OCTOBER 2024

Market St. Market Mix

ABOUT THIS NEWSLETTER

Welcome to the MST Advisors bi-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.

T: 02 4225 9022 E: admin@mstadvisors.com.au

When Life Changes, So Should Your Financial Goals

Marcus and Fleur, both in their 40s, led active, healthy lives with two teenage kids. Their financial plan was straightforward: work hard until their mid-50s, then retire at 60 and travel the world. They worked with a financial adviser, balancing their careers and family time.

That all changed one weekend. While heading to their kids' sports event, Marcus suddenly felt unwell—dizzy, pale, and struggling to catch his breath. A coach with first-aid training noticed something was wrong and called an ambulance. Marcus was rushed to the hospital, where he was diagnosed with a pulmonary embolism (a blood clot blocking his lungs). Despite being young and fit, Marcus faced a life-threatening condition. He spent a week in the hospital and was prescribed lifelong blood thinners.

During his recovery, Marcus had time to reflect. He realised that while their financial plan was solid, it was built around the assumption that they'd always have time. His health scare forced him to reconsider what was most important—spending time with family and enjoying life now, not just waiting for retirement.

Reassessing Financial Priorities

Once Marcus was back home, he and Fleur contacted their financial adviser to adjust their plan. Their key priority was clear: they didn't want to sacrifice the future, but they also didn't want to miss out on life now. The adviser helped them reassess their goals and made some strategic adjustments to accommodate these new priorities.

Key strategies included:

• **Reviewing their investment portfolio:** Their adviser shifted the focus from purely long-term growth investments to a more balanced approach, allowing for both future security and flexibility in the short term.

• **Revising their savings and spending:** By refining their savings strategy and reallocating some of their spending towards experiences they valued, like family travel, they could enjoy more now without jeopardising retirement.

• **Building in flexibility:** The new plan accounted for their desire to cut back on work by age 55 while still being on track to retire at 60.

With these adjustments, Marcus and Fleur planned a family trip to Europe for the end of the year—something they had always dreamed of but thought they had more time for. Their adviser also helped map out another longer trip after their eldest finished high school, all while maintaining their retirement timeline.

Financial Planning for Life's Unexpected Turns

This experience reinforced for Marcus and Fleur that life can change in an instant. Marcus now encourages others to review their financial plans regularly, especially after major life events. His key takeaway? You don't have to choose between living for today and planning for tomorrow—you just need the right advice and a tailored plan.

Financial advisers can help navigate life's uncertainties, offering solutions that allow you to enjoy life now while ensuring a secure future.

5 Psychological Traps Hurting Your Investments

Market trends aren't the only factors affecting your investment portfolio—behavioural biases can significantly impact your returns. These psychological tendencies, like confirmation bias and herd mentality, often lead to poor investment decisions.

Behavioural biases are mental shortcuts or blind spots that can mislead us, even when our choices seem rational. Understanding the most common biases and their impact on our investment decision-making is crucial for achieving the best possible returns.

1. Confirmation Bias

Confirmation bias means that we seek out information that confirms existing beliefs or investment decisions while ignoring contradictory evidence. This can lead to a lack of diversification and increased risk exposure. For example, a person who holds significant shares in a company might ignore all negative news about that company.

2. Overconfidence Bias

This bias leads investors to overestimate their ability to predict the market or pick winning shares. It can result in excessive trading, higher transaction costs, and lower returns.

3. Loss Aversion

People always feel the pain of losses more acutely than the pleasure of gains. As a result, investors may hold onto losing investments for too long in the hope that they will rebound rather than cutting their losses and reallocating their capital.

4. Anchoring Bias

Investors often fixate on a particular piece of information, such as the price at which they bought a stock, and use it as a reference point for future decisions. This can prevent them from adjusting their strategies in response to new information or changing market conditions.

5. Herding Behaviour

Herding behaviour occurs when individuals follow the actions of others instead of making independent decisions. This behaviour can lead to exaggerated market movements driven by mass sentiment rather than fundamentals.

How can we overcome behavioural biases?

The good news is that you can manage your behavioural biases and minimise their impact on your portfolio.

1. Awareness

Becoming aware of behavioural biases is the first step. This awareness can help you identify triggers that lead to biased thinking, enhance self-reflection to question your instincts and reactions, and improve your ability to regulate emotional responses like fear and greed, which often drive biased decisions.

2. Stick to a plan

Create a clear investment plan based on your goals and risk tolerance. Regularly review this plan to stay on track and avoid impulsive decisions.

3. Get different opinions

Don't rely on just one source of information. Seek out different perspectives and understand the reasoning behind recommendations. This helps you see the bigger picture.

4. Review regularly

Schedule regular reviews of your investment portfolio to ensure your investments are aligned with your goals and adjust for any changes in the market or your life.

Investing can be challenging, especially when dealing with behavioural biases. This is where a Financial Adviser can be incredibly valuable.

Advisers provide expertise and objectivity, helping you navigate and overcome these biases. They guide you through a disciplined investment process, regularly review your portfolio, and offer diverse perspectives to ensure better decision-making.

Don't leave your financial future to chance—work with a Financial Adviser to confidently navigate the complexities of investing and achieve your long-term goals.

5 TIPS TO SHIELD YOURSELF FROM SCAMMERS

Investment scams are on the rise, with millions lost to fraudsters each year. Protect yourself from falling victim, by remembering these crucial tips:

01.

Ignore unsolicited offers

Hang up on unsolicited phone calls and avoid clicking on suspicious links in emails or texts.

02.

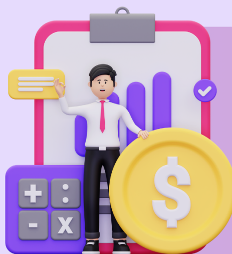
Beware of Unrealistic Promises

Be cautious of investments promising guaranteed high returns; if it seems too good to be true, it probably is.

03.

Research the Promoter

Check for legitimate registration with ASIC, Australian Financial Services Licence, and genuine physical office presence.



04.

Seek Independent Advice

Get expert guidance before investing, even with seemingly legitimate opportunities.

05.

Educate Yourself

Stay informed about evolving scams through trusted sources like moneysmart.gov.au and scamwatch.gov.au.

If you become a victim, report the scam to Scamwatch and seek assistance from IDCARE, a support service helping individuals with cyber issues and fraud recovery.

Is your money mindset holding you back?

Does your Money Mindset have your back? Or… Is it holding you back?

If you've never really thought about it, you'd be forgiven. When it comes to our financial success, we tend to focus on things like income, investments, and expenses. It makes sense to put our financial position down to how much we earn or spend, or the performance of our investments. But what about the role of our Money Mindset?

What is a Money Mindset?

A money mindset is your set of beliefs and attitudes about money. It shapes how you make financial decisions, how you perceive wealth, and how you react to financial challenges. Understanding your money mindset is important because it can either support you in achieving financial success, or hold you back from it.

There are various types of money mindsets, but they often fall into two broad categories:

Abundance Mindset vs. Scarcity Mindset

Abundance Mindset: An abundance mindset is the belief that ample opportunities exist to earn, grow, and enjoy wealth. People with this mindset see the world as full of potential and possibilities. They tend to be optimistic about their financial future and are willing to take calculated risks.

Scarcity Mindset: A scarcity mindset, on the other hand, is the belief that resources are limited and difficult to obtain. People with this mindset often focus on what they lack rather than what they have. This can lead to fear, anxiety, and a reluctance to take risks.

Fixed Mindset vs. Growth Mindset

Fixed Mindset: A fixed mindset in a financial context means believing that your financial abilities and knowledge are static and unchangeable. People with a fixed mindset might think they are either "good" or "bad" with money and that this cannot be altered.

Growth Mindset: A growth mindset is the belief that financial skills and knowledge can be developed through effort and learning. Individuals with a growth mindset see financial challenges as opportunities to improve and grow.

Money Mindsets in Everyday Life

Having explored the concepts of abundance vs. scarcity and fixed vs. growth mindsets, let's look at how these money mindsets might manifest in everyday life:

• **Abundance and Growth Mindset:**

Kylie believes there are many ways to grow her wealth. She takes an online investing course, consults a financial adviser, and starts a diversified investment portfolio. She views market fluctuations as learning experiences and opportunities for growth.

• **Scarcity and Fixed Mindset:**

Jacob believes he will never be good with money and that financial success is reserved for others. He avoids investing due to fear of losing money and prefers to keep his savings in a low-interest account. He often feels stressed about his financial future and is reluctant to seek advice.

• **Abundance and Fixed Mindset:**

Taylor is optimistic about her financial future and believes in plenty of opportunities. However, she thinks her financial skills are unchangeable. She sticks to familiar, low-risk investments and dismisses new strategies, missing out on potentially higher returns.

• **Scarcity and Growth Mindset:**

Oscar grew up believing money is scarce and financial security is hard to achieve. Despite this, he commits to improving his financial situation through education. He starts with low-risk investments to build confidence and gradually diversifies his portfolio, overcoming his fears over time.

Strategies to shift a negative Money Mindset

If you've identified that your money mindset might be holding you back, don't worry! The following strategies can be used to help you to shift your mindset to a more positive one:

1. Set Realistic and Achievable Financial Goals - Start with small, manageable goals and gradually increase their complexity. Achieving these goals will build confidence and encourage a positive mindset.

2. Educate Yourself on Financial Management and Investing - Understanding financial principles and investment strategies can reduce fear and build a sense of control over your finances.

3. Practice Mindfulness and Emotional Intelligence - Mindfulness can help you stay present and make thoughtful financial decisions. Emotional intelligence will enable you to manage financial stress and maintain a positive outlook.

4. Seek Advice - Professional financial planners can provide valuable insights and strategies tailored to your unique situation. They can help you navigate complex financial decisions and create a roadmap for achieving your goals.

Your money mindset plays a crucial role in your financial success… it should have your back, not hold you back!

By identifying and overcoming negative financial beliefs, you can create a healthier relationship with money and achieve your financial goals. Take the first step today by reflecting on your financial mindset and seeking professional advice to guide you on your journey.

The impact of student loans when buying a home

For many Australians, particularly young Australians, the dream of home ownership is often accompanied by the reality of carrying student loans, known as HECS-HELP debt. Understanding the impact of HECS debt on your ability to secure a home loan can help you plan for and navigate the home loan process.

Case Study

Sarah, is a 32-year-old marketing professional from Melbourne. She has a stable job with a steady income and has managed to save a decent deposit for her first home. However, like many Australians, Sarah carries a HECS debt from her university education.

What is HECS-HELP debt?

HECS-HELP is a loan offered by the Australian government to pay for studies at a university or approved higher education provider. Once a person earns above the compulsory repayment threshold, loan repayments are automatically deducted from their pay through the ATO. There is no interest on the loan, but the debt is annually indexed against inflation.

Sarah's Home Loan Goals

Sarah's goal is to purchase a two-bedroom apartment close to the city. She is aiming to take out a $450,000 home loan, considering her savings and the property prices in her desired area. Sarah is concerned about how her HECS debt will affect her home loan application and how she can maximise the amount she can borrow.

The Application Process and the Impact of Student Loans

When Sarah approached a mortgage broker to discuss her home loan options, she learned that her HECS debt, while interest-free, would still impact her borrowing capacity.

Sarah's potential lenders must consider her ability to meet all financial obligations, including her HECS repayments. This could potentially lower the loan amount Sarah qualifies for, as lenders assess her debt-to-income ratio.

Strategies and Solutions

Sarah's mortgage broker advised that there are several strategies she can consider to enhance her borrowing capacity despite her student debt:

1. Pay off the HECS-HELP loan: Sarah may be able to borrow more if she were able to erase the HECS debt.

2. Reduce other debts: clearing or minimising other debts, such as credit card balances or personal loans, would improve Sarah's debt-to-income ratio.

3. Consider government grants or incentives: Sarah could still apply for government assistance such as the First Home Owner Grant or the First Home Loan Deposit Scheme, even with HECS debt.

4. Increase her deposit: by saving more and increasing her deposit, Sarah could reduce the loan amount she needs.

5. Choosing the right lender: different lenders have varying policies regarding HECS debt. Choosing a lender more lenient towards student loans can enhance her chances of approval.

Outcome

By proactively managing her finances, seeking professional advice, and implementing strategies to manage her HECS debt, Sarah was able to strengthen her home loan application. She successfully secured a home loan with a competitive interest rate, allowing her to purchase an apartment within her parameters.

The impact of student loans on home loan applications is a significant consideration for many young Australians. But the good news is that there are steps you can take to minimise the impact of HECS-HELP debt. Doing so enhances the chances of securing a home loan, and empowers you to make informed decisions on your financial journey. Reach out to us today and take the first step towards home ownership!

When debt collectors call, know your rights

Debt is a fact of life; some might say it's a necessity. Rarely is a home or large-ticket item purchased without finance of some kind.

Australians typically manage their financial obligations well, but rising interest rates, cost of living pressures and unexpected expenses combine to place stress on a household budget.

In an increasingly cashless economy, it's difficult to keep track of spending, and before you can say, tap-and-go, the morning latte and toastie has maxed out the credit card.

Most people tighten the belt and get back on track. Unfortunately, others find themselves caught in a downward spiral that quickly gains momentum until realising they're in over their heads.

Failure to meet your financial obligations may result in you being contacted by a debt collection agency as creditors seek to recoup their losses.

While this is traumatic, keep your cool and remember that you have rights.

According to MoneySmart.gov.au a debt collector can only contact you:

- by phone during specific hours, up to 3 times per week or 10 times per month,
- face-to-face only as a last resort,
- by social media if they are sure no one else has access to your private messages.

Debt collectors may:

- request payment or ask why you haven't met a payment plan,
- offer to make, or review, a payment plan,
- advise consequences for non-payment,
- repossess goods for which you owe money.

Debt collectors cannot:

- trespass on your property,
- bully, mislead, harass or abuse you,
- deceive or take unfair advantage of you.

If you believe a debt collector, or agency they represent, has acted outside of their boundaries, you are within your rights to take action.

Violent or threatening behaviour is never acceptable; immediately contact the police.

Alternatively, if the collectors are intimidating or harassing you, write to them or their agency to report the behaviour and request it be stopped.

If this doesn't work, reach out to the Australian Financial Complaints Authority on 1800 931 678 for advice.

Debt collectors aside, you must take action to manage your debt. No debt ever went away because it was ignored, but there are ways to dial down the pressure.

Here are some steps you can take today to get started:

1. Make a list of all your obligations. Scary, sure, but knowing what you owe is the first rung on the ladder out of the red and into the black.

2. Contact your mortgagee – seriously! Nobody wins if you can't pay your mortgage; they really will help you set up a manageable payment plan until you're back on your feet.

3. Contact utilities companies. Again, they'll help you set up a payment plan and going forward, may allow you to make monthly payments at a set amount. Bye-bye bill shock!

4. Seek help via the National Debt Helpline (1800 007 007) or through the government's MondaySmart.gov.au website.

You can also seek professional assistance from a qualified financial adviser. They'll work with you to create a realistic strategy for managing your expenses and guide you in developing a plan to move forward and eliminate debt.

Debt can be debilitating and seem overwhelming, but by understanding your rights, knowing where you stand financially and seeking professional advice and support, you can take back control of your finances and look towards a comfortable financial future.

myth

I'll never be "good at" money

fact

Financial literacy is a skill that can be learned and improved over time.

Myth

I'll be able to start budgeting/saving/investing once I start earning more money.

Fact

Effective money management is about making the most of what you have, regardless of income level.

Myth

All debt is bad.

Fact

Good debt, such as mortgages or student loans, can help build wealth and invest in your future.