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Goldsborough

Quarterly financial planning news and views

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The art of delayed gratification

Have you ever asked the question, what is the key to financial success? Is it a promotion at work, a successful business idea or learning to budget well? Sure, these are all great, but the thing that they all have in common, is that they take time. It's my experience that people who learn the art of patience, are more financially successful. Delayed gratification means saying 'no' to something you want right now, so that you can work towards a greater benefit or reward later.

In the late 1960s and early 1970s, psychologist Walter Mischel conducted an experiment to prove this theory. Children were presented with a marshmallow. They were told they could eat the marshmallow whenever they want, but if they waited, they could have another marshmallow when the researchers came back.

Amazingly, they found that the children who waited to eat the marshmallow had better life outcomes.

There has been a lot of media attention recently surrounding the COVID-19 Super Early Release Scheme. It was a lifeline for many people in genuine need, but others used their retirement savings for lifestyle expenses such as cars, plastic surgery, gambling or alcohol, just to name a few. They ate the metaphorical marshmallow!

Sadly, these sorts of impulsive decisions will likely have a lasting impact on their financial comfort later in life.

So here are a few of my tips to master the art of delayed gratification;

- Know your goals.
- Think about 'what if' and prioritise the things that are most important.
- Have a medium to long term plan.
- Reward yourself for your patience.

If you can do this, you may just get that second marshmallow! ■

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The rise of tech giants

A US market sell-off in recent days has brought renewed attention to the value of the US market and tech stocks in particular.

Despite the current global recession and COVID-19 pandemic, the benchmark S&P 500 index hit a new record high in early September.

Investors are right to ask if US equities are overvalued. The five biggest tech giants (Apple, Amazon, Microsoft, Facebook and Alphabet) have led this rally and dominate the S&P 500. Their combined market value in August 2020 was around US$7 trillion. By comparison, the combined value of all companies listed on the ASX is about US$1.5 trillion.

Never have the top 5 companies represented such a large slice of the US share market pie. They now make up 23% of the S&P 500.

The valuations on these companies are eyewatering, with an average PE ratio of 44 times. Another way to think of a PE ratio is that if profits don't grow, shareholders would have to wait 44 years before making their money back. Imagine an ice-cream van made $10,000 profit in one year, would you pay $440,000 for it?

The average PE for the remaining 495 companies in the S&P 500 is half that at 22 times. This is still high compared with historical averages.

What it tells us that the market has been putting a significant premium on earnings growth. The big question is: will this growth continue or will valuations unwind spectacularly as it did in 2000 when the dot com bubble burst? ■

Changes to Super rules

Super contributions over age 65

New superannuation rules introduced in July extend the age that people can make a superannuation contribution without needing to meet the work test. Previously the work test was required to be met for contributions made after turning 65. That age has now been increased to 67 however the 'bring-forward rule' that allows people to contribute up to $300,000 by bringing forward future years' contributions, remains stuck at age 65.

Proposed laws which seek to extend the "bring-forward rule" to age 67 are currently before Parliament. Frustratingly, this Bill has been delayed yet again, creating uncertainty for people between age 65 and under 67.

The annual non-concessional contribution limit remains at $100,000 for over 65s.

COVID-19 re-contributions

Also awaiting parliamentary approval are laws to prevent an individual from claiming a tax deduction for super contributions made following a super withdrawal under the COVID-19 condition of release.

Under the proposed laws, a super contribution made from 1 July 2021 to 30 June 2030 will not be tax-deductible to the extent that the contributions are less than, or equal to, the amount of any benefits released under the COVID-19 condition of release.

The ATO has previously warned superannuants that withdrawing and recontributing super for a tax advantage may be considered to contravene the general anti-avoidance rule for income tax (known as Part IVA).

Employer Super Contributions on JobKeeper payments

New regulations confirm that employers are not required to make superannuation guarantee contributions for additional amounts paid to satisfy the wage condition for JobKeeper payments (for example, the amount by which $1,500 exceeds an employee's normal pay).

The Regulations commence on 3 June 2020 and apply to an employer's superannuation guarantee obligations from the commencement of the JobKeeper scheme on 30 March 2020. ■

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

ESG Investing: what is it and what to consider

'E' stands for Environment, 'S' stands for Social and 'G' stands for Governance, and it's a style of investing that has a focus on these ESG principles.

The growth of ESG Investing partly comes from investors avoiding companies that are hurting humanity and the planet: think big tobacco cutting down the Amazon to grow tobacco that kills people, while management get paid fat bonuses.

I'm a big fan of the concept of ESG Investing, as ultimately it means that investors are backing companies and investments that seek to do the 'right' thing.

Here's where it starts to get a bit grey...

Firstly, what is 'right'? Should we support an investment that cuts down timber in the Amazon? My guess is no. But what if it's going towards building housing for homeless people in third world countries? Hmmm. Closer to home, should I invest in a business of sustainable, renewable timber in Australia that ultimately was a significant contributor to the lethal bushfires last summer that also left many people homeless? The answer may have originally been yes, but now there's a doubt...

Of course it's not limited to forestry; ESG Investing affects everything: how we power the world (fossil fuels, solar, wind), how we feed ourselves (farming practices, foodstuffs, water use), how we live as a society (human rights, exploited labour, workplace diversity), etc.

Which leads to the second challenge:

Due to it affecting everything, there is no standardised way to measure ESG principles. A Wall Street fund might advertise its ESG foundations but there is no widely accepted global 'ESG' Certification. It's a bit like in the early days of food being 'Organic'. Decades ago, a farmer says their corn is organic because that season DDT wasn't sprayed on it but since then, society has broadly fine-tuned what it believes Organic should mean. In the case of ESG Investing, it's a more complex proposition.

I can see a time when the E and the S and the G are fractured into their own categories. In the meantime, working out whether an investment fits the principles that we (personally as individuals) want to get from our investments involves some good old-fashioned investigation and research. It has huge growth potential for the way it can change the world for the better and by default, businesses with unsustainable practices are in themselves unsustainable, so investors shy away from them.

However, ESG investing is not yet a perfect model and should be discussed with your adviser first. ■

Update from the Goldsborough team

We are very excited to announce a new member to the Goldsborough family... introducing Miss Georgie Quinn, born 17th August 2020.

Congratulations to Kim, Michael & Archer on little Georgie's arrival!

We have been busy embracing and refining our 'tech skills' – with all our team using various apps to communicate – such as Microsoft Team, Zoom and MiCollab. We are finding more and more clients are also becoming comfortable with having their review meetings via telephone or a 'video chat' rather than coming into the office.

If you are keen to try this but are perhaps a bit unsure of how to go about it all – please speak with our friendly Admin Team when booking your next appointment and they will be happy guide you through the set-up process.

SAM MARTIN CFP®
Authorised Representative (252676)

Aged care - keep or sell the family home?

I originally wrote this article back in 2014 and recently I have received a number of enquiries about what the case study would look like under current rates and rules.

The article aims to help explain the difference in keeping and renting out the family home, as opposed to selling and investing the proceeds.

Whether to keep or sell the family home isn't always just a financial decision. Emotional and practical considerations often out weight any financial implication. For instance, some clients don't have the support network for the preparation and ongoing maintenance required to rent out a house.

Using the same example as in the 2014 article. Frank is a single homeowner approved for residential aged care. His finances are as follows:

- $700,000 Home
- $100,000 Bank account
- $550,000 Advertised accommodation cost
- $5,000 Contents

	Sells House	Keeps & Rents House
Income from investments	$16,940 [1]	$1,400 [1]
Net rental income	$0	$20,800 [2]
Age Pension	$0	$15,851
Total Inflow	**$16,940**	**$38,051**
Basic daily care fee	$19,097	$19,097
RAD/DAP	$550,000 RAD [3]	$550,000 RAD
Means tested fee	$21,309	$15,060
Total outflow	**$40,380**	**$34,131**
Surplus/Deficit	**$(23,440)**	**$3,920**

Note: *1. Income figures based on current deeming rates and thresholds*
2. Assumes net rental income of $400 per week
3. Accommodation cost paid as a Refundable Accommodation Deposit (RAD)

From the table you can see two main benefits when keeping and renting the house.

One, the Age Pension increases significantly. Especially for the first two years the house is exempt, please refer to Matthew Kelly's newsletter article explaining the assessment of the family home under various circumstances.

Two, the means tested fee reduces. The reason for this is that only a caped amount ($171,535) of the home's value is included for assessment when it is retained and rented out, compared to its entire value if you were to sell and invest the proceeds.

This example has been used to highlight the differences on outcomes if selling, or keeping and renting the family home.

For a more detailed explanation please attend one of our regular Aged Care Information seminars or contact your financial adviser. ■

Retirement living & aged care seminars

Our scheduled seminar in August was held with great success.

We are planning on holding our next seminar on:

Wednesday 4 November
6.00pm – 7.30pm

Please contact our office on 8378 4000 to book your place.

We will keep you informed as to any developments that may affect our ability to hold this seminar.

MATTHEW KELLY CFP®
Authorised Representative (314983)

Means testing of main residence when you enter aged care

Recently we have had a couple of instances where clients have had to enter aged care, and the situation which has generated the most questions is the assessment of the main residence.

The assessment of the home under the assets and income tests depends on several factors:

Assets Test

This depends on who is living in the main residence (see table).

Income Test

If the main residence is rented out, the aged care and age pension/social security treatment is identical – i.e. all net rental income is assessable. ■

	Aged Care Assessment	Age Pension/Social Security Assessment
Resided by a spouse	Exempt	Exempt
Resided by a protected person such as an eligible carer or close relative other than spouse	Exempt	Exempt for 2 years from when aged care resident (for couples, the second spouse) moved out of the home. During the 2-year period, the person is a homeowner. After the 2-year period, the net value of the home is assessed as an asset and the person is a non-homeowner
Resided by a non-protected person	Assessed but capped (currently $171,535)	
Vacant		
Sold	Proceeds assessed immediately depending on where they are invested. For a couple where one spouse remains in the home, sale proceeds intended to purchase a new main residence could be exempt under assets test for a period of up to 12 months or extended up to 24 months upon meeting certain criteria.	

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The fluctuating Australian dollar

The Australian dollar has had a relatively short life, starting in 1966 as a decimalised currency to replace the British imperial based system of pounds, shillings and pence.

Initially its value was pegged to the British pound, then the US Dollar, and finally by a trade-weighted basket of currencies. In 1983 the dollar was floated, which meant that the value was set through the supply and demand within the currency markets. This still applies today.

Since floatation, there's been some large swings in the value of the dollar trading as high as US$1.10 (July 2011), as low as US$0.47 (April 2001), and currently trades at a resilient US$0.72. Some of the main factors that cause these fluctuations to other currencies include:

Interest rate differential:
This measures the difference in interest rates between two countries.

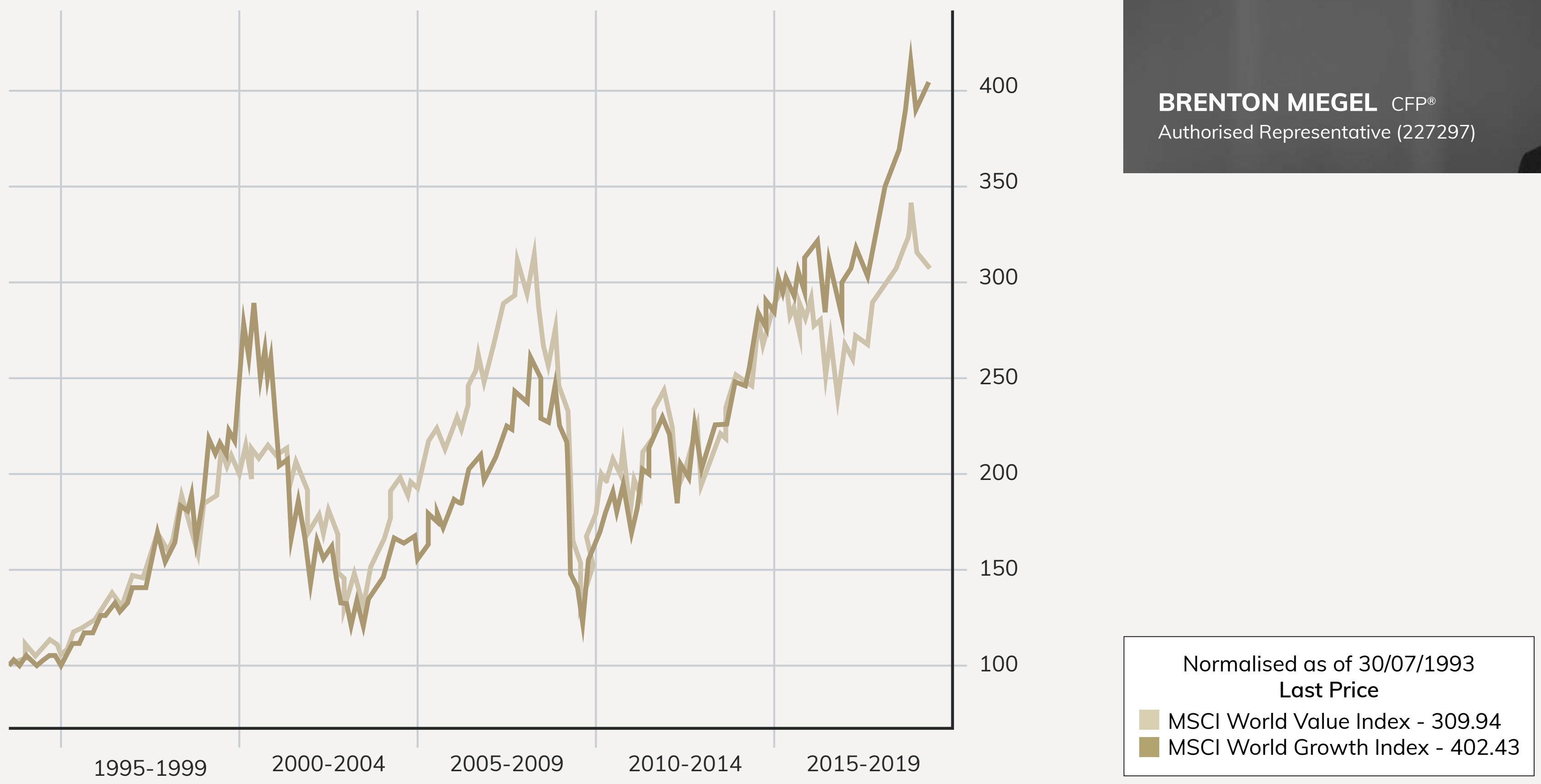
A positive or anticipated increase in interest rates will usually result in higher demand for a currency, increasing the value (appreciation), and vice versa with respect to reducing rates. The Reserve Bank of Australia's current official cash rate of 0.25% may be at historic lows, but it still sits higher than Europe (-0.5%) and Japan (-0.1%).

Terms of trade:
Is a measurement of a country's export prices relative to import prices.

When prices of exports rise higher than those of imports, the value of a currency appreciates. Australia's biggest exports are iron ore, coal, and education, which in recent years have been strong contributors to our terms of trade.

Gross Domestic Product (GDP):
This measures whether an economy is growing or contracting. A growing economy is more attractive to investors. Australia recorded its first recession in nearly 30 years due to COVID-19, but this drop in growth has been reflected worldwide. There are mixed expectations about how the Australian economy will recover from this point, and after an effective vaccine is found.

Speculation:
Something that affects all asset classes, although the Australian dollar is considered to be fairly volatile. We are the world's 13th largest economy, and yet our dollar ranks fifth as the most traded currency in the world, mainly driven by our large volume of commodity exports. This results in the Australian economy being exposed to changes in global economic activity, making the dollar a popular trade around global growth. ■



BRENTON MIEGEL CFP®
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Who's better – Value Managers or Growth Managers?

When reviewing our investments, more often than not we look at the name that is on top of the letter (e.g. Colonial First State, IOOF, Australian Super and the like) and then make a judgement call on whether our investment is doing well or otherwise.

We are bombarded by the media with 'best performing fund' and 'worst performing fund' details, with these names used to headline good or poor performance. In reality, it is the underlying funds in any investment portfolio that we need to take a closer look at to understand exactly how our investment is going.

There are two main fund management styles that are used by fund managers to determine the stocks that are held within funds – Value and Growth. These shares will perform well, or otherwise, depending on whether share markets are gaining or losing.

Value Managers aim to profit from long-term investments in quality companies. They look to invest in shares that appear to be trading at a lower price relative to the 'book' value - allowing for earnings, sales and dividends. It's like investing in a stock where the share market is undervaluing the company at a given point in time, and so offers long-term gains. Companies like the major banks, Coca-Cola and Cisco are good examples of value stocks.

Growth Managers tend to pay a higher price for a share on the 'expectation' that there will be continued rapid growth – at a rate that is significantly above average for the share market broadly. Often companies that are considered 'growth' shares are looking to reinvest any earnings they make to accelerate growth in the short term. Companies like Amazon, Apple and Facebook are considered growth stocks.

So, the question is 'Which management style performs better – Value or Growth?'

The chart above considers shares from across the globe (the MSCI Index – Morgan Stanley Capital International Index) for both Value and Growth stocks. It starts at 30 July 1993. Value stocks are in light gold, with Growth stocks in gold.

As you can see there are periods of time where Growth comfortably outperforms Value, and then vice-versa – it all depends on the market cycle. Growth stocks did particularly well in the lead up to the 'dot-com bubble' (2000/01) yet were outperformed by Value stocks in the lead up to the GFC (2008). Post-GFC, both Value and Growth tracked very similarly for many years as the sharemarket normalised and recovered.

Ultimately, I do not believe that it's a matter of investing in Value Managers only or Growth Managers only. Having a well-diversified portfolio, especially when it comes to share market investing, is the key. That way you can get the best of both investment styles. ■

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Upcoming Seminars

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 note that should the COVID-19 regulations in Adelaide change in the meantime, we may host our seminars via a video conference instead. Please keep an eye on our Facebook page or website for details.

Retirement Planning Talk

Tuesday 10 November

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.

Retirement Living and Aged Care

Wednesday 4 November

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.

Goldsborough is a referral based business

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!

We have pleasure in announcing the winners of our 'Referrers Award' for the September 2020 quarter are Peter & Cathy Sandercock — congratulations Peter & Cathy, your voucher is on its way.

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

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