QUARTERLY INSIGHT

InterPrac Financial Planning Newsletter Edition 1 2023

Autumn update

Welcome to the Autumn edition of our Insights Newsletter!

We hope you made the most of summer, but now it's time for whistles and sirens as footy and netball are back. Good luck to your team(s) and your tipping!

On a more sombre note, as interest rates made their relentless upwards march over many months, the pressure on millions of Australians has increased. Concerningly, for many it's not about which model of new car to buy next, but rather how to keep a roof over their families' heads and put food on the table.

Please be aware and compassionate – this may be your neighbour, your mate, your colleague, your relative.

After a challenging year for markets globally, our first article, 'Australia – the lucky country again?', takes a look at the performance of Australian equity which was one of the best performing asset classes in 2022. We share our outlook for 2023.

Continuing the theme of financial awareness: as you look to the future with a rewarding and carefree retirement lifestyle in mind, '8 retirement mistakes and how to avoid them' is a must-read piece.

Have you really considered all of these sufficiently?

One of the questions you may be asking yourself in the current economic climate is where to invest your savings: super or mortgage? See the insights and key factors to consider in the 'Mortgage vs Super' article (spoiler alert – it's not a one-word answer).

While it is not always easy to accept the consequences of our decisions, our success is ultimately based on the decisions we make and the actions we take. In the article, 'Holding yourself accountable to achieve success' we look at ways to help develop your personal accountability.

Lastly, some food for thought as we go about our busy lives with our final article 'The benefits of a digital detox'. When you take a look at your daily lifestyle you would probably be shocked at how long you spend on devices and in front of a screen.

Enjoy the upcoming Easter break and safe travels, especially if you are on the road.

Keep active and stay healthy. As always, we are here for you and your loved ones. Do not hesitate to contact us!

Australia – the lucky country again?

While almost every major asset class took a sizeable hit last year, Australian equities presented a different story. Australian equity, as measured by the S&P/ASX 200, was one of the best performing asset classes in 2022.

We share our outlook for 2023.

Banks (neutral)

The hot topic is the collapse of Silicon Valley Bank (SVB). It was an unusual bank hit by unusual markets and doesn't appear to be emblematic of system-wide problems. Any major bank failure can threaten contagion, and while the policy response should settle nerves, sentiment may be impacted. Australia's big 4 banks were some of the best performing stocks last year after reporting net interest margin (NIM) expansion. However, NIMs may have peaked for several reasons.

- Wages account for more than 50% of bank expenses. The banks have come under pressure from bank unions to increase compensation rates to be in line with headline inflation.
- Higher funding costs. Australian corporate bond credit spreads for unsecured paper are above COVID-19 highs.
- Slowing loan growth as higher rates squeeze household and business balance sheets.
- Higher delinquencies, rapid mortgage rate increases and roll-off of fixed rate mortgages this year are likely to put pressure on and result in mortgage stress.

Resources (overweight)

During the global financial crisis, China's demand for Australia's natural resources was the saviour in helping the country avoid a technical recession defined as two consecutive quarters of negative gross domestic product (GDP) growth. Chinese President Xi Jinping has cited infrastructure spending as the government's main lever to rescue economic growth. China is finally transitioning to a 'living with COVID' environment. The Australian resources sector could once again be a major beneficiary of this investment, as it was during the GFC.

The reopening of a country with 1.4 billion residents offers investment opportunities, particularly within Australian sectors that have high revenue exposure to China.

A-REITs (neutral to overweight)

REITs' rough run in 2022 has mainly been driven by a sharp increase in the 10-year bond yield, which had more than doubled. However, we believe long dated government bond yields could be close to reaching their peak, and the RBA prioritising growth over inflation could provide tailwinds for REIT performance.

The RBA's focus is positive for potentially oversold A-REITs for three reasons.

1. **REIT income inflation linked –** REITs historically outperform during persistent inflation periods.
2. **Government bond yields moderating –** REIT performance is negatively correlated with bond yield movements due to the impact of change in borrowing costs on property valuations.
3. **Valuations attractive –** The asset deflation bear market we have seen year to date has improved the valuation profile of REITs.

Energy (neutral)

Energy prices are likely to remain elevated in 2023 despite expectations of a global recession. China has transitioned to a 'living with COVID' environment which will increase energy demand. Federal and State governments also recently announced 12m price caps on coal and gas provided to domestic markets. The consensus view is that these measures are manageable in the medium term but does increase policy uncertainty.

Consumer Staples (overweight)

Consumer Staples stocks returned -4.7% in 2022, lagging the benchmark by over 3%. While the performance in the past year was underwhelming, we think the sector will offer some defensive benefits this year as inflation continues its upward trajectory. Generally the demand for staples are price inelastic – volume holds up well even with price increases.

Australia on balance, is much better positioned than most countries to manage economic challenges in 2023. Wage growth has been relatively modest, and, the return of migration over the next 12 months will likely ease the labor market tightness. Australia also has abundant natural resources in short supply globally. For 2023 we expect Australian equities to continue to outperform global equities.

8 retirement mistakes and how to avoid them

Retirement is a phase of life most of us look forward to. It's a chance to pursue other interests, travel and maybe do some part-time work or volunteering.

Thanks to more than 30 years of compulsory superannuation, we are retiring with more savings than previous generations but that also brings its challenges.

According to the government's Retirement Income Review, the average age of retirement in Australia is around the ages of 62 to 65.[i] On average men and women can expect to live to 85 and 88 respectively.

To make the most of your retirement your savings need to last. The best way to achieve that is to have a plan that will help you avoid some common and preventable retirement mistakes.

Mistakes people make

While it's impossible to predict what financial challenges lie ahead, these eight common retirement mistakes remain the same:

1. Not knowing your living costs –

When you earn a regular income, you may be less focussed on keeping a track of your living costs. When the regular income stops at retirement, you can be unaware of whether your investment income and/or pension payments will support your lifestyle costs. Know what your living costs are before you retire to help manage expectations.

2. Not looking at your super until just before retiring –

Investing too conservatively when you're working could mean you don't have enough super to fund your retirement. Review your super account regularly to ensure it is appropriate for each stage of your life.

3. Underestimating the impact of inflation –

Australia's rate of inflation hovered below 3 per cent per year between June 2012 and early 2020. Since the onset of the global pandemic in March 2020, inflation has jumped to more than 7 per cent.[ii] The cost of living may require you to reassess your retirement planning.

4. Not understanding your government entitlements –

If you're age 66 or older, you may be eligible for a full- or part-Age Pension. However, if you are not eligible for the Age Pension, you may still be eligible for other entitlements including the Seniors Card, Pensioner Concession Card, income tax offsets or pensioner stamp duty exemption/concession.

5. Letting the noise affect your investment decisions –

Negative news headlines can create uncertainty during market volatility. History has shown, over the long run the market trends upwards. All this noise can make it difficult to stick your long-term strategy.

6. Trying to time the financial markets –

"We haven't the faintest idea what the stock market is gonna do when it opens on Monday – we never have," said legendary share investor Warren Buffett. Say you invested $10,000 in the ASX 200 index by trying to time the market and missed the 40 best days between October 2003 to October 2022, your investment would be worth $9,064, whereas if you remained fully invested it would be worth $46,099.[iii] Trying to time the markets is never a good idea.

7. Being asset rich and cash poor –

You may have built up a strong balance sheet of assets, but in retirement you need income. For many Australians, their family home could be their biggest asset. You may have other assets but are they generating enough income? This could include rent from an investment property, share dividends or managed fund distributions. If the income is insufficient, downsizing into a smaller home could free up enough money to live on.

8. Not consulting professionals –

Financial advisers, accountants and other financial professionals can help set you on the right path by navigating the complexities of superannuation, investments, constant rule changes and other factors that affect your retirement. A good retirement plan, implemented correctly, can set you up for life.

Start Planning

Whether it's due to lack of time or awareness, too many people tend to make these same mistakes when entering retirement which can lead to unwanted financial surprises.

A phase of life you have looked forward to for so long deserves careful planning. So please get in touch if you would like to review your retirement income needs.

i Retirement Income Review Final Report, July 2020 page 63 Retirement Income Review Final Report (treasury.gov.au)

ii https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release

iii From 31 Oct 2003 to 04 Oct 2022, Fidelity Australia Timing the market | Fidelity Australia

With interest rates on the rise and investment returns increasingly volatile, Australians with cash to spare may be wondering how to make the most of it. If you have a mortgage, should you make extra repayments or would you be better off in the long run boosting your super?

The answer is, it depends. Your personal circumstances, interest rates, tax and the investment outlook all need to be taken into consideration.

What to consider

Some of the things you need to weigh up before committing your hard-earned cash include:

• Your age and years to retirement

The closer you are to retirement and the smaller your mortgage, the more sense it makes to prioritise super. Younger people with a big mortgage, dependent children, and decades until they can access their super have more incentive to pay down housing debt, perhaps building up investments outside super they can access if necessary.

• Your mortgage interest rate

This will depend on whether you have a fixed or variable rate, but both are on the rise. As a guide, the average variable mortgage interest rate is currently around 4.5 per cent so any money directed to your mortgage earns an effective return of 4.5 per cent.[i]

When interest rates were at historic lows, you could earn better returns from super and other investments; but with interest rates rising, the pendulum is swinging back towards repaying the mortgage. The earlier in the term of your loan you make extra repayments, the bigger the savings over the life of the loan. The question then is the amount you can save on your mortgage compared to your potential earnings if you invest in super.

• Super fund returns

In the 10 years to 30 June 2022, super funds returned 8.1 per cent a year on average but fell 3.3 per cent in the final 12 months.[ii] In the short-term, financial markets can be volatile but the longer your investment horizon, the more time there is to ride out market fluctuations. As your money is locked away until you retire, the combination of time, compound interest and concessional tax rates make super an attractive investment for retirement savings.

• Tax

Super is a concessionally taxed retirement savings vehicle, with tax on investment earnings of 15 per cent compared with tax at your marginal rate on investments outside super.

Contributions are taxed at 15 per cent going in, but this is likely to be less than your marginal tax rate if you salary sacrifice into super from your pre-tax income. You may even be able to claim a tax deduction for personal contributions you make up to your annual cap. Once you turn 60 and retire, income from super is generally tax free. By comparison, mortgage interest payments are not tax-deductible.

• Personal sense of security

For many people there is an enormous sense of relief and security that comes with having a home fully paid for and being debt-free heading into retirement. As mortgage interest payments are not tax deductible for the family home (as opposed to investment properties), younger borrowers are often encouraged to pay off their mortgage as quickly as possible. But for those close to retirement, it may make sense to put extra savings into super and use their super to repay any outstanding mortgage debt after they retire.

These days, more people are entering retirement with mortgage debt. So whatever your age, your decision will also depend on the size of your outstanding home loan and your super balance. If your mortgage is a major burden, or you have other outstanding debts, then debt repayment is likely a priority.

All things considered

As you can see, working out how to get the most out of your savings is rarely simple and the calculations will be different for everyone. The best course of action will ultimately depend on your personal and financial goals.

Buying a home and saving for retirement are both long-term financial commitments that require regular review. If you would like to discuss your overall investment strategy, give us a call.

i https://www.finder.com.au/the-average-home-loan-interest-rate

ii https://www.chantwest.com.au/resources/super-members-spared-the-worst-in-a-rough-year-for-markets/

Holding yourself accountable to achieve success

It can be both empowering and a little uncomfortable to think that we are responsible for our successes – and failures. Being willing to accept the consequences of our actions, choices or behaviours is not always easy.

At the end of the day, we are accountable to ourselves – our success is a result of what we do

– Catherine Pulsifer

We've all at some time or another played the "blame game". It's so easy to look outward and blame others for our problems, hardships or the obstacles that are getting in the way of us achieving our goals and dreams. For example, it's the company's fault that I keep getting passed over for that promotion, my team at work is holding me back, my partner is not being supportive enough of me.

The reality is there are always external forces at play that impact our lives and focussing on these external forces takes away our personal accountability.

What does it mean to be accountable?

Being personally accountable means taking responsibility for one's own actions (or in some cases – lack of action!). It's maintaining an ongoing commitment to yourself and what is important to you.

Here are a few ways you can become more accountable.

1. Remove the roadblocks

It all starts with your mindset. Choose to consciously embrace an accountable approach and recognise that you are the architect of your destiny.

That means letting go of the excuses and recognising them for what they are – roadblocks that are holding you back from taking responsibility for your own actions.

2. Set goals

It helps to know what you are trying to achieve – whether that be in your career, relationships or personal life. Take the time to set concrete goals, jot them down, and have a plan of how you will achieve them and in what timeframe.

Start by setting yourself smaller goals as they will be easier to achieve in the beginning. Setting goals (even if they are small ones) and achieving them allows you to prove to yourself and others that you can and will hold yourself accountable.

3. Create your own opportunities

Accountability empowers you to be in control of your actions in your personal life and career. You can create your own opportunities rather than passively allowing life to happen to you.

Being accountable is about fulfilling your obligations to yourself as well as to others, so when you achieve what you've been aiming for, take time to recognize these milestones and celebrate them.

4. Take responsibility for your decisions

Embrace the 'good, the bad – and the ugly' and accept the consequences of your actions, choices and behaviours, be they positive or negative.

Revel in the positives, but don't be afraid to admit and own up to your mistakes. One of the most powerful ways we learn is through making mistakes and taking responsibility for them. That means acknowledging that there is a problem, identifying your role in it and proposing a solution to minimise or eliminate the chances of it happening again.

5. Learn from your mistakes

To reach your potential it's necessary keep extending what you are capable of and taking risks and that means making mistakes. Don't beat yourself up but think of what you would have done differently and what you've learned from the experience.

6. Ask for help

The road to success does not have to be a lonely one. While you are responsible for your own successes, that doesn't mean you can't ask for a hand or even better, work with another, or others to get the support and encouragement you need.

An accountability partner can be someone who shares your goals and supports you to keep your commitments or maintain progress on a desired goal.

Having an accountability partner has been proven to increase your chances of success to an astonishing 95% if you have a specific accountability appointment with a person you've committed to.[i]

So, if you are wanting to be more accountable to your own success this year don't go it alone – make a time for a chat with us and we can work with you to help you achieve your goals and dreams.

i https://www.afcpe.org/news-and-publications/the-standard/2018-3/the-power-of-accountability/

The benefits of a digital detox

Unplugging from technology can have tremendous benefits on body and mind.

Author: Beyond Blue

Here's a question: how many hours today have you been more than a metre away from your mobile phone?

For most people, the answer will be a few hours or less. For others, it may even be no time at all. In today's technology-driven world, the smartphone has almost become an extension of the human hand. An accessory so essential that you feel naked without it. It's often the last thing we look at before going to sleep, and the first thing we look at when we wake up. Research from Deloitte's annual Mobile Consumer Survey report shows that 44 per cent of people in Australia think their phone use is a problem and are trying to reduce how much time they spend on it.

And, when you're not looking at your phone, there's a strong chance you're looking at a computer or watching TV – home entertainment streaming services like Netflix have such a large range that, let's be honest, one episode is rarely enough. Then there's your work life. So many jobs today involve staring at a computer screen for large portions of the day. When you take a step back and look at your daily lifestyle, it can feel like there's no escaping the screen. But the benefits of cutting back are well worth the effort.

It's worth noting that for the last year, the implications of the coronavirus pandemic have meant many people are consuming a significant amount of on-screen content.

One common example is watching and digitally consuming the news for updates on COVID-19, which was particularly relevant during the early stages of the virus. Another is the increased use of streaming services like Netflix in a bid to fight boredom, especially during periods where restrictions were at their toughest.

You don't have to completely cut yourself off from the world like Tom Hanks in Castaway. However, doing a digital detox every now and then will have some great benefits on your wellbeing. Here are five key ones:

A more content and calmer you

There have been thousands of social experiments where people have taken a break from technology and the participants are almost always surprised to find themselves less stressed because of it. When you're on your phone or absorbed in your emails, you're not living in the present. It's only when you open your eyes to the here and now that you realise how easy it is to miss out on the good things around you.

You'll be more productive

Let's be honest – a lot of the time you're checking your social media channels and scrolling through your friend's travel pics, rather than responding to messages or connecting with others. Taking a break from technology will show just how much time you waste on it!

Healthier relationships

If you're stuck in cyber world too long, your social connections in real life can take a back seat. Take this – 43 per cent of people in Australia who are in a relationship believe their partner uses their phone too much and 70 per cent admit to using their phone during mealtimes with family or friends. We all know that person who doesn't get off their phone at dinner. Don't be that person!

Your physical health will improve

If your eyes are glued to the screen, you're probably sitting or lying down. A growing obesity problem in Australia is partly because of a lifestyle tied to the couch staring at a screen. It's not only terrible for your lower back and neck, it's also bad on your waist line. Unplug, go outside and get the blood moving. You'll be amazed how much better you feel.

Improved sleep

When your body knows it's time to sleep, your brain releases a chemical called melatonin, which helps the body relax and prepare for some shut-eye. Science has shown that when you look at a screen before bedtime, your brain is tricked into thinking it must remain alert and awake, preventing melatonin from being released. So, if you're one of the 46 per cent of people in Australia who use their phone immediately before going to bed, now you know why you might be tossing and turning in bed wondering why you can't get to sleep.

Technology is incredible and the benefits are huge in so many aspects of everyday life. However, being able to unplug and have some time away from the screen will leave you re-energised and more in touch with the world around you. Here's a quote to inspire you from author Anne Lammott: "Almost everything will work again if you unplug it for a few minutes, including you."

Your Financial Planner is an Authorised Representative / Corporate Authorised Representative of

InterPrac Financial Planning Pty Ltd

ABN 14 076 093 680

Australian Financial Services Licence Number 246638,
Level 8, 525 Flinders Street Melbourne VIC 3000

Disclaimer: The articles in this newsletter are of a general nature only and are not to be taken as recommendations as they might be unsuited to your specific circumstances. The contents herein do not take into account the investment objectives, financial situation or particular needs of any person and should not be used as the basis for making any financial or other decisions.

InterPrac Financial Planning Pty Ltd directors and advisers may have investments in any of the products discussed in this newsletter or may earn commissions if InterPrac clients invest or utilise and any services featured. Your InterPrac Financial Planning adviser or other professional advisers should be consulted prior to acting on this information. This disclaimer is intended to exclude any liability for loss as a result of acting on the information or opinions expressed.