DECEMBER 2020

Goldsborough

Quarterly financial planning news and views

Keeping in touch

I'm not too sure about you, but there are times when I would love to go back to 00:00:01 on 1 January 2020 and hit the {reset} button!!

Yet, we are approaching the end of 2020 and WE HAVE SURVIVED!!

It's certainly been a challenging year for me both professionally and personally. And one of the biggest challenges has been keeping in touch with people from a distance when you would normally see them face-to-face on a regular basis.

Here at Goldsborough Financial Services we have had to make some changes to how we operate. Staff meetings that were always conducted in our boardroom are now via Teams. For a while there we were doing all client appointments by phone or zoom. We have had to be careful with the number of staff/clients in particular rooms and offices. Some of this will remain in place – the "new norm" they are calling it.

Throughout 2020 something that we have focussed on is providing our clients with as much information as possible, without overloading anyone. Striking a balance has been important, and I feel that we have got it about right.

Our Facebook Page (**facebook.com/GoldsboroughFinancialServices**) is perhaps our most relaxed medium for getting information out there. I say 'relaxed' as you will find not only business-related information being posted, but also some of the more personal goings-on that occur in the life of Goldsborough Financial Services and our staff. If you've not 'liked' our page yet, I would invite you to do so.

On our Website (**goldsborough.com.au**) you will find a whole host of information about who we are, what we do and how we do it at Goldsborough Financial Services. It's become a real focus point for clients and prospective clients alike. One highlight for you is our Blog (**goldsborough.com.au/blog**) that is updated weekly with new information. There is also a long history of blog posts that offer a huge array of information. I would invite you to sign up for our blog alerts, that way you'll never miss out on the latest information.

If you are reading this then you are getting our Newsletter – and thanks for that!

Finally, as advisers we endeavour to send out information via email on a regular basis. If we've not got your email address, or it's recently changed, please don't hesitate to contact your adviser to offer that information.

So, keeping in touch is vital!! However, if you have done it with your family and friends (and financial adviser) in 2020 you are to be congratulated. Here's to 2021, and may we not stop keeping in touch!

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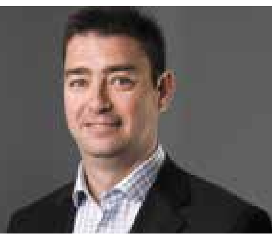


MICHELLE SANCHEZ-MCCALLUM
Authorised Representative (325471)

A day in the life...

If I had a dollar for every time someone called me an Accountant, I'd be putting my own financial advice to very good use!

But seriously, I do get asked a lot about what it is that I actually do, so I thought I'd share with you a day in the life of an adviser.

Let's get this out the way first, I always start my day with a decent coffee. But besides being a barista, a financial planner is a builder, a strategist, a customer service specialist, a teacher and a student.

A typical day for me would start with going through my emails and dealing with any client queries and getting up to date on any important changes, whether they be procedural, product related or legislative. Wednesdays start with an online team meeting where, as a group we get together digitally to discuss and share important information, ideas and issues.

I spend a lot of my day on the phone, returning client phone calls or proactively calling them to catch up and see how they're going and update them. Face to face meetings are also a big part of my day. Whether they be existing clients coming in for a regular review or an adhoc meeting because something has come up that needs extra discussion. Other meetings are with new clients who have made the important and wise decision to start their journey with a financial planner. Those discussions could cover anything from superannuation, investments, Centrelink, transition to retirement to cash flow planning or retirement projections, to name a few.

Listening and learning is integral to be able to build and design the best financial plan for clients. After a meeting, I'll review all of the information and come up with the best strategy for them. Writing good file notes from every discussion is so important, as they are the building blocks for the ongoing advice for years to come.

When I say a financial planner is a teacher, a good financial planner explains complicated issues in a simple way to educate their clients. Sharing knowledge gives clients more confidence, which is arguably the most important and intangible thing that we do.

And a good adviser never stops being a student, so in my busy day, I often need to find time for continuing education. An adviser must meet a minimum number of educational hours each year to maintain their knowledge and accreditation. This can be done through webinars, training courses or reading with an associated test at the end.

As I come to the end of my day I prepare the for next day, then I stop and appreciate how great I feel having such a rewarding job. I give myself a pat on the back and sometimes have another decent cup of coffee! ■

WILL CHAPMAN Dip FS(FP)
Authorised Representative (311745)

What is it worth?

The phrase ***"Tell him he's dreamin'"*** was immortalised in the 1990s movie The Castle, highlighting that trash can be treasure and vice versa based on what that trash/treasure is worth to the buyer.

It's an unusual word, 'worth'; it's the most basic concept yet nearly impossible to accurately measure. It costs $5 to buy swimming ear plugs because they are easily manufactured and readily available. Yet my daughter can't swim in the water over summer without them and would literally miss hours of fun; even worse, her ears would likely become infected without them and cost a fortune in medical bills. They are essentially invaluable to us but concurrently they have no resale value.

Wealth is a value often measured in dollars and some magazines herald 'Rich Lists' of our wealthiest citizens, even though Rich Listers rarely actually have that dollar amount in the bank. On the other hand, some define wealth by a person's smallness of wants; so the question remains of how do we measure value? The answer is: usually mathematically, even for emotive experiences. When we hypothesize "if someone offered you $1m to confront your biggest fear, would you do it?", it's a simple risk/reward equation.

Luckily, valuing assets can also be a relatively simple equation. A common form of valuation is an 'all-risks yield', or just yield. Think of an investment property that might be bought for $400,000 and has an annual rental income of $20,000. The yield is $20,000 divided by the purchase price of $400,000, so therefore 5% per annum. If similar houses are selling with a yield of 4%pa, then a 5% yield sounds pretty attractive. However, this valuation equation relies on having another comparable yield, so what happens if there is nothing comparable?

The discounted cash flow (DCF) model can be used and very often is for investments like commercial property that have different characteristics to nearby properties. A DCF calculation takes into account the future income payments of an asset over a set period of time (usually how long the asset is owned) and applies an interest rate to accommodate for the risk of that asset producing that income.

The future incomes are essentially compounded (added) over that time period and adjusted (discounted) by the annualised interest rate to give a value in today's dollars for the asset.

Of course, both of these methods assume there's an income or future return. In some cases, an investment may have no income and then its value becomes more complicated. Market Capitalisation, Enterprise Value, Net Asset Value to name a few are other simple equations that can be used to help determine what something is 'worth'. It's worth having a chat to your adviser if you are keen to understand more about how investments are valued...

For the record, I wouldn't put my hand in a bucket of spiders for $1, but I might for $1m! ■

SAM MARTIN CFP®
Authorised Representative (252676)

Retiring retirement

I recently attended a Portfolio Construction Forum (via my computer thanks to Covid-19) where industry leaders from around the world provide insights on all things financial planning.

The topics cover philosophy, markets, strategies and investing.

An American, Michael Kitces gave a presentation called "It's time to retire retirement". I realise no one would have heard of him but I feel it fair to reference his material.

He explained that the term retirement originated during the industrial revolution where farmers moved to factories to work and just like the machinery they worked alongside they would need to be retired when they were too old to function and contribute to the level required. This in turn created the need to save in preparation for when the body broke down so for "retirement".

If we move to the current day we still have this mentality of retirement, where we work flat-out earning as much as we can to get to a point where we just stop working altogether. At this point in our lives the plan is then endless golf, laps of Australia in a caravan, the idea of a permanent holiday.

As work is becoming more knowledge based, we no longer have the physical demands on our bodies so we can continue to work well past the current retirement age. We are also living longer with roughly a third of our adult lives being spent in retirement. The changing nature of retirement has created conflicts with the human drivers of well-being, purpose and connection to society.

What he is suggesting is that instead of striving for retirement we should set the goal to be financially independent. To reach a point where we no longer spend our time based on the income that you generate. That then enables you to spend your time working another role, do charity work or explore a business opportunity etc.

Taking a different approach from traditional retirement can enable you to wind back your work hours or move to a less stressful position earlier than if your goal is outright retirement. It can also prolong your productive life as you now enjoy your work and the benefits it gives you working with a sense of community and the potential to continue well past your retirement age.

Some of my happiest clients are still working at a reduced level into their seventies. One example is an executive from a national company whose position was moved to Sydney. He had options to move with the role interstate, work for another company in Adelaide or retire with a lower standard of living than anticipated. He found a job with a charitable organisation which he thought would tide him over for a couple of months at a level of income that was less than half his previous income. What he discovered was that in conjunction with his existing retirement savings he could easily meet his costs of living and as the work was rewarding, with none of the pressures compared to his previous job, he had a new lease on life. As he enjoyed the work life balance, he ended up working 7 years longer than he originally planned when in the executive position. Even when receiving less than half his original income, the additional working years put him in a stronger financial position than he would have been at the same point if he had retired. In retrospect, he felt lucky to have been forced into a career change.

I can think of countless clients with similar stories, three ex-school principals who have returned to working, one as a childcare worker, one a relief teacher and the other in administration. Another ex-executive who demoted himself from management to take up a sales position with some state-based travel. A business owner who after selling the business works there a day or two a week when needed. There are many other examples, and they are all well past retirement age and enjoying life. They have each said to me that had they known they would be enjoying their retirement years so much with some paid work in the picture, they would have planned it to be this way and organised it years earlier.

Taking a different approach from traditional retirement can enable you to wind back your work hours or move to a less stressful position earlier.

The experience of these clients is discovering that life in retirement is not as satisfying as hoped and hence returning to the workforce. Please contemplate your retirement plan as you could start a wind down phase much earlier than an outright retirement. ■

LACHLAN HARVEY CFP®
Authorised Representative (227293)

In praise of Paraplanners

In a busy financial planning practice like Goldsborough, Paraplanners are the unseen and often under-recognised heroes of the practice.

Goldsborough produces thousands of advice documents each year, from the simple to super complex. Our Paraplanners leave their mark on all of them.

A generation ago, Paraplanners were often junior financial planners cutting their teeth in the industry. In 2020 planners need to be so much more. The skills and level of expertise required of a Paraplanner now rightly see it acknowledged as a career in its own right.

Paraplanners need to be completely across legislation changes, all of the various technical strategies, have an in-depth understanding of investments, insurance and other products. The job requires an ability to translate complex issues into plain English, so often easier said than done. Paraplanners are the champions of technology within an advice practice. If you have ever received detailed projections and financial models, well these are all the domain of the Paraplanner.

Because Paraplanning is highly technical and 'back-office' in nature, many financial planning practices around Australia decide to either outsource Paraplanning services to other businesses within Australia or increasingly, to providers overseas, such as the Philippines.

As a business, we can understand the dynamics that lead others to choose this outsourcing business model but at the same time, we are incredibly proud of our own in house Paraplanning department.

Our Senior Paraplanners bring to our team over 30 years of combined experience and a wealth of expertise.

On behalf of all the advisers whose faces you see in this publication; we say a massive thank you. ■

CRAIG KIRKWOOD CFP®
Authorised Representative (401525)

Buy Now, Pay Later... but at what cost?

Growing up with Scottish parents, my family didn't have a big appetite for the use of credit cards.

The closest we experienced to 'credit' was our Christmas presents being put on Lay-by, where mum and dad had to pay the full balance before the presents could be picked up and put under the tree.

Fast forward a few years (well maybe 40), and we now have credit companies falling over each other for us to use their services. The more recent is Buy Now Pay Later (BNPL) companies such as Afterpay, Sezzle and Zip. The business model for BNPL is similar to a credit card in that it allows a consumer to have today, what they can't afford until tomorrow, but in this case with future instalments. BNPL companies derive their income from merchants paying a commission on their sales for the use of the payment system, and fees from the consumer if they don't meet their instalments.

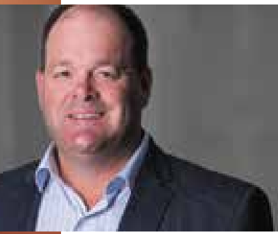
Despite the similarities to credit cards, BNPL companies are not considered credit providers. The lack of regulation (no credit checks required), and ease of use put millennials as the prime targets of these operators to grow their business. The rapid growth of this industry was outlined in 2018/19, where $5.6 billion was transacted through BNPL - an 80% increase of the year before. The biggest slice of this sector is held by Afterpay and its share price has reflected this growth. It listed on the Australian stock exchange in 2016 at $1 and traded as high as $100 only last month.

Given the popularity with young users, many people (my parents included) believe the reliance on BNPL is likely to develop bad long-term spending habits, and possibly put people into a vicious cycle of debt. Some conviction to these thoughts was provided in ASIC's recent report into the BNPL sector. It found one in five BNPL users in the last year were late on payments. More worryingly, they found that some (mainly young) consumers had experienced financial hardship and had to go without a meal, or take out a new loan, to meet their payments.

Regulations applying to the use of credit cards are unlikely to apply to BNPL anytime soon. ASIC announced minimal regulatory changes for 2021 and an ongoing self-regulatory code of conduct.

With Christmas only weeks away*, if you are planning to use a BNPL service you may want to consider only using one BNPL account at one time, and make sure you prepare a budget before purchase to include the future repayments. ■

**at the time this article was written*



MATTHEW KELLY CFP®
Authorised Representative (314983)

Gifting rules revisited

Before providing financial assistance to family or friends, it's important to understand the social security 'gifting' rules and consider the impact they could have on current and future entitlements.

In particular, coming into the Christmas period we do often have enquiries from our clients as to what the implications are if a gift (i.e. money or other asset) is given to loved ones with the intention of it being a 'Christmas present'.

Gifting and social security

While there are technically no restrictions on how much you can give away, if the gifts exceed certain limits, the extra amount won't be disregarded when entitlements for most social security benefits and concessions are calculated. In other words, the gift may still be assessed, even though you no longer have the money or asset. Also, gifts exceeding the allowable limit are assessed for five years from the date of the gift.

So even if you're not receiving a social security benefit right now, gifts made before you become eligible could still impact your future entitlements.

What are the limits?

When Centrelink and Department of Veteran's Affairs (DVA) apply 'means-testing' to assess entitlements, they disregard (don't count) gifts of assets up to: $10,000 per financial year, and a maximum of $30,000 in a rolling five-year period. These limits apply both to individuals and couples combined.

So, if you're a couple, these limits apply to the combined value of any gifts you make. The thresholds apply to the total of all amounts gifted. Amounts you gift above these limits are called 'deprived amounts' and the rules that apply in this case are referred to as the 'deprivation rules'.

What happens if I gift above these thresholds?

There isn't a specific 'penalty' for gifting above the thresholds. However, assets gifted above the threshold are not immediately disregarded by Centrelink and DVA and will continue to be assessed as your assets for five years from the date of the gift. These amounts will be assessed as 'financial assets' when calculating your social security entitlements under the means-test.

The means-test that applies will depend on the benefit or concession type and may be based on your assets and/or income. This means that for certain payment types and concessions: the deprived amount is counted as an asset under the assets test, and income is calculated on the deprived amount for the purpose of the income test, based on the set deeming rates (the same assessment that applies for other financial assets such as shares and bank accounts).

At the end of the five-year period, the amount you've gifted is disregarded and is no longer assessed for means testing to determine your entitlements in the future.

If you are thinking of 'gifting' for Christmas, then please call us to find out more about how the rules apply to you and what other things you should think about. ■

Goldsborough
Financial Services

Upcoming seminars in 2021

Our quarterly seminars were very popular during 2020 with many people still wanting to attend in person. For those who preferred a virtual attendance, our presenters – **Matthew Kelly**, **Sam Martin** and **Will Chapman** were happy to have one on one conversations via phone or video chat.

We hope to continue hosting the 2021 seminars in our boardroom, the number of guests allowed per session will be restricted to ensure we comply with the current social distancing requirements. Appropriate hygiene measures will also be in place.

Please note that should the COVID restrictions in Adelaide change to prevent a physical seminar to be held, we will host the session for all attendees via a video conference instead**.**

If you would like to register for any of our seminars please contact our office on **08 8378 4000** or via **mail@goldsborough.com.au**.

Please also keep an eye on our Facebook page or website for the most up-to-date details.

Retirement Living and Aged Care

Wednesday 3 February

at 6.00pm

If you or a loved one will need Retirement Living support and/or Aged Care in the coming years, then this seminar will explain the different options that are available.

Dates for later in the year:

- Wednesday 5th May
- Wednesday 4th August
- Wednesday 3rd November

Retirement Planning Talk

Tuesday 9 February

at 6.00pm

There's never a better time to plan for tomorrow than today! We'd love to help you start planning your financial future, and it's as simple as attending one of our free Retirement Planning Talks.

Dates for later in the year:

- Tuesday 11th May
- Tuesday 10th August
- Tuesday 9th November

Referral award

Goldsborough is a referral-based business. **The biggest compliment any client can give us at Goldsborough is the referral of a friend, relative or business associate who could benefit from our services.**

To show our appreciation for the referrals that we receive from our clients each quarter, we enter all names into a random draw and the winner receives a $100 gift voucher!

The winner of the draw receives a $100 gift voucher!

We have pleasure in announcing the winners of our 'Referreral Award' for the December 2020 quarter are Simon & Michelle Maddaford — congratulations Simon & Michelle, your voucher is on its way.