Parkside Newsletter August 2021

It's August, and this chilly winter and periodic lockdowns can't end fast enough for many of us. One bright spot, along with the golden wattle at this time of year, is the golden performance of our athletes in Tokyo.

The economic fallout from on-again, off-again lockdowns continued in July. The annual rate of inflation rose from 1.1% to 3.8% in the June quarter. This temporary blip was due to higher prices for childcare (which was free in the June quarter last year), petrol and goods in short supply due to supply chain and workforce disruptions. Even so, the Reserve Bank has said it won't consider lifting interest rates until inflation is "sustainably" within its 2-3% target range.

The Australian economy is expected to contract and unemployment to rise in the September quarter, after the jobless rate fell from 5.1% to a 10-year low of 4.9% in June. Not surprisingly, consumer confidence as measured by ANZ and Roy Morgan fell to an 8-month low of 100.7 points in July. Retail trade fell 1.8% in June but remained 2.9% up on a year earlier.

There are positive signs though for Australian miners' profits and dividends. Crude oil and natural gas prices are up around 50% this year, while iron ore prices are up 24% due to the gradual reopening of global economies and China's strong growth, up by an annual rate of 7.9% in the June quarter. Record exports pushed Australia's trade surplus to a record high of $13.3 billion in June. Australia's housing boom is also increasing demand for materials, with housing construction hitting a two-and-a-half year high in the March quarter.
The Australian dollar fell one cent to around US74c in July.

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Investing lessons FROM THE pandemic

When the coronavirus pandemic hit financial markets in March 2020, almost 40 per cent was wiped off the value of shares in less than a month.[i] Understandably, many investors hit the panic button and switched to cash or withdrew savings from superannuation.

With the benefit of hindsight, some people may be regretting acting in haste.

As it happened, shares rebounded faster than anyone dared predict. Australian shares rose 28 per cent in the year to June 2021 while global shares rose 37 per cent. Balanced growth super funds returned 18 per cent for the year, their best performance in 24 years.[ii]

While every financial crisis is different, some investment rules are timeless. So, what are the lessons of the last 18 months?

Lesson #1 Ignore the noise

When markets suffer a major fall as they did last year, the sound can be deafening. From headlines screaming bloodbath, to friends comparing the fall in their super account balance and their dashed retirement hopes.

Yet as we have seen, markets and market sentiment can swing quickly. That's because on any given day markets don't just reflect economic fundamentals but the collective mood swings of all the buyers and sellers. In the long run though, the underlying value of investments generally outweighs short-term price fluctuations.

One of the key lessons of the past 18 months is that ignoring the noisy doomsayers and focussing on long-term investing is better for your wealth.

Lesson #2 Stay diversified

Another lesson is the importance of diversification. By spreading your money across and within asset classes you can minimise the risk of one bad investment or short-term fall in one asset class wiping out your savings.

Diversification also helps smooth out your returns in the long run. For example, in the year to June 2020, Australian shares and listed property fell sharply, but positive returns from bonds and cash acted as a buffer reducing the overall loss of balanced growth super funds to 0.5%.

The following 12 months to June 2021 shares and property bounced back strongly, taking returns of balanced growth super funds to 18 per cent. But investors who switched to cash at the depths of the market despair in March last year would have gone backwards after fees and tax.

More importantly, over the past 10 years balanced growth funds have returned 8.6 per cent per year on average after tax and investment fees.[ii]

The mix of investments you choose will depend on your age and tolerance for risk. The younger you are, the more you can afford to have in more aggressive assets that carry a higher level of risk, such as shares and property to grow your wealth over the long term. But even retirees can benefit from having some of their savings in growth assets to help replenish their nest egg even as they withdraw income.

Lesson #3 Stay the course

The Holy Grail of investing is to buy at the bottom of the market and sell when it peaks. If only it were that easy. Even the most experienced fund managers acknowledge that investors with a balanced portfolio should expect a negative return one year in every five or so.

Even if you had seen the writing on the wall in February 2020 and switched to cash, it's unlikely you would have switched back into shares in time to catch the full benefit of the upswing that followed.

Timing the market on the way in and the way out is extremely difficult, if not impossible.

Looking ahead

Every new generation of investors has a pivotal experience where lessons are learned. For older investors, it may have been the crash of '87, the tech wreck of the early 2000s or the global financial crisis. For younger investors and some older ones too, the coronavirus pandemic will be a defining moment in their investing journey.

By choosing an asset allocation that aligns with your age and risk tolerance then staying the course, you can sail through the market highs and lows with your sights firmly set on your investment horizon. Of course, that doesn't mean you shouldn't make adjustments or take advantage of opportunities along the way.

We're here to guide you through the highs and lows of investing, so give us a call if you would like to discuss your investment strategy.

i https://www.forbes.com/sites/lizfrazierpeck/2021/02/11/the-coronavirus-crash-of-2020-and-the-investing-lesson-it-taught-us/?sh=241a03a46cfc

ii https://www.chantwest.com.au/resources/super-funds-post-a-stunning-gain

Caring for family *with a Will*

Few of us like to think about death, let alone plan for it. But far from being morbid, getting your affairs in order and drawing up a Will is one of the kindest and most caring things you can do for your loved ones.

Not only does a Will make your wishes clear but it ensures your family isn't wrestling with legal red tape at a difficult and emotional time.

Yet despite the advantages, it's estimated 45 per cent of Australians don't have a Will.[i]

Who needs a Will?

The short answer is everyone over 18. Even young adults have assets such as super, personal possessions, possibly a vehicle and some savings.

Once you reach an age where you have a partner and children, along with a home and perhaps other investments, the need for a Will becomes even more pressing.

What can be included in a Will?

Generally you can and should set out where you want your physical assets (property, cars, jewellery, furniture and collectibles), financial investments (bonds, shares, bank savings) and sentimental possessions (family heirlooms) to go.

Generally, assets you jointly own, such as a house bought with your partner, pass automatically to your co-owner. But if you own property under what is called a 'tenancy in common' you can distribute your share according to your Will.

Because superannuation is held in trust, it's treated differently to other assets. The trustee of your super fund has the final say on where your money, formally referred to as a 'death benefit', ends up unless it is paid to your estate.

If you wish to be certain your death benefit goes to the person you want it to, you should fill out a 'Binding Death Benefit Nomination' form and lodge it with your super fund. You can nominate your estate as the beneficiary and your death benefits, including any life insurance, will be distributed according to your Will.

Individual life insurance payouts don't automatically go through the policyholder's Will, but if that's what you would like you can nominate your estate as the beneficiary.

How watertight are Wills?

If you invest the necessary time, effort and expense into producing a well-drafted Will, you can be more confident your wishes will be respected.

The exception to this rule occurs when it can be argued a Will treats a dependant unfairly. Classic examples are a parent leaving more to one child than another or leaving everything to a new partner and excluding children from a previous marriage.

Assets don't need to be split equally, especially if one dependant has previously received financial assistance, or has dedicated years to caring for you. But be aware a dependant who feels dudded may successfully contest your Will.

What happens when there's not a Will?

If you die without a valid Will, legally referred to as dying intestate, the relevant state or territory laws will be left to sort things out.

Someone, typically your next-of-kin, will have to apply for a grant of Letters of Administration. An administrator will then be appointed. They will divide your estate according to set formula, which differs slightly in each state but generally goes to your surviving partner and children.

Even in a best-case scenario, dying intestate may mean one or more of your loved ones will have to go through an arduous bureaucratic process during a traumatic time. In a worst-case scenario, a partner, child or friend may receive far less than you would have wished.

What's next?

There are essentially four conditions a Will needs to meet:

- It has to be made by someone over 18 who is mentally competent
- It has to properly dispose of all assets
- It needs to be signed and witnessed appropriately
- It needs to be properly drafted.

While DIY 'Will kits' may be better than nothing, if you have substantial assets, a complicated family situation, or you just want peace of mind, you'll want to engage the services of a trusted solicitor.

A Will is just one part of the estate planning process. If you would like to know more, give us a call.

i https://www.tag.nsw.gov.au/wills-faqs.html

Don't short-change your medium-term goals

When it comes to setting financial priorities, medium-term goals often suffer from middle child syndrome, not taken as seriously as the oldest or indulged as much as the youngest.

The serious long-term goal of saving for retirement gets lots of attention, and rightly so. It's super important. And next year's trip to Bali will be so much fun, even if it does drain all your savings.

It's little wonder there never seems to be enough money left over to save for those in-between things you hope achieve in the not-too-distant future. Things such as your children's education, a home deposit, renovations or a new car.

Yet those medium-term goals – for spending approximately three to 10 years away - are just as important to the life you want to create for yourself and your family. So how can you make sure you've got them covered?

Getting started

The first step is to find time to think about your medium-term goals. Write them down with an estimate of what each will cost, your time frame and how much you need to save each month to achieve them. The more specific you can be the better.

These goals will differ depending on where you are in life, but whether you are 25 and saving a home deposit or 55 and wanting to buy a boat, you need a plan. Otherwise you might be tempted to use high interest loans and credit cards or simply borrow more than you can afford.

Next comes the reality check. To work out whether your medium-term goals are achievable, you need to take stock of your current financial situation. Tally your income and expenditure to calculate how much you can afford to save and invest each month. There are plenty of free apps and online calculators that will help you do this.

Also look at what you owe. If you have any high interest debt, such as an outstanding credit card balance, you might consider paying this off first.

Weighing risk and reward

Setting an investment time frame is important because it has a bearing on how much risk you can afford to take. That's because the longer your investment horizon the more time you have to ride out short-term market fluctuations.

Say you are saving for a holiday next year. You can't afford to risk losing money in a sharemarket correction, so you park your savings in the bank. The interest rate may be low, but your capital is guaranteed.

With medium-term goals you can afford to take a little more risk for a higher rate of return. The exact return you earn on your investments will change from year to year but historically shares and property do better over the medium to long term than cash or bonds.

Even so, the last thing you want is for your investment to fall 10 per cent just before you need to spend the money. One way to avoid this is to spread your savings across a range of investments and asset classes, reducing the risk of a large or untimely loss in any one of them.

Finding a home for your savings

Unlike long-term savings which are locked away in superannuation until you retire, you want your medium-term savings to be accessible. And unlike a bank savings account, you want an investment that will grow in value.

Alternatives you may wish to explore include managed funds and ETFs (exchange-traded funds). These options allow you to diversify your investments across the full range of asset classes and can be bought and sold whenever you want.

Some managed funds allow you to get started with a small initial investment and then make regular weekly or monthly contributions. Another approach might be to set up a direct debit from your pay into a dedicated savings account and every time your balance reaches, say, $5000 invest in an ETF.

If you would like us to help create an investment plan that includes all your important life goals, the long, the short and everything in between, give us a call.