MST ADVISORS
Financial Business & Tax Advisory Services

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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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How the retirement of the Boomers will affect the economy

From psychedelic drugs and the birth of rock and roll in the sixties to the sexual revolution and female equality of the seventies through to the rapid up take of personal computers in the eighties, Australian 'baby boomers' have always caused waves.

Now as they move into retirement, the groovy generation are about to flood our hospitals and age care facilities, beach our economy with falling demand and workforce shortages and dump Government revenue via a sharply reduced tax take.

So, who are these people? Baby boomers are the large generation born to the survivors of World War II, during the 'booming' post war re-construction years between 1946 and 1964, when the number of children born in western economies reached record highs.

This 'bulge' in the demographic curves, highlighting the sudden surge in population, has changed the way we all live, as demand for everything from clothes to music, from food and technology, has changed in line with this generation's needs and wants.

Now they are entering retirement, and as they always have, they are changing the world around them. They are wealthier than any previous generation, more mobile and more discerning.

They are also living longer. During the past one hundred years, the average life expectancy of women has increased from 59 years of age to 84 years and for men, it has climbed from 55 years of age to 80.

By 2050, almost a quarter of all Australians will be aged 65 years or more, creating a dramatic drop in the number of working age Australians. In 1970, there were 8 working Australians for every person aged over age 65. In 2050, it will be three.

The economic impact of this is already being felt. As more and more baby boomers stop working, a shortfall of workers is already starting to emerge and will only get worse as more baby boomers leave the workforce.

As the labour market contracts in size, it will not only create real and increasing labour shortages in the future, but it also means the Government will face a lower tax take from fewer wage earners.

Older Australians are also getting richer, and at a much faster rate than later generations, with households headed by someone aged 65-74 having an average net wealth of $1 million. This is up about 40 per cent in the past 12 years while for younger Australians, it is almost unchanged.

Nonetheless, these aging rockers are spending less and less as they grow older, and this reducing level of demand is also starting to put a brake on economic growth. While the economy grew by 3.3 per cent on average over the past 25 years, it is forecast to grow by just 2.7 % over the next three decades.

While older Australians are wealthier than ever before, increasingly they are holding their savings in the tax-free environment of superannuation, which in turn means Governments are reaping less and less revenue from these savings.

The growth of super-based income streams is reducing the reliance on age pensions for many older Australians, but the increasing demand for better health care and more of it, as well as other costs relating to an aging population, are overtaking any savings to Government revenue.

To ensure there isn't a sudden and dramatic fall in living standards for those left in the wake of the baby boomer generation, the focus will be very much on increased productivity, greater efficiencies and a trend towards simpler lifestyles.

5 factors that may derail your mortgage application

Buying a new home is undoubtedly one of the most exciting times in our lives. But, on the other hand, a mortgage application can be a stressful process as you dive into a world of unknowns.

Let's look at five factors that may negatively affect your chance of being approved for a home loan.

1) Lying on your application

Lying about your financial situation is a big no-no in the eyes of any bank. For example, not disclosing childcare costs or disclosing only one credit card, when in fact you have three, can add a red flag to your application.

Lenders share information to prevent fraud, which can also affect any future applications.

2) High debt to income ratio

Lenders will compare your income level against any outstanding loans, including the loan you are applying for. It helps them measure your ability to repay the loan without putting you under financial stress.

For example, a couple earns $200,000 combined. They have a $20,000 car loan, $5000 credit card limit, and are applying for a $700,000 home loan. Their debt to income ratio is 3.62 ($725,000 divided by $200,000). Although it differs for every lender, generally, a debt to income ratio of more than 6 is considered risky.

3) Significant changes in your life

Lenders like to see stable employment with consistent income. If you have started a new job recently, it can reduce your chances of being approved.

Similarly, a significant expense close to your loan application date is not ideal either. For example, if you lease a new car or take out a loan on a new car, this can result in lenders rejecting your application.

4) Errors on the application paperwork

A loan application involves providing numerous documents and filling out loads of forms. Make an error in haste or provide documents that are inconsistent with your application, and it will attract additional scrutiny from lenders.

5) Buy now, pay later (BNPL) services

With BNPL services such as Afterpay and Zip becoming increasingly popular, banks are more cautious than ever when reviewing loan applications. This includes assessing your bank statements to ascertain if you use BNPL services.

A few factors to consider:

Defaulting on your BNPL repayments can affect your credit score.

Outstanding payments are considered financial commitments which can impact the amount you can borrow.

What if your loan application is rejected?

Understanding why your application was rejected is essential. Common reasons include a bad credit score, low deposit, or inability to service the loan.

You should avoid re-applying straightway after being rejected by a lender. Instead, take steps to set up a savings budget, extend your purchase timeline, or reduce existing debt.

Professional advice from a financial adviser or a mortgage broker can help to avoid another rejection.

Seek professional help to increase your chances of being approved

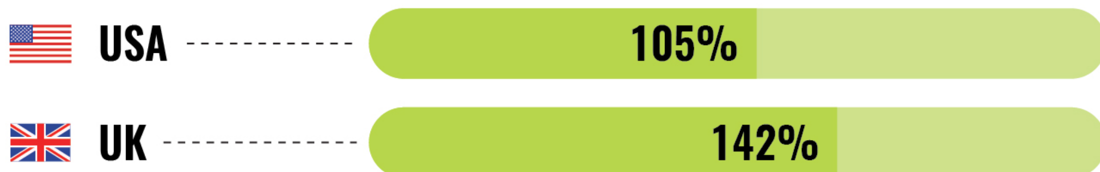
To improve your chances right from the beginning, consult a financial adviser who can help with budgeting, cash flow management and explaining the impact of a home loan on your overall financial goals.

When you are ready to apply for a loan, consider consulting a mortgage broker to guide you through the loan process. They can provide guidance around items lenders may flag, compare different lenders to get you the best deal, and apply for the loan on your behalf.

WHAT'S YOUR HOUSEHOLD DEBT LEVEL?

According to the OECD, Australian household debt is currently sitting at around 210% of net disposable income. That places us fifth in the world, behind Denmark, Norway, Netherlands and Switzerland.

Compared with countries with spending habits similar to our own – the USA and the UK – we're quite high.



If your debt level is pushing northwards of your preferred limit, consult a financial adviser to assist you to get – and stay – on track.

Sources:
www.oecd-ilibrary.org National Accounts of OECD Countries (Volume 2021, Issue 1)

Avoid a home loan headache

Inflation and interest rates are rapidly rising in Australia and around the world. This means higher cost of living, higher home loan repayments … and higher mortgage stress for homeowners.

Research by Digital Finance Analytics (April 2022) found that 42.2% of mortgaged households are in "financial flow stress", which is determined by examining net cashflows and identifying where households are consistently spending more than net income.

Additionally, according to Roy Morgan (September 2022), mortgage specific risk in Australia is set to increase to nearly 1-in-4 mortgage holders by November 2022.

These statistics show that many Australians are feeling the financial pressure in the current economic environment, which is why it's critical for home buyers to make sure they are properly prepared when entering the property market.

Here's our tips on future proofing your home purchase to ensure your 'Great Australian Dream' doesn't turn into a 'Great Australian Nightmare' -

Know your numbers

When planning to buy a property, it's important for buyers to have a good understanding of both their current and future cashflow.

This should include considering:

• Changes to income i.e. taking maternity leave

• Changes to expenses i.e. private school fees

• Major upcoming expenses i.e. car purchases

• Increases to cost of living

When determining affordability, buyers should also ensure they are factoring in a buffer to allow for future interest rate rises.

A financial adviser can assist with planning and putting together a home purchase and debt management strategy, including forward planning to ensure your home loan is affordable both now and into the future.

Be smart about your purchase

Buying a home can be an exciting and emotional time, but it's best to not let your emotions get the better of you.

Once you know your numbers, it's important to stick to them and not get enticed away by homes outside your price range.

Get the right loan product (and understand it)

Fixed vs Variable… Principal & Interest vs Interest Only… Redraw vs Offset…

There are many different loan providers, products and features available in the loan market. Ensure you are taking the time to thoroughly research and get the right home loan for your personal situation.

A mortgage broker can assist you with comparing a range of lenders and securing the best home loan structure, including ensuring you get a quality interest rate and suitable product features for your needs.

Bonus Tip – It's important to review your home loan on a regular basis, to ensure your product remains competitive in the market.

What to do if you're experiencing mortgage stress

If you're an existing homeowner who is currently experiencing mortgage stress, there are a number of things you can consider:

Review your spending

If you're having difficulties making ends meet, it might be time to review your spending.

This could include reviewing your service providers (such as phone/internet, electricity, home/car insurance etc), your memberships and subscription services, as well as your discretionary spending.

Contact your lender

Your lender will be able to discuss different options that might be available to you, when experiencing financial difficulty:

• Redraw Facility – If your loan has a redraw facility and you're ahead on your loan repayments, you may be able to access additional repayment amounts.

• Repayment Holiday – Some loan providers will offer repayment holidays to mortgage holders that are experiencing financial hardship.

• Renegotiate Interest Rate/Refinance – If your home loan does not have a competitive interest rate or product features, you may be able to renegotiate. Alternatively, you could consider refinancing to another provider.

Seek additional support

The National Debt Helpline offers a range of information and resources, including free financial counselling and advice.

If buying a home is on your financial goal list, reach out to a professional today to make sure you're in the right position to purchase and your home buying experience is a great one!

Should I pay down my mortgage or invest?

It's always a good idea to regularly check in on your financial position, whether there's been a significant change in your financial situation or not. And for those who find themselves with spare funds, it often raises the question, "Should I pay down my home loan or invest these funds elsewhere?".

For most, there is nothing like the comfort of reducing their mortgage. Knowing they are building ever more equity in their own home and moving just that little bit closer to owning their own home outright.

More, there is no risk associated with repaying your home loan in the way there is risk attached to investing funds beyond your home and somehow, it just seems that much easier to commit to paying more off your home loan, than strictly setting aside an amount each month to invest.

In addition, there is a significant tax benefit. The money you save by reducing your mortgage, and lowering your overall interest rate bill, is not taxed, while any earnings or capital gains received from investments will be most likely be taxed at your marginal tax rate.

Against that, while interest rates are at relatively low levels, there is a good argument that if you can generate returns from investments in excess of this rate, then the smart money is on making investments beyond your home. Especially if you contribute these extra savings to your superannuation fund and then invest the funds within superannuation. This is because the associated tax rate for assets held within super is a benign 15 per cent, which for most people is below their marginal tax rate.

In addition, you might be able to reduce the tax you are paying on your weekly earnings. Again, depending on your situation, you can contribute up to $27,500 a year to super and potentially claim a tax deduction for these contributions or up to $110,000 a year using after tax income or savings.

Investing funds outside of your home also means you are diversifying your asset pool. Rather than having all your funds tied up in one property, you can choose to invest any additional funds in a range of opportunities such as fixed interest investments, commercial property, domestic shares or international shares.

But just how do the numbers stack up? Just what sort of returns can you get from investments compared to repaying your own home loan?

Let's assume you take out a $500,000 home loan over 30 years at say 3.5 per cent.

The Government's Moneysmart online mortgage calculator suggests monthly repayments would be $2,245 and the total interest charged would be $308,280.

If you repaid an extra $500 a month to reduce this loan, you would reduce the term to 21 years and nine months and the total interest bill would be just $214,168 – saving you some $94,112 in interest payments.

Alternatively, if you invested $500 a month in an investment generating 7.5% per cent, at the end of 30 years, the Government's Moneysmart compound interest calculator suggests this investment would be worth $678,433. That's $584,321 more than the interest you've saved.

The numbers suggest overwhelmingly that you are better off investing outside your own home if you are confident that you can commit to this investment strategy, and if you are assured, you can obtain at least 7.5 per cent after tax year after year for 30 years.

For most people though, the best strategy is a mix of repaying your home loan early, contributing extra funds to super and, building up an investment portfolio. A Financial Planner is best person to help you decide just what the best mix is for you.

SMSF – The next Gen

While self-managed super funds have long been the preserve of older Australians with time on their hands and large superannuation balances, new data suggests that younger Australians are increasingly choosing to take direct control of their superannuation savings.

According to the Self-managed Super Fund Quarterly Report for September 2022, published by the Australian Tax Office, more than one in ten members of a self-managed super fund are aged under 45 years.

More, there is significant industry data suggesting that it is 'Millennials' and 'Gen Y' Australians who are quickly becoming the fastest growing segment of people becoming new self-managed super fund account holders.

Data from the Australian Investment Exchange (AUSIEX) suggests investors born between 1981 and 1996 accounted for 10 per cent of all SMSFs established across its network since 2020.

That represents twice the number of Millennials setting up SMSFs between 2016 and 2019 and five times more than pre-2013 levels. The number of SMSFs established by Generation Z investors also doubled in the past 12 months, according to their records.

This supports other industry evidence that young Australians are increasingly taking a much greater interest in their financial situation, with many turning to a self-managed super fund to take direct control of their superannuation savings.

Much of this is due to the simple fact that the advent of compulsory superannuation means more and more twenty- and thirty-year-old's have a significant nest egg to manage beyond their property assets, compared to the situation forty years ago.

Self-managed super funds offer Millennials and Gen Y Australians alike the ability to take full control of their super. They can choose bespoke life insurances policies to be held within their funds and they can decide exactly what sort of investments they want to make with their superannuation.

This is bolstered by the growing number of online trading platforms that directly market their services to younger Australians and have opened the door to trading superannuation savings directly in shares both in Australia and overseas, exchange traded funds, and directly investing in cryptocurrency.

The combination of these factors means more and more younger Australians are taking an interest in their financial affairs and, as part of that, making their own decisions regarding their superannuation savings by starting a self-managed super fund.

Nonetheless, the same difficulties confront younger Australians as older Australians in deciding to create and then run their own fund.

Self-managed funds can cost up to $4,000 or more to establish and then a further $4,000 or more each year to ensure that all accounts, tax returns and other annual compliance documents are filed.

While you can set up a self-managed super fund with a relatively small amount of money, in terms of the comparative costs of doing so, they only make sense for investors who hold $200,000 or more in superannuation savings.

There are also significant responsibilities involved in running your own super fund. Many people find them extremely time-consuming, especially those super fund owners who choose to research and make their own investment decisions.

It is also important to ensure that you appoint appropriate advisers to undertake key responsibilities, such as providing taxation and audit advice, as failure to comply with these laws ultimately becomes the responsibility of the owner of the fund. Failing to comply with these requirements can result in costly penalties.

While taking more interest in your financial position is always a good thing, setting up a self-managed super fund can be a big step involving taking on considerable responsibilities. As a result, it is essential to seek advice from a professional adviser skilled in providing advice to self-managed super funds to ensure that doing so is the right step for you.

5 TIPS TO MANAGE YOUR DEBT

If your debt level is pushing northwards of your preferred limit, here are a few ideas for getting – and staying – on track:

1

PAY YOUR FULL CARD BALANCE OFF EVERY MONTH

The first step in breaking the credit cycle is to get off it, which leads into our next point.

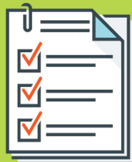
2

CREATE A REALISTIC BUDGET

Identify where your money is going and how much extra you can pay off your credit cards.

The government's Moneysmart website has a free budget planner to help you. Alternatively, chat with your financial planner and work with them to develop a payment strategy to get your debts under control, and stay that way.

3



KEEP YOUR TAP-AND-GO RECEIPTS

Keep your receipts and reconcile them against your account each week. This is one of the best ways to see exactly how much you're shelling out, and on what.

4

USE A PRE-PAID CARD

Instead of a credit card for your touchless transactions, consider using a pre-paid card.

5

CONSIDER YOUR SUBSCRIPTIONS

Many streaming services, magazines and memberships, etc. renew automatically and the first you'll know about it is an unexpected – often expensive – transaction on your card.

Sources:
www.moneysmart.gov.au Budget planner (No date available)

Don't bank your retirement on your business

Many business owners make the mistake of ignoring superannuation in preference for re-investing spare funds in their business, hoping they can then sell at a premium when it comes time to retire.

At some magical time in the future, they dream they can ring a bell, sell their business for their asking price, bank a cheque, turn the lights off, and walk away. Sounds perfect, doesn't it?

In reality, they are embarking on a very risky exit strategy.

It might be that when they do decide to sell, they struggle to find a buyer. Or they find a buyer, but the buyer does not want to pay the price they were hoping for.

This is even harder if you own a farming business.

The idea of passing the farm on to the next generation can be deeply embedded within farming families, but if that happens, how does the older generation fund their retirement, which may stretch for decades?

As with anything, if you fail to plan, you plan to fail.

Your first step must be to contact your accountant or business adviser to determine what they think of your business, its potential value as it stands and what, if anything, you can do to improve its value to a new owner.

While you might think your business is in good shape, an outsider may not unless you use state-of-the-art accounting and software systems and have a clearly documented operations manual, for example. As a result, it may take several years to get your business to a place where an outside buyer would find it attractive.

And then, of course, you should have several years not just of steady profits but steady growth to entice a prospective buyer.

A realistic, independent assessment of what a buyer may pay for your business should be undertaken. With all the hard work you put into running your business, it can be easy to overestimate its value, and this is where independent outside advice is essential.

If there is a risk that you might not get the price you think you need to fund a long and happy retirement, then maybe you should think outside the square:

- Can you make a strategic acquisition that might make your business more attractive to a buyer?
- Can you take on a junior partner or look within your existing business to determine if someone already working in it might like to take over from you in the future? Can you help them achieve that goal?

Finally, as a stop-gap, think of boosting your existing contributions to super during the final years of running your business. The more money you have in super, the less pressure there will be for you to obtain top dollar for your business when you sell.

Moreover, you can structure your superannuation contributions to legally minimise any tax liabilities. And, of course, you may be able to use superannuation to reduce any capital gains tax liabilities you might expect on the sale of your business.

Having a healthy nest egg within super will also put you in a much stronger position when negotiating the sale of your business and may give you some much-needed breathing space to negotiate extended payment terms should you need to.

The Perth Mint sees strength in December silver sales

• The Perth Mint sold 60,634 troy ounces (oz) of gold and 1,634,751 oz of silver in minted product form during December.

• The Perth Mint depository's total gold holdings decreased by 1.34%. Silver holdings dropped by 0.39% during the month.

• Holdings in The Perth Mint listed ETP, ASX : PMGOLD, also decreased for the month, down 1.30%.

Although gold struggled to attract investor attention through much of 2022, the precious metal rebounded strongly towards the end of the year. Weighing heavily on investment demand, The Federal Reserve's aggressive monetary policy saw price declines firmly in place by May. In early November, the price of gold marked a two-year low of USD 1,618 before the more positive trend emerged. December action saw the price end 2022 above USD 1,800 and its 200-day moving average, establishing gold as one of the better-performing assets of the year. According to commentators, inflation, worries about a global recession, and ongoing war in Ukraine are among threats likely favourable to gold in 2023.

Gold in Australian dollars ended December in positive territory up a little over 2% on November's close, having briefly spiked above AUD 2,700.

Silver ended the year strongly, outperforming gold. Silver continued its recent increases to reach just under USD 24, up near USD 6 from its 2022 low. Locally, an ounce of silver was worth around AUD 35.00 at month's end (+ 9.75%).

The gold silver ratio ended December at 76 after touching a year low of 75 early month.

The Perth Mint achieves another strong month for ounces sold as gold coins and minted bars

• The Perth Mint sold 114,304 troy ounces (oz) of gold and 1,315,293 oz of silver in minted product form during November.

• The Perth Mint depository's total gold holdings decreased by 1.29%. Silver holdings shrank by 0.44% during the month.

• Holdings in The Perth Mint listed ETP, ASX:PMGOLD, also decreased for the month, down 0.90%.

Gold began November just shy of USD 1,633 oz under the shadow of the upcoming Federal Open Market Committee meeting. Price action was flat in the first four days but pivoted towards the upside in response to Fed officials raising the possibility of more moderate rate hikes. Gold breached technical resistance at USD 1,725 and continued to close higher, also benefitting from a softer US dollar. The strong uptrend saw gold extend gains to a three-month high of USD 1,786 before closing the month at USD 1,768.45 (+ 8.28%).

Gold in Australian dollars followed a similar trading pattern during the first half of the month. Unfortunately for local investors, the gain was tempered by the Aussie dollar's rally against the greenback, with the price of gold ending the month just above AUD 2,612 (+1.64%).

Silver had an outstanding month, rising from USD 19.14 to USD 22.19 (+15.96%). Locally, an ounce of silver was worth around AUD 32.66 at month's end (+ 9.23%).

The gold silver ratio ended November at 79.