APRIL 2023

Market St. Market Mix

ABOUT THIS NEWSLETTER

Welcome to the MST Advisors monthly newsletter, keeping you on top of the issues, news and changes you need to know. Should you require further information on any of the topics covered, please contact us via the details below.

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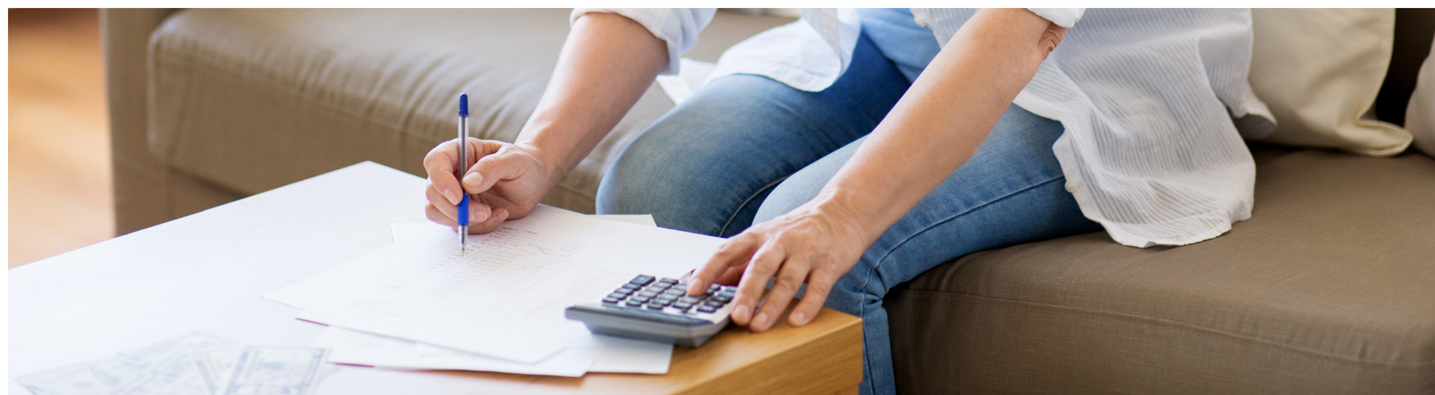
Preparing for retirement in uncertain times



As most long-term investors know, investment markets have their ups and downs. The downs are usually associated with periods of uncertainty, perhaps due to political or economic factors, or even natural disasters. Uncertainty leads to volatility – more extreme movements in asset prices – which can have a big impact on portfolio values. This can be of particular concern if you are close to retirement and preparing for your last payday. So what can you do about it?

If you are building wealth in preparation for retirement in wobbly times, there are some options:

1. Save more. The 10.5% Super Guarantee will not be enough. Savings of at least 15% of salary over your working life are required to produce a sufficiently large retirement investment.
2. Spend less now and in retirement. Review your budget and review your plans about how you will live in retirement.
3. Work longer. Put off retirement until later; maybe consider working part-time in the first few years of "retirement".
4. Seek higher investment returns.
5. Implement a gearing strategy to accelerate returns.

This last solution will involve taking on more risk. Investors have always accepted that the higher the return, the higher the risk. It is often easier to see the good investment opportunities after the event but the challenge is to identify where consistent higher returns can be found.

Don't abandon shares

Over the long term, shares have produced higher returns than fixed interest though with greater volatility. The difference in returns between shares and fixed interest is called the "equity risk premium" – the reward for taking on the extra risk. In the past, the difference has been 5-5.5%.

When investment volatility is high, shares tend to be the hardest hit. But while it is tempting to sell shares in a falling market, this robs investors of the opportunity to ride the upswing when markets recover.

It is possible that better returns may be found amongst the 'boutique' managers who are not constrained by huge fund size and/or manage their funds on an 'absolute return' basis rather than simply trying to beat the investment sector benchmark. This requires smart investing, not just following the pack.

Allocate more to riskier assets

Fund managers have traditionally held a significant proportion of investments in blue chip company shares. Whilst they tend to pay consistent dividends, there may be other opportunities for faster growth. These include smaller companies (or small caps), unlisted shares (private companies) and overseas shares in less developed countries (emerging markets).

Apart from shares, higher yielding debt instruments offer the potential for even higher returns but at higher risk.

The key to investing in these areas is good research – identifying sound opportunities and eliminating those with unacceptable levels of risk. Of course, the supply of "good quality, relatively safe" investment opportunities may appear to be limited when things are uncertain. Some fund managers offer products specialising in a wide variety of assets.

Active asset management

Good investment management requires talented people and sophisticated systems and strategies. Organisations with these attributes have a better chance of identifying under- and over-priced securities and markets. By moving money between countries, currencies, sectors, and asset classes, these managers aim to produce higher returns. Funds managed according to an "absolute return" philosophy is an example of where managers aim to produce above average returns in rising and falling markets.

When selecting a fund manager always pay attention to the fees charged as these can impact on the overall return on your investment. Sometimes they may even offset the larger returns made on the investment itself.

Implement a gearing strategy

Borrowing (or gearing) gives you a larger sum of money to invest. This magnifies any growth you achieve on your investments especially over the long term. Careful thought should be given regarding the method of gearing as some strategies may be more suitable to your particular circumstances than others. You should always bear in mind that gearing may not only increase your gains, it can also magnify any losses.

If none of these latter strategies appeal to you, then you may have to revisit options 1, 2 and 3 above, but before you make any rash decisions, talk to your financial adviser first to develop a plan specifically to suit your needs.

Protect your estate from these mistakes

It's a sad but unavoidable fact: one day we are all going to die. You will most likely have clear ideas as to how you would like your hard-earned wealth – your 'estate' – to be divided amongst your loved ones or other beneficiaries. However, estate planning is a complex area of law and basic mistakes can see Wills declared invalid, money end up with unintended recipients, or benefits reduced by avoidable tax bills. So how can you avoid making some of these mistakes?

Make a Will

Only around half of Australian adults have a valid Will. If you don't have one, make one. Otherwise your estate will be distributed according to a government formula, and if no beneficiaries can be identified your life's savings will end up in state government coffers.

If you do have a Will make sure you review it regularly and update as required. Just a few of the key events for revising your Will include entering or leaving a marriage or de facto relationship, starting a family, establishing investment vehicles such as companies or trusts, changes to the financial or health status of adult beneficiaries or to add gifts to charities.

Appoint an appropriate executer

Administering an estate can be a major undertaking. Ideally you will want an executor who is competent, organised, honest and unbiased. Often this will be a spouse who is also the sole beneficiary, and administration of the estate may be relatively straightforward. But it's common to also nominate an alternative executor should your spouse die before you. This may be an adult child or other close relative, and not necessarily a beneficiary. Whoever you nominate make sure you tell them that they are a (potential) executor and to provide them with important information such as the location of the original Will, and contact details for your lawyer, accountant and financial planner.

Identify assets that may not be dealt with by your Will

Any assets that you jointly own automatically pass to the surviving owner(s) on your death. They are not subject to your Will.

If you have provided your super fund with a binding death benefit nomination your death benefit will be paid to the nominated beneficiary. This can be anyone, and not necessarily a beneficiary of your Will. If you nominate your 'personal legal representative' (i.e. your executor), the death benefit will be paid to the estate and dealt with according to your Will. If you don't make a binding nomination the trustees of your super fund are obliged to pay the benefit to your dependents, as defined by superannuation law. This may not coincide with your wishes.

Be fair

If someone has reasonable grounds to believe they should receive something from your estate but you have not provided for them in your Will, then they may be able to legally challenge your Will. Legal fees may be paid by the estate, eroding its value, so you'll want to minimise the chances of the Will being contested.

Also be wary of 'ruling from the grave', for example by making any gifts dependent on a beneficiary either doing something (marrying a specific person, say), or not doing something.

Get expert advice

Estate planning throws up many other traps for the unwary, from paying too much tax on a superannuation death benefit to not making provision for beneficiaries who are unable to adequately manage their own affairs. With so much at stake, it pays to consult a specialist estate planning lawyer.

Superannuation for the suddenly single

Found yourself separated and suddenly single later in life? Life often has different plans for us than we may have imagined.

Life after divorce (or separation) might bring with it a whole range of new things, including the need to rediscover yourself, dipping your toe back in the dating pool (hellooo Tinder) and revisiting your plans for the future, in particular, your financial plans.

An essential financial aspect to consider here is your superannuation and retirement plans to make sure you are on track and not at risk of struggling in your later years.

According to the Association of Superannuation Funds of Australia (AFSA), a single person requires a lump sum of $545,000 to live a comfortable retirement, and this is on top of owning your own home.

If this sum sounds a little daunting, don't freak out. There are steps you can take now to boost your super and ensure your divorce doesn't derail your financial future.

Get the basics right

If you haven't already gotten your superannuation in order, this should be the first step on your action plan.

This should include:

- Understand the basics of how superannuation works.
- Making sure your superannuation balance is consolidated into a single account, where possible.
- Reviewing your superannuation account to make sure your fees are reasonable, and investments are suitable for your needs and risk tolerance.

Adding extra to super

Topping up your superannuation is a great way to boost your retirement, particularly for those in the higher income tax brackets.

Salary sacrificing allows you to direct a portion of your salary to superannuation pre-tax, so that you will only pay the superannuation tax rate of 15% instead of your marginal tax rate.

The sooner you can start adding extra to super, the better, no matter how small the amount, thanks to the power of compound interest.

Re-evaluating your Career Path

When was the last time you re-evaluated your career path? If your career went on the backburner behind your relationship, parenthood, or just general life, it might be time to stoke up that career fire again.

Advancing your career can provide opportunities to increase your income and benefits, which also increases your employer contributions and ability to make additional superannuation contributions.

Investing for the long term

Not all superannuation investments were created equally…

Some investments are quite conservative, investing in cash, term deposits and other defensive investment types. These investments are lower in risk, which also means they generally offer lower returns.

Some investments are quite aggressive, investing in shares, property, and other growth investment types. These investments are higher in risk, which also means they generally offer higher returns.

If retirement is still quite a number of years away, now is the time when you can be aggressive with your investments – taking on a higher level of risk to gain higher potential for investment growth and returns, as you have a longer investment timeframe to ride out market fluctuations.

Make sure you are protected

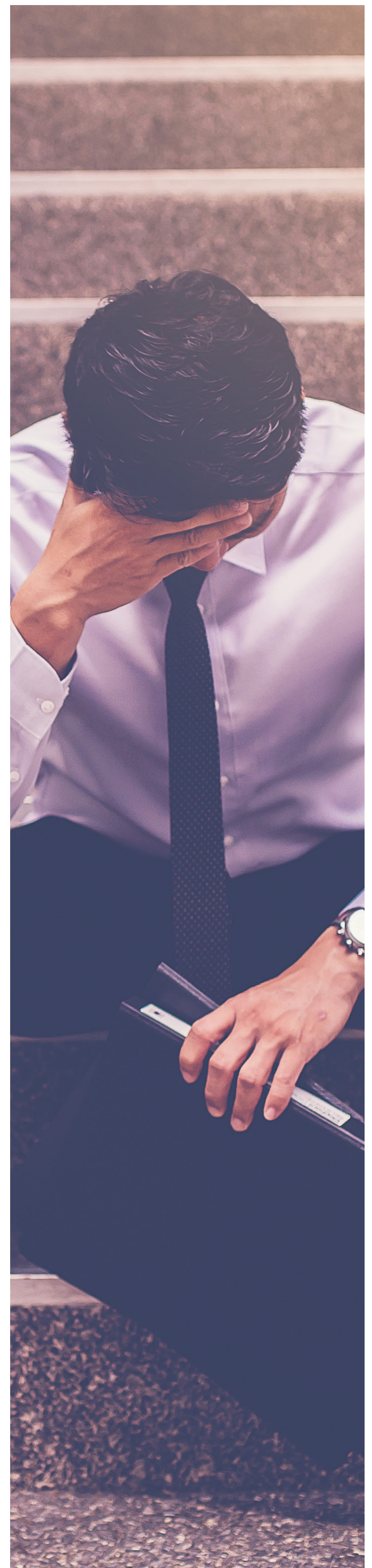
You now need to look out for number one, so it's essential to have a risk protection insurance plan in place to ensure you are covered in the event of death, disability, critical illness and/or the inability to work.

This cover might include:

- Life Insurance
- Total and Permanent Disability (TPD) Insurance
- Trauma or Critical Illness Insurance
- Income Protection Insurance

Life after divorce or separation takes some adjusting to and revisiting your plans for the future as a single can be daunting.

If you've found yourself starting over and are unsure where to start, reach out to a Financial Adviser who can help assess where you are now, set financial goals for your new future, and put a plan in place to help you secure your financial future!



The role of franking credits

It's obvious that investors select investments based on the rate of return they can earn on their funds. For share investments, the rate of return has two components:

1. Sell the share for gain - assume you purchase 100 shares $20 each. If you later sold the shares for $40 each you have made a gain of $20 per share. The total gain is $2,000 ($20 for each share) on the original 100 shares;
2. Earn a return through a dividend. A dividend is a share of company earnings paid to the shareholder. If your share pays a $1.50 on each of your 100 shares, you'll earn $150.

Keep in mind that your rate of return should be based on the dollars you keep after taxes have been paid. One way to reduce the tax you pay on dividends is by using franking credits.

How do they work?

Franking credits are a tool used by investors to reduce or eliminate the taxation of dividends. Australian companies that pay dividends to shareholders can be subject to double taxation. The earnings are taxed to the corporation at 30%. If earnings are then paid to shareholders in the form of dividends, they are taxed again at the individual's personal tax rate.

A franking credit is a tax credit allocated to the shareholder. The tax credit can offset the tax that is due on the dividend.

Assume you receive a $100 dividend and your tax rate is 34.5%. The company has already paid 30% tax on its profit. A franking credit of $30 ($100 x 30%) would reduce your tax liability leaving only 4.5% of the dividend income taxable.

That example applies if the dividend is fully taxed or "fully franked".

A partially franked dividend means that the tax credit covers only a portion of the taxable dividend payment. However, even a partially franked dividend increases your rate of return.

Assume that the franking credit only covers $20 of the $30 in tax. You're still ahead because you've earned $100 - $10 in taxes, or $90.

Reinvesting + Compounding

If you are able to earn more dividend income after tax and reinvest that income, you can also benefit from compounding. Compounding is defined as earning "interest on interest".

Assume that you're able to invest the full $100 dividend, rather than just $90. With compounding, that extra $10 in dividends will earn a return. Over time, reinvesting more dividends can greatly increase your total earnings.

Many investors can benefit from franking credits on dividends. To find out more, give us a call.

Prepare for the unexpected

Recently retired couple, David and Erica, were fit and active, and planning a sea-change when David suffered a stroke, leaving him unable to walk or speak.

David had been a strong, strapping man, who now needed around-the-clock care. His doctor recommended either an aged care facility or a home-carer that provided appropriate services.

Over the course of their 25 year marriage, the couple had discussed many things, but not this.

Erica didn't know what David's wishes would have been, and as he was now unable to communicate them, she was forced to make a decision she was unprepared for.

None of us wants to confront our own mortality, but uncomfortable discussions shouldn't be avoided.

Neither David nor Erica expected their situation to change as it did, so hadn't broached the what if, questions, like:

- What if I become terminally ill?
- What if I'm placed on life support?
- What if I become incapacitated?

Now, Erica had to face these questions alone.

Naturally, her first concern was David's welfare, but overlaying that was her fear that she'd have to sell her home to be able to afford suitable care. A friend told her that aged care costs were tied to her assets, so Erica should give some of her property and valuables away to reduce fees.

Erica was devasted!

David's doctor referred Erica to an aged care specialist, Shirley.

Erica hadn't heard of aged care specialists, but Shirley immediately put her mind at ease, explaining that selling the family home and reducing assets, were major misconceptions around aged care.

Once the financial pressure was lifted, Erica was able to breathe easier, and review the options available for David's circumstances.

The government offers a range of aged care services and subsidies, and Shirley provided information about the different packages that would suit David, and helped Erica understand how they worked, the application process, and how they could be scaled-up as David's condition worsened over time.

Sadly, aged care is often something that is never considered until it's needed. However doing your research ahead of time, and choosing for yourself, can be empowering; you're taking control of your life and unburdening your loved ones from making decisions during a stressful time.

After suitable arrangements had been made for David, Shirley suggested that Erica turn her attention to her own future needs.

For example, Erica might one day utilise a government funded home care arrangement designed to support her ongoing independence in the family home. They range from basic day-to-day services like housework, food preparation and gardening, to hygiene and nursing services.

Shirley went on to suggest that Erica also consider:

- appointing medical and financial Powers of Attorney,
- ensuring her Will was up to date,
- contacting a professional estate planner.

Shirley also recommended that Erica speak with her financial adviser since David's condition had altered their plans for a sea-change.

Throughout our working lives we set goals for retirement and develop strategies for funding them, but our forward planning tends to end there.

It doesn't take much, and there are professionals available to assist, so when ticking off your retirement planning checkboxes, tick one more, and have a say in your own aged care.

The benefits of investing in yourself

A growing number of Australians are choosing to return to study as mature-age students. Perhaps caught in the hamster-wheel of mortgage and family, furthering their education wasn't an option when they were younger. But that was then.

Harriet had long fancied setting up a home-based book-keeping business. But being a single mum, raising her two daughters and working part-time in a clothing store, kept her too busy for anything else.

After her girls left home to begin their own lives, Harriet enrolled in a book-keeping course at her local TAFE. She'd put her own goals on hold for almost twenty years and now she was finally able to achieve them.

Older people return to study as mature-aged students for a number of reasons. Perhaps, like Harriet, they're fulfilling a dream, that due to various lifestyle or family commitments, they've had on the back-burner for a while.

Some wish to update their skills and gain confidence at work, qualify for a job promotion or pay increase. Many seek a complete career change or something to keep them busy in retirement.

Take Ed, for example. After a thirty-year banking career, Ed was approaching retirement. Though he looked forward to finishing full-time work, he couldn't see himself doing nothing at all.

After chatting with some local real estate offices, he discovered their regular need for a handyman to perform odd-jobs on properties they manage.

Happily for Ed, on 1 July 2019, the federal government announced an expansion of its Adult Australian Apprentices Incentive – a program supporting employers who engage a mature age (over age 21) apprentice.

Ed had always loved working with his hands, so he quit his job at the bank and began life as a mature-age apprentice. By retirement, he planned to achieve a trade qualification and enough work experience to set up a part-time handyman business.

Harriet and Ed are not alone. In fact, so many mature-age Australians are furthering their education that the federal government is a major sponsor of the National Skills Week.

This is a national event held in August each year, for the promotion of activities that align with adult learning, along with a support program for those preparing to return to education.

The federal government also provides financial support for mature-age Australians seeking to further their education along certain study paths. The list of eligible courses covered is extensive. See the Funded Course List at www.education.vic.gov.au for further information.

Additionally, government study loans are available through the Higher Education Loan Program (HELP) which has a range of loan schemes to help with various study costs.

You're expected to begin repaying your HELP debt – even if you're still studying – if you're earning above a certain amount. Repayments are between 4% and 8% of your income, depending on how much you earn, and will be calculated through the income tax system.

So whether you're wishing to enhance and update your existing skills, embark on a new career or simply learn something new, the opportunities are endless. Start by checking out local TAFE colleges for course guides.

And if you're living remotely or don't fancy a classroom environment, consider studying online. You'll be amazed – and inspired – by the range of online courses available. Further, they are often cheaper than face-to-face courses, enable you to schedule study around other commitments and provide interaction with teachers and fellow students.

Perhaps that long-held dream of working an archaeological dig isn't out of reach after all! The world is bursting with possibilities; and we're never too old to explore them!

Get the biggest bang from your renovation buck

Whether it's doing up the bathroom or kitchen, or adding an entire new wing to the house, some focused planning will help your home renovation project run smoothly. Here are some tips to help you get the biggest 'bang' for your renovation buck.

1. Budgeting and saving

Renovating is a major expense so unless you've already saved up the necessary funds you will either need to prepare for increased loan repayments or get cracking on a savings plan.

First up, prepare a couple of budgets - one for the renovations, and another for regular living costs. Then, with your current spending and future savings needs laid bare, it's time to play the penny-pinching game. Can you take lunch from home rather than buying it every day? Does avoiding the toll road add that much time to your daily commute? Are you paying for bottled water? And can you still enjoy life with less eating out or ordering in?

2. Avoid hidden surprises

Make sure that the fabric of the existing house is sound. Depending on its age, have the house inspected for asbestos. Its removal can add time and many dollars to your renovation. Termites and rot are other unwelcome surprises.

3. Find the right contractors

Shop around, get multiple quotes and check references and reviews. Also ask to see contractors' licenses. Don't just go with the lowest quote; make sure you have confidence in the tradie's ability to do the job.

4. Release your inner handyperson

How much can you save by doing some of the work yourself? Most people can do a great job painting a room. How about laying your own tiles? The Internet abounds with 'How to' videos for all sorts of renovation skills.

5. Call in a favour

How many chippies, sparkies and plumbers in your family or friendship group? Of course, you won't want to stretch a friendship or impose on them, so maybe you can swap one of your skills for some of theirs.

6. Shop smart

Extend your budget by buying seconds or second hand. Check out Gumtree and eBay, or get to know your local auction rooms - bidding at auction can be both fun and rewarding. Can you deal directly with any suppliers, and who can offer you mate's rates?

7. Select your materials with your budget in mind

Hand basins, shower screens, kitchen sinks, taps, flooring, light fittings, ovens… Everything comes in a wide range of styles and prices to suit every budget. However, appearances can be deceiving. A cheaper bench top or bath can provide all the visual appeal of more expensive alternatives. Still, sometimes you may have to compromise and opt for 'good' rather than 'best'. And if you're renovating with a future sale in mind, it's also important that you don't over-capitalise on your renovations.

Undertaking major renovations can be a daunting prospect, but some thought and planning can deliver not just a more valuable home, but also one that provides you with years of satisfaction.

Are you investing or gambling?

The potential financial results of investing can feel limitless, and it can be tempting to think that just one stock pick could make you an overnight millionaire. Yes, stock-picking can have a place in your investment strategy, but if you're focused on the allure of a "get rich quick" mentality, you may be gambling, not investing.

What's the difference?

One of the key differences between investing and gambling is process and strategy. If you don't have a process and strategy in place, it is a sign that you need to establish or refine your plan. Further, gambling focuses on emotions such as hope. Investing, on the other hand, is all about strategy. With a clear strategy, you know approximately how much your investments will grow and over what time horizons.

How do you know if you're investing effectively?

If you're unsure whether your current investment approach is working to realise your goals, think about your investment process and how many of the below five elements are included in your approach.

Completing no research

If you're not completing any research and putting money into assets based on tips from friends or what you see on social media, you're exposing yourself to increased risk and not doing enough due diligence.

Investing in micro-cap stocks only

Micro-cap stocks typically have a market capitalisation under $500 million and are ranked from 350 to 600 on the Australian Stock Exchange. With a relatively small market capitalisation, buying stocks in these companies can be cheap. The downside, however, is that these companies are usually in their infancy and experience volatile price fluctuations. There's a place for micro-cap stocks in your investing. However, if you're putting all of your money into these companies, you're likely exposing yourself to unnecessary risk.

Investing with short time horizons

Putting all of your money into short-term investments or activities such as day trading is an indication that you're too focused on short-term gains without a long-term strategy. There's a place for short time horizons in your investing, but only once you've mastered the foundations such as establishing a long-term plan and ensuring you have adequate cash buffers.

Lack of diversification

If all of your money is invested in one asset class, you'll be over-exposed to volatility in a single market. To ensure your money grows consistently over time, your money needs to be balanced across a range of asset classes and sectors.

Having no investment strategy

If you don't have an investment strategy, your investing won't be as effective as it could be. To start putting together an investment strategy, you need to think about things such as:

- building up adequate cash buffers;
- how much money you need invested to live comfortably off your returns; and
- when you anticipate you'll start drawing an income from your investments.

Moving forward with a long-term wealth strategy

Investing in different asset classes such as equities, commodities, and fixed-income assets is a great way to build long-term wealth. To build this wealth, however, you need a strategy and process to follow.

If you're unsure how to develop an investment strategy, be sure to seek qualified financial advice. Investing in this advice now can reap great rewards in the years to come, ensuring your money is working to help you realise your financial and lifestyle goals sooner.

Outlook for gold shines on prospect of Fed pivot in 2023

The price of gold finished 2022 on a strong trajectory and with many analysts agreeing it has the potential to run higher in 2023, one of the easiest ways retail investors can secure immediate exposure to the precious metal is through a tried and trusted exchange traded product (ETP).

Looking back at 2022

Looking back at 2022, the price of gold experienced three distinct phases. The Ukraine invasion and surging inflation pushed gold prices higher during the opening three months of the year, with safe haven demand fuelling the strongest quarterly inflows to gold ETPs since 2020.

The solid start, however, softened from mid-April. Pressured by rising interest rates and the rocketing value of the US dollar, prices trended downwards with little reprieve until the beginning of November, with ETPs experiencing significant outflows in the process.

The turning point for gold arrived on 2 November when the US Federal Reserve hiked its benchmark rate by 75 basis points to 4%. With Chairman Jerome Powell appearing steadfast in his determination to target 2% inflation, the news increased investor jitters about a possible global recession.

In short, sentiment in the gold market turned positive, prices rapidly recovering losses to finish December at USD 1,812.35, up USD 3.30 on the year.

We now know that central banks also started buying up large amounts of gold and, coincidentally, pressure was heaped on gold-rival bitcoin with the collapse of FTX crypto exchange.

In unison with greater interest in gold, the rate of outflow from gold ETPs slowed. In December, North American funds became the first to register positive demand since April.

Will gold thrive in 2023?

In the big picture, investor interest in gold is dependent on a number of observations.

Historically, gold has had a negative correlation to stocks and other financial instruments, making it an effective portfolio diversifier.

While fiat currency is likely to lose purchasing power to inflation over time, the price of gold tends to rise along with everything else. Thus in periods of higher inflation, it's viewed as a good store of value.

Gold has typically performed strongly in periods of financial market stress, making it a simple and effective hedge against market, geopolitical and event risk.

Furthermore, gold has provided good long-term returns. Using average closing prices, the price of gold rose from USD 279 in 2000 to USD 1,800 in 2022, providing an annual average gain of 8.8%.

The question now is, will the gold price trend seen in late 2022 continue during 2023? And one of the key factors to watch will be whether the Fed pivots on interest rates.

What is a Fed pivot?

A 'Fed pivot' occurs when the US central bank reverses its policy outlook and changes course, which in the current scenario would be from a contractionary (tight) to an expansionary (loose) monetary policy.

According to some experts, the Fed can rarely keep tight policy as long as it wants to because inevitably something will happen that threatens the stability of the financial system.

Already we have seen lower rate rises in order to relieve pressure on businesses and the markets. Because revised monetary policy usually takes weeks or months for its effects to be felt, some say an actual cut in interest rates in order to avoid a hard landing may be prudent sooner rather than later.

Analysts at Bank of America have said that should this occur, it's likely a falling US dollar (in which gold is denominated) and treasury yields will encourage more investors to buy bullion across 2023.

BofA says the price could exceed $2,000 an ounce next year as of all the precious metals "gold has the most to gain…on a Fed pivot".

As we go to press, the picture remains unclear with divergent views on how long the Fed will continue to hike rates. Even so, it's likely many investors are already preparing for the inevitable change of tack