buyers through the property as long as you have given them sufficient notice. Find out exactly what the notice period is. The number of inspections each week has to be reasonable. In Victoria, for example, tenants don't have to agree to any more than two showings a week.

Communication is key, as is being considerate of your tenants and understanding that the process can be difficult for them.

$100,000 can go a long way

Even with a tight budget investors can take the plunge in multimillion-dollar markets

Do you want to buy an investment property in 2018 but are scared off by the $1 million-plus price tags in our major capitals. Believe it or not, $100,000 can still go a long way. Here are three ways to invest on a limited budget:

1 Go for a granny flat

You could use $100,000 or less to build a granny flat on your existing property and rake in the rental income. Of course, your land has to be big enough. For example, in NSW, where the approval process can be as quick as two weeks, you need at least 450 sq m and the maximum size of your second dwelling is 60 sq m plus verandas.

In Victoria, granny flats can only be used by dependants, such as teenagers or elderly parents, though this rule is being reviewed. South Australia has similar restrictions. In Queensland, it varies for each local government area, while in Western Australia, the Northern Territory and the ACT granny flat residents don't need to be related to the occupants of the main house.

The rent from granny flats varies depending mainly on location but double-digit returns are not rare. Some people in tourist areas also use them as holiday rentals, via sites such as Airbnb and Stayz, with the potential to earn higher returns.

One drawback, according to some experts, is that a granny flat can be a drag on capital growth as it will lessen the appeal of your property for some buyers. You may also be liable for capital gains tax on the family home when you sell.

2 Buy a car space

A slab of concrete may not sound like a sexy investment but in the right location these can be set-and-forget money earners once you have a tenant in place. Melbourne, Brisbane and Sydney are the best locations.

One place to search for opportunities is findacarpark.com.au. For example, at the time of writing an undercover strata car space in the inner Melbourne suburb of Carlton was available for $56,500. It is leased until October 2020 and returns 5.22% net. The tenant pays all outgoings, including congestion tax.

Congestion tax can be a trap, particularly in Sydney, where it is $2390 a year for each space in the main areas of Sydney, North Sydney and Milsons Point, dropping to $850 in Bondi Junction, Chatswood, Parramatta and St Leonards. In Melbourne, the levy is set at $1410 for category 1 areas (including the CBD) and $1000 for category 2 areas. Factor in these costs when you are working out your returns.

3 Seek out a cheapie

You can still buy commercial and residential investments for less than $100,000, although you need to do your homework.

Searching realestate.com.au, I found a holiday property in Port Douglas in far north Queensland. The studio unit in the Retreat apartments was for sale for $95,000 at the time of writing. It's within walking distance of the main street, village hub, Four Mile Beach, the Reef Marina (reef and fishing trips) and the Sunday markets. It also has lush gardens and a tropical pool.

As an owner, you would be able to stay for up to two months a year and then let it out the rest of the time through the on-site manager. Selling agent Kate Dillon from Raine and Horne says the net return from the studio is 3.6% after all expenses, based on it being leased out for the entire year.

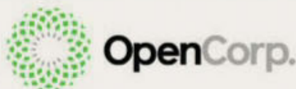
Another example found on commercialrealestate.com.au is a general store and post office at Mount Burr, 503km from Mount Gambier in South Australia. It was available for $100,000 with a gross return of 14%. The 490 sq m store is on 1162 sq m of land and is leased to a new tenant for five years with options.

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

GOLDEN RULE: LAND VALUE GOES UP, BUILDINGS GO DOWN

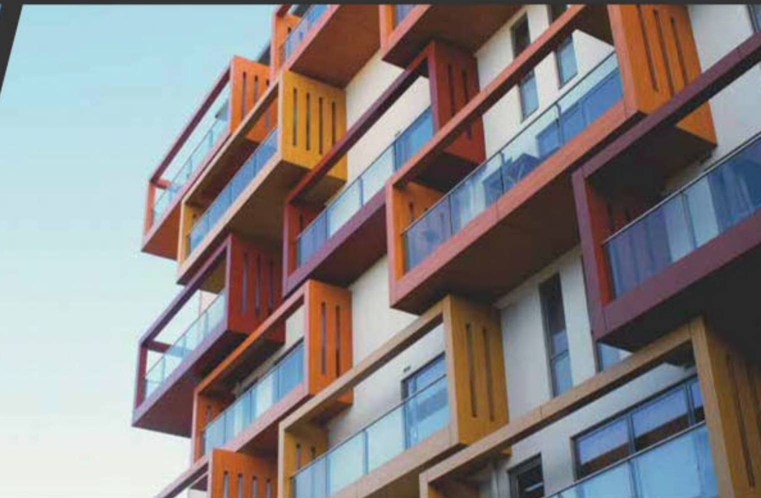
Land is an appreciating asset and goes up in value whereas buildings are depreciating assets. The tax office view is that the building has a lifespan of 40 years and, in theory, at that point needs to be replaced. The building's only purpose is to gather rental income to help cover the holding costs of the land.

Remember that investing in property is for the long term. If you're deciding whether to invest in a house-and-land package or a flashy apartment, go for the house and land. In 40 years when the apartment block needs a massive overhaul it's unlikely that all the owners will get together to put up a new building on the land. Instead, the block will be sold at a price that's cheap enough for a developer to make a profit by knocking it down and building another one.



Land value vs building value: what's worth more?

Dirt. They're not making it anymore and therefore a smart investor always invests in land.



Why?

The golden rule of property investing is land appreciates and buildings depreciate. To achieve capital and compound growth, land is a must. The building's only purpose is to gather rental income to help cover the holding cost of the land. The taxation benefits that can be obtained by claiming depreciation on the building, over 40 years as a maximum, really help cash flow. But never make the primary purpose of any investment the tax benefits. Capital and compound growth is what makes successful investors.

LAND CONTENT VALUE

People talk about land content value as a rule. Here's a basic rule we at OpenCorp use when considering an investment: the total floor area of all buildings needs to be less than the total area of the site.
Here's how it looks: The land content ratio (LCR) must be > 1:1 or 100%

Example 1: The LCR of a standard home.
House = 200 m2
Land = 400m2
LCR = 2:1 or a LCR of 200% (this is good as the land is double the size of the building).

Example 2: LCR of the standard apartment.
Apartment building = 10,000m2
Land = 1,000m2
LCR = 1:10 or a LCR of 10% (very bad as the land content is only a fraction of the building size).

APARTMENTS

Apartments are a flashy investment option. Remember supply and demand is what drives growth. Developers can just keep stacking more and more apartments on top of each other, so it's hard to get real pressure on supply and mitigate vacancy risk given most are sold to investors. This is why we also recommend that you do not invest in or around CBDs.

If you do purchase an apartment, in 50 years time it's going to start to look run down. At that point, it's unlikely that all the apartment owners will band together to build a new building on the land. Instead, the apartment will have to be sold for below value, at a price that's cheap enough for a developer to make a profit by knocking it down and building again.

LONG TERM STRATEGY

We recommend purchasing medium-density housing that will continue to grow in value, even if in 50 years you have to replace the house that sits on top of the appreciating asset (the land).

Remember the golden rule: land goes up in value and the building goes down.

And if you really like apartments, rent one and invest in land.

Michael Beresford – Director of Investment Services, OpenCorp

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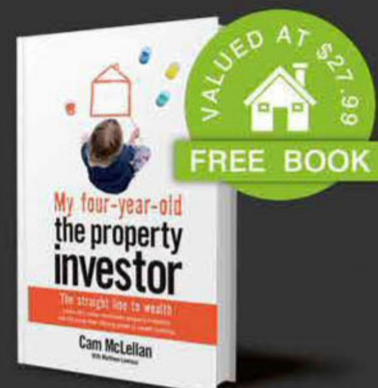

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Do better with bonds

STORY
PAM WALKLEY

If you want stability and predictability, there are more rewarding places for your funds than term deposits with their woeful returns

Share investors have had a good year in 2017. The ASX All Ords Index climbed 7.32% to 6167.3 in the year to December 22, 2017, after also rising 7% in 2016. But, as some experts warn, it's probably unrealistic to expect this will be replicated this year. If your share portfolio has performed well it may be time to consider taking some profits and using the funds to diversify.

Fixed-income investing is an area that is often overlooked in this era of historic low interest rates. But there are many more ways to invest in this asset class than just putting your money into term deposits, which are providing woefully low returns.

Bonds are not nearly as familiar to most retail investors as shares, except, of course, for 007! But companies such as fixed-income specialist FIIG Securities (fiig.com.au) and the Australian Bond Exchange (bondexchange.com.au) aim to change that.

When most people think of bonds, they think of government versions but there is also a whole array of corporate bonds, many of which provide returns of over 5%pa. Corporate bonds offer predictable income, capital stability, diversification and the potential to earn better returns, qualities that particularly appeal to retirees or those approaching retirement. They also are flexible as you can buy and sell them when you like. But corporate bonds carry a greater risk of loss of some or all of your capital when compared with bank deposits.

"As a defensive asset, corporate bonds present slightly more risk than bank deposits for slightly higher returns of around 1% to 2% per annum throughout the economic cycle – although there are high-risk corporate bonds earning as much as 12% per annum," says Elizabeth Moran director of education and research of FIIG Securities.

Including corporate bonds in your portfolio helps you smooth out overall returns over time, especially when markets are stressed or volatile.

How to access bonds

There are several ways you can buy individual corporate bonds or portfolios of bonds. If the ease of buying investments through the ASX appeals to you there are exchange traded products (ETPs) including exchange traded funds (ETFs) that invest in corporate bonds. There are also some ETFs that invest in government bonds. Advantages include a low barrier to entry, at $500, and you buy and sell through your regular broker.

There's plenty of choice, although nowhere near the overwhelming number of individual stocks. A full list of what's available is on the ASX website (asx.com.au). There are about 55 single-asset corporate bonds, many issued by major companies including, ANZ, Coca-Cola Amatil, NAB, Qantas, Westpac, Wesfarmers and Woolworths.

And there are about 20 multi-asset Australian fixed-income ETFs, including those that just invest in government bonds, and seven global fixed-income ETFs.

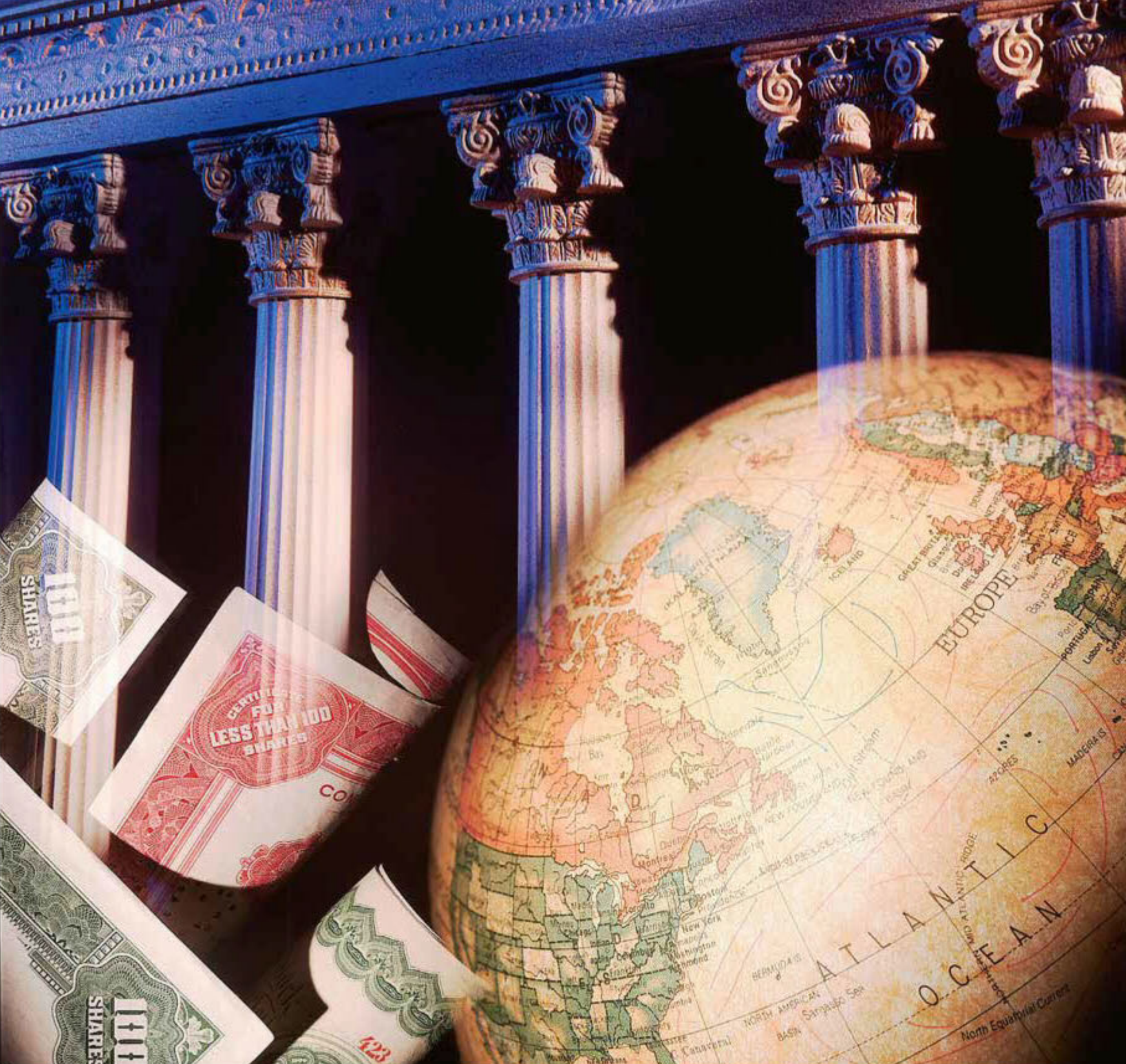
Major issuers include Vanguard, winner of *Money's* Best ETF Provider award for 2018, and iShares. iShares Core Composite Bond (ASX: IAF) and Vanguard Australian Fixed Interest (VAF) were joint winners of the Best Income ETF category in *Money's* 2018 Best of the Best awards. Both invest in quality AAA and AA Australian government and semi-government bonds.

Both also have funds that cover corporate bonds. For example, the iShares Global High Yield Bond (AUD Hedged) ETF (IHHY) aims to provide investors with the performance of an index composed of liquid, global developed, high yield corporate bonds (hedged to Australian dollars). It returned 8.99% in the year to November 2017.

The Vanguard Australian Corporate Fixed Interest Index ETF (VACF) provides investors with low-cost, diversified exposure to Australian corporate bonds. It returned 5.08% in the year to November.

You can find information on ETFs, including fixed-income specialists, on the Morningstar website (morningstar.com.au). Some research is available at no cost but if you want more detail you'll need to subscribe.

There are also some listed investment trusts (LITs) that invest in fixed income. The latest to list is the MCP Master Income Trust (MXT), which provides investors with direct exposure to the Australian corporate loan market, a market that has been largely inaccessible to retail investors. Its target return is the Reserve Bank cash rate plus 3.25%pa net of fees (currently 4.75%), with distributions paid monthly.



Managed funds

There is an array of managed funds investing in both local and global fixed income. Morningstar, which also researches these, lists 70 Australian bond funds requiring a minimum investment of $50,000 or less. Over 10 years the PIMCO Wholesale Australian Bond fund has returned 7.03% a year, ranking it first for that period. The fund, which also won *Money's* Best Australian Fixed-Interest Fund category for the past three years, requires a $20,000 minimum investment.

There are 43 global fixed-income funds requiring a minimum investment of $50,000 or less on Morningstar's database. Another PIMCO fund, Global RealReturn Wholesale, is the pest performer over 10 years, showing a return of 8.19% a year. Minimum investment is $20,000.

Morningstar also details 52 diversified bond funds, 10 emerging market bond funds and six inflation-linked bond funds.

Some managed funds also have mFund versions – there are 36 fixed income mFunds – which can be bought through most brokers, including online. This means you don't have to fill out the paperwork to join a managed fund, which some investors find tedious.

Portfolio building

FIIG provides a free weekly newsletter *The Wire*, written by Moran, which tells you about new issues, research and recommendations. In November FIIG provided sample portfolios based on investing $250,000. The higher yield corporate bond portfolio was returning 5.87% and its investment grade corporate bond portfolio was returning 4.3%.

The specialist offers an array of services for private investors including its DirectBonds Service, which offers more than 300 bonds, a mix of fixed, floating and inflation-linked. You can choose from sample portfolios or select the bonds to suit your individual investment needs. You can buy and sell bonds in parcels from $10,000 with a minimum portfolio balance of $250,000.

FIIG's Managed Income Portfolio Service ("MIPS") enables investors to combine the benefits of directly owning fixed-income securities with the expertise of a professional investment management team. The minimum investment amount for MIPS is $250,000 for each investment program, or $5 million for a customised program. There are three options. At the time of writing Conservative Income was providing a gross yield of 4.11% to maturity, Core Income a return of 4.12% and Income Plus, which carries moderate risk, 5.77%.

The Australian Bond Exchange enables self-directed investors to access the Australian corporate bond market directly, meaning you don't need to go through third-party funds or institutions. You own the bond and receive the full coupon with no hidden fees or charges. ***M***

BONDS: WHAT YOU NEED TO KNOW

Companies or governments issue bonds to raise funds, borrowing from investors. When you buy a bond, the issuer is legally obliged to pay you regular interest (referred to as coupons), and at the bond's maturity the face value of the bond (which is the price the bond was issued at – usually $100) must be returned to you.

Fixed-rate bonds pay the same interest throughout their life. When interest rates are low or falling, these give you better income certainty. As rates fall, fixed-rate bond prices will rise in the secondary market. The reverse is true: when interest rates rise, fixed-rate bond prices will fall.

Most bonds are issued as fixed rate, because governments, which are the biggest issuers, prefer them.

Floating-rate bonds pay a variable income based on the bank bill swap rate (BBSW). If the market expects interest rates will rise, your income will increase. Equally, if the market expects interest rates to fall, then your income will also fall.

Inflation-linked bonds provide a direct hedge against rising inflation, which is a key risk in retirement.

Keep them honest

STORY
SUSAN HELY

How to avoid being ripped off by a crooked financial adviser

Beth Spence remembers when Bradley Sherwin, a Brisbane financial planner, paid a house visit to meet her and her husband Mick, who was recovering from a serious workplace accident, and her elderly parents. It culminated in Sherwin putting his arm around her mother's shoulder and saying: "Don't worry, Mrs Paynter, you'll never have to worry about money again." It was 1996 and Beth recalls it was an emotional moment.

"It was all crap really," she says. She believes Sherwin had been defrauding his clients for many years. "He had this plan all along," she says.

Beth says that even though Sherwin was highly recommended by a family member, she didn't take him at face value and carefully checked out his licences and qualifications with the Australian Securities and Investments Commission (ASIC). He passed all the checks.

Over the years, Beth and Mick grew to trust Sherwin more and more but he was deceiving them, particularly after he talked them into setting up a self-managed superannuation fund (SMSF). Sherwin told them it was more tax effective. Unbeknown to Beth and Mick, it gave him direct access to their $500,000 retirement savings, as he set up secret bank accounts with forged signatures. For years they believed they were invested in moderate risk assets but Sherwin ploughed their money into his speculative property companies.

With Beth caring for her husband and parents, the Spences lived a frugal life on the investment returns from Mick's compensation payout. They were proudly self-funded, with their biggest expenses being medical bills.

But Sherwin was playing a frantic game of Russian roulette with clients' money, using it to fund whatever came up – pension payments, investment returns to clients, tax bills, client redemptions and risky property construction costs. Then there was the extravagant lifestyle.

ASIC investigations subsequently revealed Sherwin had set up a Ponzi-type scheme using investors' funds for purposes of which they were unaware. They found out in January 2013 that all their money had gone.

Almost five years later, in November last year, the 63-year-old Sherwin was jailed for 10 years, with a non-parole period of four years, on 24 counts of fraud and one count of breaching his duties as a director of Wickham Securities, an associated company. He lost the $60 million life savings of 400 clients.

The shock of discovering the financial loss and then having to rely on the government after being self-funded has been devastating for the 400 clients.

"The sheer horror of learning that you have lost everything is really only the beginning. It is pretty shocking what happens for the next five years. It becomes an ongoing trauma," says Nigel Jeffares, who lost retirement savings of $370,000. He describes what has happened to the 400 Sherwin clients as "elder abuse at a corporate level".

Jeffares told the hearing that as a result of losing all his superannuation he now suffers from depression and other health issues and

is unable to see his adult children and grandchild who live and work overseas.

"It puts you in a desperate emotional state. You miss out on the family things like helping my daughter to buy a new washing machine. Sometimes you want to buy your grandson a $10 T-shirt, not one for $2.75," says Beth. "The average age of the group of investors is 70. Most people couldn't go back to work to earn any money."

Damian Scattini, partner at Quinn Emanuel Urquhart & Sullivan, which mounted a class action on behalf of the investors, says the upshot is that good people had worked hard all their lives and lived carefully so that Sherwin could enjoy the high life.

Sherwin's clients included retired policemen, retired farmers, miners, graziers, refinery workers, people who worked at *The Courier Mail* newspaper and actors. Often he tracked down people who had received insurance payouts for workplace accidents or conditions such as post-traumatic stress disorder.

Sherwin's clients were also shocked to find that they had to keep their depleted SMSFs open for legal reasons, even though they couldn't afford the annual compliance costs of $3500 to $5000. Many were fined by the tax office.

"A lot of people have got fines from the ATO. We tried for three to four years to get a moratorium on the DIY fund."

The 10-year jail sentence is a big win for ASIC. Garth Robertson, the former CEO of Wickham Securities, was sentenced to five years' jail and Brian Kingston, the auditor of Wickham Securities, had his registration cancelled.

When sentencing Sherwin, District Court judge Julie Dick said she needed to impose a sentence that deterred other people from engaging in similar conduct. "I need to make it clear to the community, through the sentence, that the court denounces the conduct in which you were involved. Our society rests on the fact that people can trust other people with their money. When that trust goes, the usual way we carry out commerce is fractured."

Since August 2010, ASIC has imposed bans on 220 financial planners, with over half being permanent and the rest temporary, with a typical length of five years. Since 2008, 37 court convictions have been recorded against advisers, with 18 sentenced to jail.

ASIC's legal team has earned the praise of the Sherwin investors and Scattini, who is also working on a class action against Bank of Queensland and fund manager DDH Graham in the Federal Court. "ASIC was first-rate," he says.

However, he would like to see it better resourced as there are not enough staff and the existing ones are overworked.

Jeffares points out that, apart from Sherwin and Robertson, there were other employees who were key administrators and are still in the financial services industry. Some don't mention their connection with Sherwin. "People have a right to know who they are dealing with," says Jeffares.

It's crucial for investors who lose money to band together with others in the same position. However, this can be difficult because under freedom of information laws you cannot get other people's contact details. "You are absolutely on your own," says Beth.

It took three years to get a group together and for ASIC and the ATO to post the email address of the group. The Sherwin investors formed the Superannuation Crisis Support Group (scsgroup300@gmail.com). "The group has given me strength. It helps me understand that I am not stupid and alone," says Beth.

One of the aims of the support group is to help direct people who suddenly lose all their money to an organisation. "There is no one central entity out there to help people find out about housing or how to pay their electricity bills or what they should do if they get a fine from the tax office," she says.

The group says UnitingCare has come to the party with a seniors enquiry line (see uccommunity.org.au). ***M***

WHAT TO DO IF THINGS GO PEAR-SHAPED

The Australian Securities and Investments Commission (ASIC) offers these tips:

Always check that a financial adviser is authorised to provide advice before engaging them. Check the Financial Advisers Register and the government's MoneySmart website (moneysmart.gov.au), for tips on choosing a financial adviser.

If you are unhappy with any aspect of the service you receive, try to resolve it with the adviser.

Then you should make a complaint through the adviser's internal dispute resolution system. Their financial services guide will tell you how to do this.

You should receive an acknowledgement from the adviser's dispute resolution system within 14 days. They have 45 days to provide a final response.

If you're unhappy with the response, you can contact an external dispute resolution scheme. The business must tell you which scheme it belongs to. You can also complain to the adviser's industry association and/or professional body. This information will also be in the Financial Advisers Register. Alternatively, you can lodge a complaint with ASIC.

MoneySmart's website outlines the steps you can take if your adviser has been banned.

LESSONS FROM A $60M SWINDLE

Here is a checklist for all investors who seek advice:

- Don't let your planner move you from a low-fee, solidly performing superannuation fund into a self-managed fund that has no APRA governance.
- Never go into an SMSF unless you understand it and can run the investments and administration.
- Be wary of any extravagant schmoozing by a financial planner, such as expensive restaurants meals or invitations to boxes at sports events.
- Don't let your planner or anyone at their firm have the authority to sign your investment and banking documents.
- Don't allow them to transfer funds between accounts because they can move money to their own accounts.
- Always be vigilant about your financial planner's actions because the more you trust them, the more vulnerable you are to being deceived.
- Always get a copy of all the documents and correspondence. Don't let the planner keep all the information.
- Don't trust qualifications listed on websites. These can easily be fudged.
- Make sure you can view your investments in real time. Super funds typically give you live updates on the value of your investments. Shares and other listed investments can be viewed online but unlisted property is valued only once or twice a year. Don't put up with waiting for statements for listed investments that only come out every six months.

Get set for success

Now is the perfect time to take a fresh look at your super to make sure it's on the right track

STORY
VITA PALESTRANT

The start of the new year is a good time to lay the groundwork for the next 12 months, and super should be no exception. You might start with a few basic questions: where does your super money go; what does it invest in; and is that the most appropriate option for you?

Most fund members land in their employer's low-cost default investment option because they haven't made a choice. The default option is either a balanced or a lifecycle option. While these have performed well, another option may suit you better.

So how do you figure it out? Do you stay in the fund's default option or switch? It can be daunting given that bank-owned retail funds offer hundreds of options while the not-for-profit industry funds offer a dozen or so.

More doesn't mean better. The Australian Prudential Regulation Authority recently questioned whether so many options have any real value, especially when the differences between them can be small in terms of asset allocation and risk/return. It asked at what point does too much choice become a headache rather than a help.

Many super funds go to great lengths to provide information on their websites. They give investment strategies for the different options, their asset mix, expected returns, fees and risks involved. The information is often presented with simple pie charts and tables.

Even if you have no wish to switch options, it's worth familiarising yourself with how the different asset classes work. "Understanding asset allocation is important," says Alex Dunnin, executive director of research at Rainmaker, publisher of SelectingSuper.

"It's a cliche but your super's probably going to be worth as much as your house and when you start to understand how that money is invested, you will become more comfortable with it. There will be times when it performs well and times when it doesn't. You'll understand the reasons for it and won't panic."

ASSET ALLOCATION

Broadly speaking, there are four main pre-mixed investment options: growth, balanced, conservative and cash. With the exception of cash, they all diversify across the different asset classes. The growth option, for instance, invests about 70% of its funds in assets such as shares and property and the rest in cash and fixed interest. A low-risk conservative option puts 70% into fixed interest and cash and the rest into growth assets.

Members can also opt for single-asset options such as Australian shares, international shares, property, fixed interest and cash.

"The idea of asset allocation and diversification is simple – it comes down to the asset groups you want to be exposed to," says Dunnin. "Shares in companies tend to do better over the long haul than government bonds and cash, which tend not to do as well. But I might be a retiree and want to be paid an income every month. It doesn't mean you have to have it all in bonds. It just means you want something that pays you an income."

Asset classes have two characteristics, he says: the way they generate capital growth and the way they generate income.

"We like equities as a growth asset because it tends to have capital growth but it also pays dividends along the way. If you have property, hopefully it goes up in value but it also pays rent, so it's a mixture of capital growth and income.

"If you buy a bond portfolio you tend to make money out of the fund manager buying and selling bonds in such a way as to get capital growth. So it's not like you're investing just to get interest rate yield. Some funds might not have fixed interest in their portfolio, just infrastructure, which performs the same role.

"We're talking about general principles here. The industry, broadly speaking, says equities are a growth asset, property is a growth asset, bonds and cash are defensive, infrastructure is defensive but sometimes infrastructure, they'll say, delivers good capital growth. Categories are fuzzy around the edges. You've just got to expect that and not get overly fussed."

Having an awareness of these factors, he says, can help you understand what your investment is doing. Then, whatever you choose you understand the dynamics.

"Growth assets over the longer term are the drivers of returns in most successful super funds. It's more important to get the asset allocation right than worrying about being in the right super fund. With funds that underperform, it's mostly because they've got a more conservative asset allocation.

"The broad idea is that when I'm younger I don't need the money for a long time so I can probably take on more risk. That doesn't mean risk is the goal in itself. It means I want to be in assets that are long-term investments and should do better for me."

SPOILT FOR CHOICE

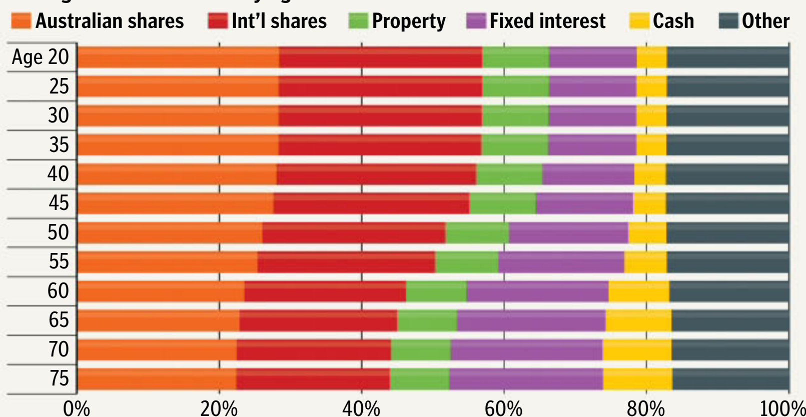
"There is so much choice it can be very confusing," says Kirby Rappell, CEO of SuperRatings. "You want to set your investment strategy first. Your choice of investment option should be an outcome of your strategy."

He says many funds provide online resources to help figure things out. "Most funds have risk-profiling tools on their websites where you can go through the process of working out what type of investor you are and work out a strategy. You'll be asked about your willingness and ability to take risk, and then based on that it will show you some of the investment options that are most in line with your profile."

Fund members can also get what's called scaled or limited advice for about $250. If you want a full financial plan, you'll need to see a financial planner. "Pretty much every fund now offers financial advice. Make sure it's fee for service, with a fixed fee and that the person you talk to is a certified financial planner and has a degree, as a minimum," says Rappell.

Check what your own fund offers first, he advises. "If you're in a provider that has a good record and continues to be well rated to give you good future outcomes, you just want to make sure you're in the right investment option for that provider. You also don't want to be changing investment options all the time or switching to cash. Timing the market is not a good strategy. It's about getting that long-term strategy right and sticking to it."

WHERE OUR SUPER IS INVESTED



Source: SuperRatings

Data as at 31 October, 2017

SWITCHING Make sure it's better

Switching investment options is easy. Find the form on your fund's website, fill it in and send it back. You may also be able to do it online. You don't have to switch 100% of your existing option; you can nominate a percentage or dollar amount.

Consider what impact switching will have: is it in line with your investment goals; have you looked into it carefully enough; how comfortable are you with the investment risk; and how long until retirement?

There is an upfront cost to switching. Kirby Rappell, CEO of SuperRatings, says the average super fund allows one free switch a year. Beyond that there's a charge of $30 per switch.

It's not the only cost. There's also a hidden transaction fee called the buy/sell spread. "It's the cost they will charge you to sell out of your existing investment option and buy into another investment option," he says.

Based on the researcher's latest data the average buy/sell spread is 0.34% each way – or 0.68% for a round trip. It's the cost the super fund recovers for buying and selling investment assets on your behalf.

"That would obviously impact you when you are changing options," says Rappell.

At the other end, taking a set-and-forget approach can be counterproductive, says Laura Menschik, a director of WLM Financial Services and a certified financial planner.

"If people take their eye off the ball, who's to say what they're in is still appropriate? High growth is fine when you're young but now it's 30 years on and the month before retirement they find out they've lost a lot of their super?

"If you take advice it should be on an overall investment strategy regardless of the products that are being sold," says Menschik.

"Whatever people do with choice of funds – whether in retail or industry funds – you are sent a statement at least once a year telling you how your fund has performed. You should take some time to see how you are doing. That's not to say that if yours is not the top fund of the year it means it's a bad fund; you want a consistent performer with reasonable fees."

So why are the retail funds so keen on so many choice products? "Most people that join those funds do it through a financial planner," says Dunnin. "And if you are a planner you want to be able to say 'no matter what customer walks through the door, I want to have an investment solution I can pitch to them'."

However, research conducted by Rice Warner late last year found many members paid higher fees and received lower returns when they switched from industry to retail funds.

BEST OF BREED

Once all your research is done you may come to the conclusion that your default fund, also called MySuper, is best after all. Its performance, helped by low fees, has been impressive.

"Default balanced products have done really well," says Dunnin. "The average return in the 12 months to December was 10.5%; over three years it was 10%. Default super over the last 30 years has averaged 7.8% a year – that's after fees and taxes. It's almost triple inflation."

Rappell says there are a lot of good-quality default funds. "For not-for-profit funds in particular – given 70% of their members are in that option – they give it everything they've got. A lot of time and effort goes into the default strategy.

"You'll get a good spread across Australian and international shares, listed and unlisted property, infrastructure, fixed interest, cash and sometimes private equity and hedge funds."

But there may be lots of good reasons for switching investment options and funds. If you want higher returns, you're going to be looking at equity options. The problem is that only a third of equity options meet the asset class benchmark, says Dunnin.

"If the fund you're in is beaten by everyone else, or they're not even matching the index, they're not very good at running equity options. If a fund is getting its arse kicked over five to 10 years, it's going to take a lot of good performance to suddenly turn that around.

"You can't predict the future, you can't predict next year's returns. But you can very reliably predict who's going to be above average. Look at the league tables of the top funds over five years. The funds that were in the top quartile, the top 10 or 20, over five-year periods, I bet you when you look at the tables in 12 months most of those funds will still be there.

"It highlights that you are looking for persistency. If you start looking at the top funds, year in year out, you'll find those funds are very rarely outside the top 10 or top 20. It's not an accident," says Dunnin. *M*

ASSET ALLOCATION THROUGH THE AGES

What's the ideal investment option for different age groups? You need look no further than default lifestage or lifecycle products to get an idea.

Rainmaker's Alex Dunnin says the list below gives a good indication. However, there is a lot of variation in the marketplace:

He says some products are overly conservative. "At retirement age, they have almost no money in equities.

20s – 90% in growth assets (all equities)
30s – 90% in growth assets (all equities)
40s – 85% in growth assets (75% equities, 10% property)
50s – 70% in growth assets (50% equities, 20% property)
60s – 50% in growth assets (30% equities, 20% property)

That's really conservative – you're assuming I'm going to die next year. Others take the view you've got another 20 to 30 years left and still need growth assets.

"The broad rule is that when you are young you should put as much money as you dare into equities. You can dial it down a bit as you get older."

Ultimately, it comes down to your personal circumstances, goals or lifestyle aspirations and risk tolerance says WLM Financial's Laura Menschik. "Which investment option is best for you? Perhaps they should see a good financial adviser."

The accompanying list from SuperRatings gives a good snapshot of how the different assets are allocated over the different age groups.

It's easy to look green

But you need to dig a little deeper to find a real commitment to responsible and sustainable investment.

At Local Government Super, we employ positive and negative screens as well as company engagement and industry collaboration, to ensure we earn long-term sustainable returns for our members.

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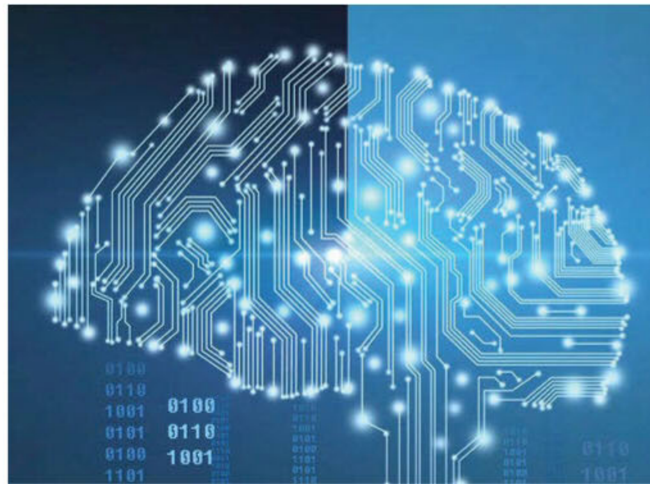
Follow the dreamers

Blue chips are dead, toppled by a new generation of tech-based upstarts



Stop for a moment. Think, watch, then think again. The world is changing; faster than you might imagine.

In our often hectic times, we don't take the time to appreciate the change and how it is interwoven into our everyday lives. Think how easily people in cities will grab an Uber, order groceries or a takeaway meal, and organise travel online. Our banking now is almost done exclusively on a smartphone that has only been in existence for a little over a decade.

It doesn't stop there. Soon a significant proportion of our energy will be generated by wind and solar; small surgery might be done remotely via new telephone technology and robotics; driverless vehicles are closer to becoming a reality; and people who suffer certain medical conditions can now use cannabis legally.

And this is barely scratching the surface.

The real change that I see is coming from people themselves. A new generation is prepared to chase their dreams using technology in ways perhaps never experienced before. The renaissance of ideas, caused by the quantum leaps in technology (and the affordability of that technology), means more innovation and wave after wave of new investment opportunity.

A common situation I have experienced in recent times is where a couple (both working) might use the steady income of one partner to maintain a household, while the other partner sets up a business with the ambition of creating true wealth for the family. In other words, for people in their 20s and 30s, innovation is alive and well. Do not despair about the younger generations; they are not only doing well but helping to change the world.

Now to investment. We all understand the struggle of large organisations: retailers, banks, life insurers, even telecommunications companies. Once the cornerstones of solid, diversified portfolios, it's easy today to look at these investments as dead weights. Their profits and dividends are under pressure.

They are being stung by the arrows of a thousand small companies, all using technology and smaller capital requirements to create competition and to eat away at the profits and dominance enjoyed for decades by so-called blue chips. Here's a hint: there are no blue chips any more. They're dead. Gone forever. In their place there are just companies – all vulnerable to change.

Who could have imagined, 10 years ago, that our major department stores – each over 100 years old – could be so vulnerable? But it's happened and continues to happen every day to large, established companies.

The trick, as an investor, is not to try to resist the change but to modify your habits and go with it. Seek out these new, agile, tech-based companies that are in myriad industries, led by young entrepreneurs whose dreams become reality via the capital they raise from the markets.

And it's not hard to find these ideas. In fact, it's simple really, though it takes some work and diligence, like any good investment opportunity.

Start at the website asx.com.au/asx/research/recentFloats.do. It's the ASX's site for recent share floats, where you can find the new companies hitting the markets and how they have performed. This is your base of knowledge because there is little doubt that even if you missed a float (or were unable to get shares), the opportunity still exists.

As you're researching the initial public offerings (IPOs), head to another couple of sites I really like – ipowatch.com.au and onmarket.com.au. Here you will gain more information about those companies that have recently hit the market and how they have performed. Onmarket does a quarterly analysis of the best-performing IPOs. Its September 2017 report showed the average IPO last year created a 25.7% share price gain since listing.

The report by Ipowatch shows, dramatically, that the best-performing float of 2017 was medicinal marijuana stock Cann Group with a 1016% gain, followed by vitamins and supplements company Wattle Health with a 775% gain and cobalt producer Ardea Resources, up 765%.

Now the warnings are obvious: not every float works. Workflow mapping business ServTech Global is down 90% (from 20¢ to 2¢) as it needed to raise more capital after its float. But the research shows that of the 106 new companies listed on the ASX in 2017, 57 were higher, 44 were lower and five were steady.

The truth is that the IPO market has always attracted opportunists and, frankly, some crooks, spivs or incompetents. In some cases, things will go wrong. But remember, this is the base for your information. Among those companies is a rich tapestry of business opportunity and, perhaps, something to spice up your portfolio. It might even make you feel younger ... part of the new generation.

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

We all get a fair go now

Employees are the winners thanks to new rules for tax-deductible contributions

Let's kick off the new year with some good news. Recent rule changes to super make the system fairer, more flexible and easier to understand for employees wishing to make tax-deductible contributions.

First, they can now contribute directly to their fund and claim a tax deduction for doing so. Second, a rort that allows employers to minimise their 9.5% super guarantee (SG) obligation faces the chop. This is long overdue. But more on that later.

Previously, if you wanted to maximise your concessional contributions, capped at $25,000 this financial year, you needed to make salary sacrifice arrangements with your employer. However, not all employers facilitate it, so while it was good for some, others missed out. Such arrangements are no longer necessary. Control is now in employees' hands. Since July 2017 an employee can make a personal tax-deductible contribution to super and claim a deduction. But they need to stay within the $25,000 limit, which includes the SG.

All you need to do is fill in a form – a notice of intent to claim a deduction – which can be found on most funds' website. Once it's sent off you should receive acknowledgement from your fund. You can then claim the deduction in your tax return for that year's contributions.

People who are self-employed but also work part time for an employer benefit from changes as well. Previously, to be eligible to claim a deduction for personal super contributions you had to earn less than 10% of your income from employment.

The 10% income test rule no longer applies, which means affected individuals can also claim a tax deduction for personal super contributions this financial year.

Now for the SG rort. The federal government is finally cracking down on a legal loophole that allows employers to take advantage of employees who salary sacrifice by paying them less in compulsory super. It undermines the whole purpose of salary sacrificing. Legislation, due to apply from July 1, 2018, has been proposed to ensure salary sacrifice contributions do not reduce an employer's SG obligations.

"The loophole allowed employers to reduce the SG entitlement by netting out the salary sacrifice contributions their employee was making," says Ben Marshan, head of policy at the Financial Planning Association and a certified financial planner. "For example, where an employee was earning $80,000 and salary sacrificing $10,000 the employer was able to pay SG on $70,000. They will be required to pay it on the full $80,000."

The employer might also count the salary sacrifice contribution as its own SG contribution. Either way, the employee's total salary package is effectively being reduced.

Marshan says many employees have no idea they are being short-changed. It's only when it's pointed out to them by their financial planner or accountant that they become aware of it. He says the FPA has been asking for this loophole to be closed for a decade. Until that happens, opening up tax-deductible contributions to all means employees can now outfox an unscrupulous employer by making their own tax-deductible contributions instead of salary sacrificing.

Marshan also welcomes the end of the 10% work test rule. "It made super more confusing and limited the ability of many people to save for their retirement. Contractors in particular were in a disadvantaged position where they didn't get employer SG but because of the way the law applies around contract work they weren't considered to be self-employed either.

Super is the most tax-effective way to save for retirement, he says. "We know Australians love to save tax and invest in their future and the government has just given us a flexible and efficient way to do this. Keep in mind the contribution cap and that contributions to super are preserved until you meet a condition of release, such as retirement."

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

BEFORE THE CHANGES

Blaine works part time in an accounting firm. During 2016-17 he earned $60,000 in salary and wages.

He is also a qualified swim coach and in his spare time runs a small learn-to-swim business at a local school. During the year he earned $11,000 before tax.

Blaine made personal (after-tax) super contributions of $3000.

He cannot claim a deduction for his personal super contributions in his 2016-17 tax return because the income from his employment with the accounting firm ($60,000) is more than 10% of his combined assessable income, reportable fringe benefits and reportable employer super contributions ($71,000 × 10% = $7100).

Source: ATO

WORK TEST

If you are aged 65-74 at the end of the income year in which you made a contribution, you need to satisfy a work test to be eligible to claim a deduction. This means you must work at least 40 hours during a consecutive 30-day period each financial year in order for your fund to accept a personal super contribution for which you can claim a deduction.

When bubbles burst

History is a guide as to whether hot plays such as Bitcoin and cannabis will change the world or are manias destined to die

STORY GREG HOFFMAN

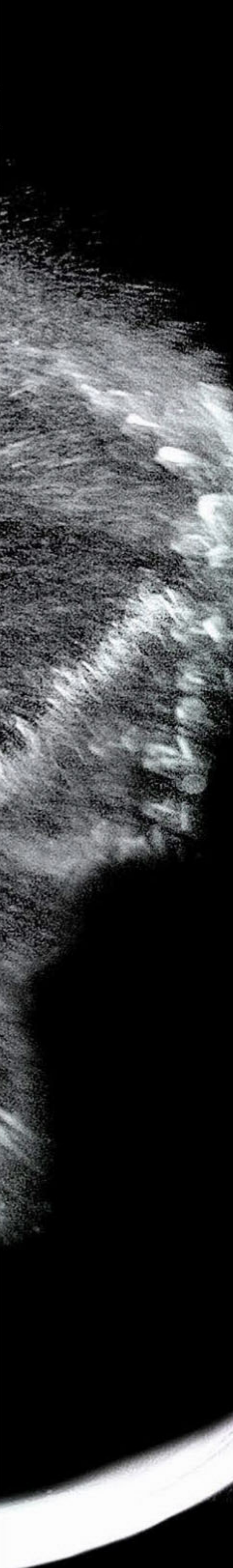
Over the holiday season I was lucky if I escaped a social function without someone buttonholing me about lithium stocks, cannabis stocks or, of course, Bitcoin. I believe these are all potentially powerful illustrations of something that investors should be keenly aware of. That is, how financial bubbles form and grow, and the aftermath of their bursting.

The first key point is that almost every bubble is built on a kernel, if not a bedrock, of truth and logic. Take the British railway mania of the 1840s.

The world's first modern inter-city railway was opened between Liverpool and Manchester in 1830. Apart from the death of parliamentary member William Huskisson, who was accidentally hit by the line's locomotive during the opening ceremony, it was a tremendous success.

The railway was originally built for the transportation of goods but an unexpected enthusiasm for passenger travel quickly developed. This led to financial success well beyond initial expectations. The potential for expansion and future profits was obvious and a great investment boom began.

At this point, investors' money was being transformed into useful, profitable infrastructure. Thousands of miles of lines were constructed, benefitting the nation and many early investors who were earning good dividends by the middle of the 1830s.



By the 1840s the industrial revolution was driving increased commercial activity and interest rates were going down. This meant investors were open to alternatives that might provide higher returns and the railways seemed a sure thing – a truly "disruptive" technology.

The second key point about bubbles is that, at some point, the beneficial investment boom morphs into a financial boom. The focus shifts away from investment fundamentals to a simple "fear of missing out" on further speculative profits. This is a key phase. It's the point where the buying activity shifts away from knowledgeable early investors to the broader, less-well-informed public. As Warren Buffett once wrote, "What the wise do in the beginning, fools do in the end."

Each new rail line required authorisation by an act of parliament and in 1846 at least 272 such acts were passed. That same year a combination of higher interest rates and a growing realisation that many railroads were unlikely to be particularly profitable, or perhaps even viable, saw the bubble begin to burst.

The deflation revealed widespread fraud and financial mismanagement. Almost a third of railroads authorised by parliament were never built. The likes of Charles Darwin and the literary Bronte sisters were reportedly caught out in the collapse.

So the extensive British railway system is a legacy of both a fundamental change in technology and a financial mania that cost many investors dearly. Which brings us back to our currently fashionable trinity.

CRYPTO REALITY

"Something can change the world but still prove a bad investment," I recently suggested to a friend visiting from Silicon Valley after he told me how smart some of the strongest Bitcoin evangelists over there are.

He was too young to remember the tech boom of the late 1990s, so we revisited some history together. We agreed that Amazon.com is one of the world's greatest business success stories. So I punched up the Amazon share price chart on my phone.

In December 1999, at the height of the first tech boom, Amazon.com shares hit $US113 each. Less than two years later they were trading below $US6, a 95% fall. This could have been fatal for a business that reported a $US417 million net loss for the prior year and burned $US130 million in its operations.

Even if Bitcoin and other cryptocurrencies prove to be valuable technologies over the long term, a setback of the same magnitude that Amazon.com suffered is possible. And it would sorely test the resolve of those who've bought in on a speculative basis without a clear understanding of the underlying technology, its risks and potential benefits.

LITHIUM LEVITATES

How about lithium? The frenzy here is around the surging demand for the commodity due to it being an essential cathode material for long-life lithium-ion batteries. Those joining the rush point to demand from hybrid and electric vehicles as well as mass energy storage systems like the giant lithium-ion battery deployed by Tesla in South Australia.

This is the bedrock of truth for this investment boom. But the question today is whether we've crossed the threshold into a financial bubble after share price surges have sent the valuations of Galaxy Resources and Orocobre (hardly household names) to more than $1.5 billion each. More junior lithium stocks like AVZ Minerals and Kidman Resources have also "gone vertical" as investors chase the next big things in this area.

To work out if these stocks can deliver sustained returns from here, we'd need to get a good handle on their resources, the efficiency of their mines, political risk, the size of future global demand and the potential for additional supply to be brought on over the coming years.

All of that is beyond me. But there may be a historical precedent in the 10-year share price charts of "rare earths" stocks like Lynas, Greenland Minerals and Energy and Arafura Resources. They went through a terrific boom in 2010 (rare earths are also essential to rechargeable batteries). So far it hasn't worked out well for long-term investors who bought during the hype.

ROCKY MOUNTAIN HIGH

Last year I spent some time in Colorado, where cannabis is legal not just for medicinal use but also for recreational purposes. Let's just say that there are some problems with that development. (You haven't lived until you've been the client of a cannabis-affected Uber driver.)

My initial research into North American cannabis stocks concluded it was a complex business with issues around cultivation (strain selection, climate control, pest and disease management to name a few), certification (both government regulations and potentially consumer-facing branding) and distribution (how to get your product to market).

In Australia, federal legislation has cleared the path for cannabis cultivation and in some states medical practitioners can prescribe it. But the take-up has been slow. Not so in the sharemarket, where investors are lighting up the stock prices. MGC Pharmaceuticals, Creso Pharma, Cann Group and AusCann have a combined value on the ASX of more than $1 billion. Their combined revenue in the past financial year? Less than $500,000. This is truly "buyer beware" stuff.

I would wager that a portfolio purchased today consisting of the cannabis and lithium stocks mentioned in this column, plus Bitcoin, would work out poorly over the next decade. The problem is that between now and the likely bust there may be one heck of a party.

Sitting on the sidelines watching others make "easy money" in such conditions isn't much fun. Yet it sure beats joining the likes of Charles Darwin and the Bronte sisters in ruing the day you were sucked into a speculative mania after the party ends.

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

Let the good times roll

Global growth looks positive but there are reasons to remain alert

February! It gives us Valentine's Day, it sends the kids back to school and it delivers the latest news on company profits. But wait, there's more. This year, February also brings us a new leader at the US Federal Reserve. These are exciting times for investors! Well, almost.

Whether you're a set-and-forget investor, a day trader or somewhere in between, the month ahead will provide plenty of food for thought.

Reporting season will tell you if your income from shares is surging, falling or, as is most likely, fairly steady. Even with rising share prices, dividend yields, excluding franking credits, have been in the 4%-5% range for the past 10 years. Given low inflation, this suggests that Australian companies continue to provide a good stream of income.

Barring individual corporate disasters, the profit results in February will provide support for the sharemarket over the months ahead. In addition, support should come from a growing economy, global economic tailwinds and ongoing low interest rates.

But a word of caution. While global economic growth looks positive, a mixture of financial uncertainties suggests we need to keep alert. These uncertainties include record US share prices, the potential for tighter Fed policies and the nose-bleed levels of debt.

For the first time in 30 years, the US Federal Reserve will not be chaired by a PhD-trained economist. That may be cause for cheer or despair. However, the new chairman, Jerome "Jay" Powell, does have a strong pedigree in financial markets, having worked in the US Treasury and as an investment banker and a private equity executive.

Powell's statements will be scrutinised for hints regarding changes in Fed thinking and policy direction. I expect a steady hand but the mixture of nervous investors and potential slips of the tongue by the new chairman could create market volatility.

So, as you count your dividends, watch US policy and delete those emails tempting you to buy Bitcoin, what else will February bring? Three things for sure: yet more Bitcoin emails, softer housing prices and a spotlight shining on the bad behaviour of banks.

My DNA is Dutch. We didn't invent tulips but we may have started the speculative tulip bubble of 1637. Now that's a mistake that shouldn't be repeated. As an investor, if you can write a one-page explanation of Bitcoin (or its alternatives) clearly stating its origins, operations, risks, rewards, checks and balances, then by all means have a swing. But buyer beware. I'm going to resist the temptation.

Property has been a good servant for many investors. However, the game is not getting any easier. Banks are nervous, the authorities are nervous and the supply of apartments continues to grow. Rental yields should stay firm on the back of population growth but capital gains in the near term will be harder to find.

The royal commission into misconduct in the banking, superannuation and financial services industry will likely throw up horror stories, as will the AUSTRAC/CBA court case. Despite this, chunky yields, reasonable credit expansion and growth in superannuation are attracting investors to banking stocks. This may change if offshore markets become edgy about potential penalties.

Being early in the new year, the usual banner adverts predicting "recession 2018" are appearing on the internet. These follow similar ads predicting recessions for 2014, 2015, 2016 and 2017. One day they will be correct but probably not this year. There is never room for complacency in investing but persistent fear-mongering can suck the joy out of life and out of investing. Economic and market cycles are a part of life. As investors, patience, good research and a balanced portfolio should continue to see us through good times and bad. At present, times are pretty good. Let's enjoy them.

Hans Kunnen is the chief economist at Compass Economics. He is also the author of Borrow + Build, *a primer on borrowing to invest in the Australian sharemarket.*

As soon as the herd turns, sell

Let's appreciate the bull market but stay alert for the warning signs

I was doing salary reviews at the end of last year. It was a good year for our clients, our newsletter, our members and ourselves. Everyone was happy, and we are casually assuming a similar backdrop next year, with similar growth. Normal stuff.

But this is a cyclical business, and when the stockmarket turns down things will become harder. There will be less demand for advice, less enthusiasm for investment generally, and that will translate into less trade, fewer new clients, fewer funds under management and, if it happens, some not-so-fabulous salary reviews next year.

I remember going into a morning meeting in April 2000 at Bell Securities. It was the middle of the tech boom and, as it turned out, it was the top. There were signs; there always are. Just before the GFC, for instance, the signs included three stockbrokers listing on the ASX at $2 (they all ended up below 50¢) and another putting its name on a football stadium.

In the tech boom, the sign was Andrew Bell in that morning meeting in April 2000. He announced that we had had the best day of commission ever. I had personally written $11,000 of commission the day before. One of our colleagues had employed an assistant just to process his orders – he was doing that many. Andrew told us to look around because, in the style of *Top Gun*, "it doesn't get to look any better than this".

In that meeting he unknowingly (knowingly?) called the top of the tech boom. It was as good as it ever got and, quite honestly, I'm not sure it has ever been that good/easy/lucrative in this industry ever again. Perhaps some of the Bitcoin beneficiaries might disagree.

That meeting taught me a catchphrase that I have used many times since. "Normal is great." It is only when things go bad that you appreciate how good normal is. At the moment we think that this bull market is normal – but it's not, it's great.

The last thing I want to do is to start the year being bearish. So let's not; let's call it appreciative of a bull market.

In the end, the one thing that will upset the financial markets is the herd. When the herd turns, it turns, and it can do so without planning or logic. It could happen for the most subtle of reasons, or the most obvious, so let us not sit complacently. We all have to recognise that we are in the hands of an animal and are not driven by logic or science. All we can do is watch for it and react to it.

So my game plan going into a new year is to take Kerr Nielsen's advice and "run the market to the last minute"; it is our professional responsibility. Sell early and you can miss an infinite upside. Sell when the top has started and you can control how much downside you take. "But what if it crashes?" I hear you ask. The market very rarely gaps down without warning. We just have to hope we are attuned to the signs and do something about the sell-off before it turns into mainstream panic.

Managing the risk of a market correction is quite simple, really. Turn your screens on every day. Make decisions based on things that happen in fact, not guesswork. Contrary to common thinking, the stockmarket is not about predicting the future, it is not about having a crystal ball; it is about processing information, not imagining it, and the propensity for "talking heads" to make bold predictions to further their brand is not helpful at all – in fact, it is almost irresponsible, leading people into the dark pretending there is light.

It's a bit trite but your best bet in this bull market is to stay invested, keep taking risk and not worry about predicting the top until it starts. And when it does, don't sit there like a mullet quoting Warren Buffett. Sell something. Sure, it might be wrong but you can always buy things back.

Meanwhile, I am looking forward to any correction to finally buy all those stocks I wish I had bought already. You can't do that unless you've sold something first.

So sleep well but wake up every morning willing to make decisions. And when it does correct, and the world is running around with its hair on fire, feeding the furnace with their fear, the bottom will emerge in the same way. Predicting the bottom is the same as predicting the top. Turn your screens on every day and wait for the rally to start.

You'll need a watchlist of stocks you want to buy, and you might as well start that list now. It is the same as the list of stocks you wish you had already bought but didn't. Stocks like CSL, Macquarie Bank, Magellan funds management, Platinum funds management, Treasury Wine Estates, Cochlear, Seek, Carsales.com, ResMed, REA Group, Janus Henderson, Monadelphous, Aristocrat Leisure, Boral, CIMIC, Computershare, ASX. And that's before we get into the small and mid caps.

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

SECTOR RETAIL

Sales of the new century

Traditional stores will struggle as price-conscious shoppers flock to online platforms

To better understand retailing's future it is important to examine its development to date and to look at countries where its future is already being embraced, such as South Korea and China.

The rate of growth of online retail is well above that of offline retailing and the result is a loss of market share for those brick-and-mortar retailers not online. The end result is a loss of revenue and profit, which caused many retailers to collapse in 2017.

The online growth, of course, is not being entirely driven by retailers themselves. One example of the changes being faced by retailers is the ability of mobile technology to remove borders for consumers. Another is the growth of large online retailers, which has improved the economics for logistics companies, and this has translated into efficiencies for small retailers, enabling them to compete more effectively and proliferate. Improvements in living standards, a burgeoning number of brands and rapid changes and uptake in technology have driven changes in consumer preferences. The convenience of online shopping has also allowed consumers to dedicate more time to entertainment, travel, eating out and even working.

Another obvious development is the change in the value and perception of advertising. Consumers trust what a brand says about themselves less than what other shoppers have to say. Social media have therefore usurped the traditional channels for retailers to articulate their messages.

According to various outlets, ecommerce penetration is highest in the Asia-Pacific region. But this does not include the more mature markets of Japan, Hong Kong, Singapore and Australia. To date, however, these countries haven't had the benefit of legislation that supports the growth of digital payment methods, and nor have they welcomed Amazon (or not until recently in the case of Australia).

The history of retailing is a lesson in change rather than disruption. In each country or region modern retailing has commenced with street-level shops run by mums and dads and/or markets. Strip shopping developed next and the foot traffic it generated attracted the formation of department stores and supermarkets, which concentrated foot traffic even more. Around this foot traffic formed shopping centres or malls and that allowed the rapid growth of specialty chains.

The development of mega malls and concept stores was a smaller evolutionary step interrupted by the arrival of ecommerce and omni-channel retailing. It is likely that continuing advances in ecommerce technology will bring further cost advantages, and with that the future of ecommerce retailing will see the simultaneous development of mega online retailers such as Amazon and millions of smaller competitors.

> **The next stage will be the rise of the premium online retailer and the eselling of perishables**

Online retailing itself will evolve too. Initially, consumers purchased commodity-like products, such as books, stationery and electronics, that were simply cheaper online. The shift to purchasing online was driven by price. This, of course, affected smaller specialty stores.

As the range of offerings exploded online, department stores began to struggle and we can see this in Australia with the difficult trading conditions experienced by Myer and David Jones. As the strength of the largest online retailers grew, so did their buying power. The development of generic branded products across a range of categories ensued, with more pressure heaped on traditional brands. This is perhaps most obvious in countries such as Korea, where platforms like Gmarket and 11Street cater to brand-agnostic, cost-conscious buyers, and where a pair of Slazenger runners costs less than $10.

At this juncture, in categories such as fashion, traditional brands lose share and department stores experience falling foot traffic. We have seen lower same-store sales growth for many retailers, from Foot Locker to Prada, and departments stores dependent on fashion for foot traffic have experienced declining comparisons.

The next stage will be the rise of the premium online retailer and the eselling of perishables and bulkier items. This will occur once ecommerce is able to establish trust and is likely to coincide with a slowing of online volume growth.

Retailers will be forced to increase their average selling prices to combat flat volumes and increasing churn. Any remaining compelling reason to shop at a department store will then disappear.

Roger Montgomery is the founder and CIO at the Montgomery Fund. For his book, Value.Able, *see rogermontgomery.com. The Montgomery Global Funds own shares in Amazon and Prada.*

Prices as at close of business, 15-Jan-18. Charts as at close of business 11-Jan-18.

❶ JB Hi-Fi

ASX code JBH
Price $28.18
52wk ▲ $30.78
52wk ▼ $21.20
Mkt cap $3.2bn
Dividend $1.18
Dividend yield 4.2%
PE ratio 18.26

HOLD

The arrival of Amazon was well flagged and JB Hi-Fi had plenty of time to prepare. The company has made some changes to its supply network and online offering.

The Reserve Bank has said that consumer confidence is improving and that wage growth will remain muted, ensuring margins should be maintained for better-quality retailers.

In the short term, lacklustre iPhone 8 sales were due to the delayed release of the iPhone X, which did have an impact on traffic initially, but gaming hardware releases such as Nintendo Switch and Microsoft's Xbox One X console should help to support like-for-like or same-store sales growth.

The longer-term threats remain, however, and some categories (such as small electronics and music) could be at significant risk of being hollowed out by the changing ecommerce landscape. Bulky goods (Good Guys) are likely to come under pressure from the slowdown in residential development applications and commencements.

❷ Afterpay Touch

ASX code APT
Price $6.52
52wk ▲ $7.00
52wk ▼ $2.65
Mkt cap $1bn
Dividend -
Dividend yield -
PE ratio -

HOLD

For those looking for a growth company with exposure to the retail sector, it may be worth your while investigating Afterpay Touch. Afterpay is a digital payments system that provides consumers with short-dated, interest-free, unsecured credit at the point of sale but without the manual credit checks required by banks for products like credit cards.

Afterpay has grown rapidly over the past two years. From a standing start it annualised over $1.5 billion of purchases in the September quarter 2017, which is around 7% of the value of all online transactions, excluding groceries, in Australia.

Afterpay is using its first-mover advantage to build strong brand awareness with consumers and retailers, evidenced by its name being increasingly used as a verb – Afterpay it! While its current share price is factoring in a substantial increase in earnings, the product has significant growth potential, which in the current retail landscape is certainly a rarity.

❸ Myer

ASX code MYR
Price 65.5¢
52wk ▲ $1.34
52wk ▼ 60.5¢
Mkt cap $583m
Dividend 5¢
Dividend yield 7.6%
PE ratio 46.79

SELL

Myer is now knocking on the door of irrelevancy. To prove the point, the loss of a Myer lease at a shopping centre in Sydney's Hurstville saw the space reformatted and relet to mini-majors and specialty food stores, with revenue almost tripling.

Myer's strategy involves reducing space or closing more stores. Whether it is imposed by management or consumers, whose habits are changing, it appears destined to be a smaller business.

The "New Myer" strategy appears not to be working to stave off declines. In December, the most important month of the year for department stores, when sales should be up, they actually declined after a slight increase in November. As a result the company has reported that net profit after tax for the first half of the 2018 financial year will be "materially below the previous corresponding period".

Many analysts are now forecasting the company will suspend its dividend. A significant turnaround is required to prevent Myer shrinking into retailing history.

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.

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 November 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.

Best super funds: balanced options

RANKED BY 5-YEAR RETURN

FUND	TYPE	2017 RATING	1-YEAR RETURN	RANK[1]	3-YEAR RTN (%PA)	RANK[1]	5-YEAR RTN (%PA)	RANK[1]	7-YEAR RTN (%PA)	RANK[1]
HOSTPLUS Balanced	Industry	Platinum	14.5%	4	10.3%	1	11.6%	1	10.0%	1
AustralianSuper Balanced	Industry	Platinum	14.9%	1	9.8%	3	11.4%	2	9.7%	3
Cbus Growth (Cbus MySuper)	Industry	Platinum	13.3%	14	9.7%	4	11.3%	3	9.8%	2
AustSafe Super MySuper (Bal.)	Industry	Gold	14.5%	3	9.1%	9	11.1%	4	9.2%	9
UniSuper Accum (1) Balanced	Industry NP	Platinum	13.7%	11	9.2%	8	11.1%	5	9.5%	5
VicSuper FS Growth (MySuper)	Industry	Platinum	13.9%	9	8.4%	21	11.0%	6	9.3%	7
Intrust Core Super MySuper	Industry	Platinum	14.0%	8	9.1%	10	11.0%	7	9.1%	13
CareSuper Balanced	Industry	Platinum	12.4%	26	9.3%	7	10.9%	8	9.6%	4
BUSSQ Premium Choice Balanced Growth	Industry Personal	Platinum	10.5%	42	8.9%	13	10.8%	9	9.1%	11
Sunsuper for Life Balanced	Industry	Platinum	13.7%	10	9.4%	6	10.8%	10	9.0%	17
Catholic Super Balanced (MySuper)	Industry	Platinum	13.0%	18	9.6%	5	10.8%	11	9.2%	10
Equip MyFuture Balanced Growth	Industry	Platinum	13.6%	13	8.8%	14	10.7%	12	9.3%	6
Energy Super Balanced Option	Industry	Platinum	12.2%	27	8.7%	15	10.7%	13	8.9%	18
First State Super Growth	Industry	Platinum	14.4%	5	8.6%	16	10.7%	14	9.0%	14
Telstra Super Corp Plus Balanced	Corp	Platinum	12.2%	28	7.9%	28	10.5%	15	9.1%	12
MTAA Super My AutoSuper	Industry	Gold	12.6%	23	9.8%	2	10.4%	16	8.0%	36
smartMonday PRIME (L) Bal. Growth Active	MT-Corp	Gold	13.2%	16	7.5%	35	10.4%	17	8.5%	22
HESTA Core Pool	Industry	Platinum	12.6%	21	8.5%	19	10.4%	18	9.0%	16
REST Core Strategy	Industry	Platinum	11.7%	34	7.7%	29	10.3%	19	9.0%	15
Vision SS Balanced Growth	Industry	Platinum	14.0%	7	9.0%	11	10.3%	20	8.9%	19
SR50 Balanced (60-76) Index			12.5%		8.2%		9.9%		8.4%	

[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	16.9%	9.9%	12.6%	9.7%
SR50 Growth (77-90) Index	14.2%	8.9%	11.2%	9.1%
SR50 Capital Stable (20-40) Index	6.7%	4.8%	5.7%	5.7%
SR50 Australian Shares Index	14.3%	8.7%	10.6%	8.5%
SR50 International Shares Index	20.0%	10.8%	15.9%	11.7%
SR25 Property Index	11.1%	9.9%	10.3%	9.8%

Percentages in brackets indicate proportion of growth assets.

The data in these tables provides information on several asset classes – Australian equities, international equities and multisector funds (sometimes called balanced funds).

Funds have been ranked by size or performance as listed on the top of each table.

The returns published are net (after) the annual management fee but do not take into account any transaction (entry/exit) fees an investor may have to pay. The returns are before tax.

Morningstar, a leading global provider of investment research, supplies our managed funds data.

Funds smaller than $10 million and with a minimum investment of more than $25,000 have been filtered out. Morningstar relies on the fund managers to supply data monthly; if updates have not been provided, a fund may be omitted.

Morningstar has developed a star rating system to help investors identify quality funds. Morningstar calculates and publishes star ratings for more than 7000 funds monthly using the latest fund performance data.

Funds less than three years old are not rated. The ratings are not for predicting future performance. Take a look at "What they mean" for an explanation of the star ratings.

For more news, research and video content on investing, as well as screening and portfolio management tools on managed funds, ETFs, stocks and credit securities visit morningstar.com.au.

Top 5 retail multisector funds by 5-year performance

Name	APIR Code	ICR %pa	Start Date	Size	1-year return	5-year return (%pa)	Star Rating
Australian Ethical Divers Shrs Whols	AUG0019AU	0.95%	23-Jan-12	$95m	13.32%	15.27%	★★★★★
Fiducian Ultra Growth	FPS0014AU	NAv	1-Dec-08	$155m	15.11%	14.92%	★★★★★
BT Class Inv Split Growth	BTA0012AU	1.53%	12-Mar-84	$224m	15.76%	14.81%	★★★★★
Perpetual Wholesale Split Growth	PER0066AU	1.17%	17-Mar-99	$23m	12.53%	14.46%	★★★★★
Australian Ethical Divers Shrs	AUG0004AU	2.20%	1-Sep-97	$214m	11.90%	13.78%	★★★

Top 5 retail Australian share funds by 5-year performance

Name	APIR Code	ICR %pa	Start Date	Size	1-year return	5-year return (%pa)	Star Rating
Bennelong Concentrated Australian Eq	BFL0002AU	1.41%	30-Jan-09	$313m	28.63%	20.13%	★★★★★
Macquarie High Conviction	MAQ0443AU	2.24%	29-Nov-05	$392m	20.77%	16.77%	★★★★★
Grant Samuel Tribeca Alpha Plus	ETL0069AU	NAv	18-Sep-06	$147m	12.55%	15.33%	★★★★★
Spheria Opportunities	WHT0025AU	NAv	22-Jun-10	$21m	21.39%	14.67%	★★★★★
Lazard Select Australian Equity W Cl	LAZ0013AU	1.15%	7-Jun-02	$164m	11.00%	14.65%	★★★★

Top 5 retail international share funds by 5-year performance

Name	APIR Code	ICR %pa	Start Date	Size	1-year return	5-year return (%pa)	Star Rating
CFS FC W Inv-PM Capital W Glb Companies	FSF0798AU	1.24%	24-Feb-06	$17m	19.28%	22.51%	★★★★
Acadian Wholesale Global Eqty Long Short	FSF0788AU	1.25%	20-Jan-06	$29m	13.79%	22.44%	★★★★
Antipodes Global Fund - Class P	IOF0045AU	1.51%	26-Jul-94	$2561m	13.12%	21.75%	★★★★★
Arrowstreet Global Equity	MAQ0464AU	1.28%	18-Dec-06	$1031m	16.92%	21.19%	★★★★★
Platinum Unhedged Fund	PLA0006AU	1.50%	5-Mar-07	$305m	31.56%	19.83%	★★★★★

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WHAT THEY MEAN

APIR is the identification number of the fund.
ICR: Investment cost ratio, which includes the annual management fee paid to the fund manager as well as indirect costs such as the performance fee.
Returns are as at December 31, 2017.

Morningstar Rating
★★★★★ very good performer
★★★★ good performer
★★★ average performer
★★ poor performer
★ very poor performer
NAp Not applicable
NAv Not available

"We sold the units for $500,000; today they would be worth $2m"

What was your first job?

Whilst I was in high school my first time job was at Woolworths. I stacked shelves, packed groceries and helped customers take their groceries to their cars. I earned $1.05 per hour. That sort of money doesn't sound like much now but back in the 1970s that was a lot of money to a young teenager!

What's the best money advice you've ever received?

Buy property. My dad was in real estate and from a very young age he encouraged me to buy property. Of course, being a young lad who thought he knew everything I didn't take my dad's advice as early as I should have, as I only started buying property in my late 20s. However, I am trying to make up for lost time!

What's the best investment decision you've made?

Studying. That might seem an obvious answer coming from someone who has been teaching all their working life but it is true. My first degree was an education degree, which enabled me to teach and earn a living. My postgraduate degrees in property and urban and regional planning have not only helped me to teach in these areas but I have also personally been able to make money from investing/developing property. Now, I am not suggesting that everyone should go out and study for multiple degrees but even short courses can help you either get a job, get your dream job or make money from investing wisely.

What's the worst?

In the late 1990s we bought a group of six units for a total of $274,000. That was a great decision. The worst decision was selling them. We sold them all a few years later for over $500,000, which was a nice profit, but if we had kept them they would be worth almost $2 million today!

What is your favourite thing to splurge on?

Holidays. We have four children so a family holiday can be quite expensive. We have managed to go on at least one family holiday per year but this is usually to somewhere local. In more recent years, we have taken the family on overseas holidays. Last year we had an extended family holiday to Greece and Italy. It was a big splurge but it was worth every euro.

Peter Koulizos was recently elected chairman of the Property Investment Professionals of Australia (PIPA). He has been teaching in real estate and investment for almost 20 years and also personally invests in property and currently holds several properties. Koulizos is the author of *The Property Professor's Top Australian Suburbs* and *Property vs Shares.*

If you had $10,000 where would you invest it?

My favourite investment is property but there is not much you can do with $10,000 in the property market. I would look to invest this money in the sharemarket. I would take a punt on emerging stocks where my return (or loss) would be greater than average.

What would you do if you had only $50 in your bank account?

I would get back to basics: get a job, spend less than I earn and save as much money as possible. If I had such a small amount of money in the bank, I would assume that I was unemployed so I would be happy to take any job that paid a wage, as some money is better than none.

Do you intend to leave an inheritance?

Yes, we plan to leave each of the four children some properties. However, what I hope is more important is that I have been a good role model so not only will they have some assets when we pass away but they can build upon that asset base to further increase their wealth. Hopefully the children have been listening to our conversations over the dinner table and watching what I do in relation to property so that they have learnt some valuable lessons.

What do you think is the biggest issue facing property investors in 2018?

The news that often makes the headlines is usually focused around Sydney and, unfortunately, Sydney property prices are set to fall slightly in 2018. However, for the 80% of Australians who don't live in Sydney, our properties should be worth more in 12 months' time.

Finish this sentence: money makes ...

... money. Money doesn't always make you happy – I know poor people who are happy and rich people who are unhappy.

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