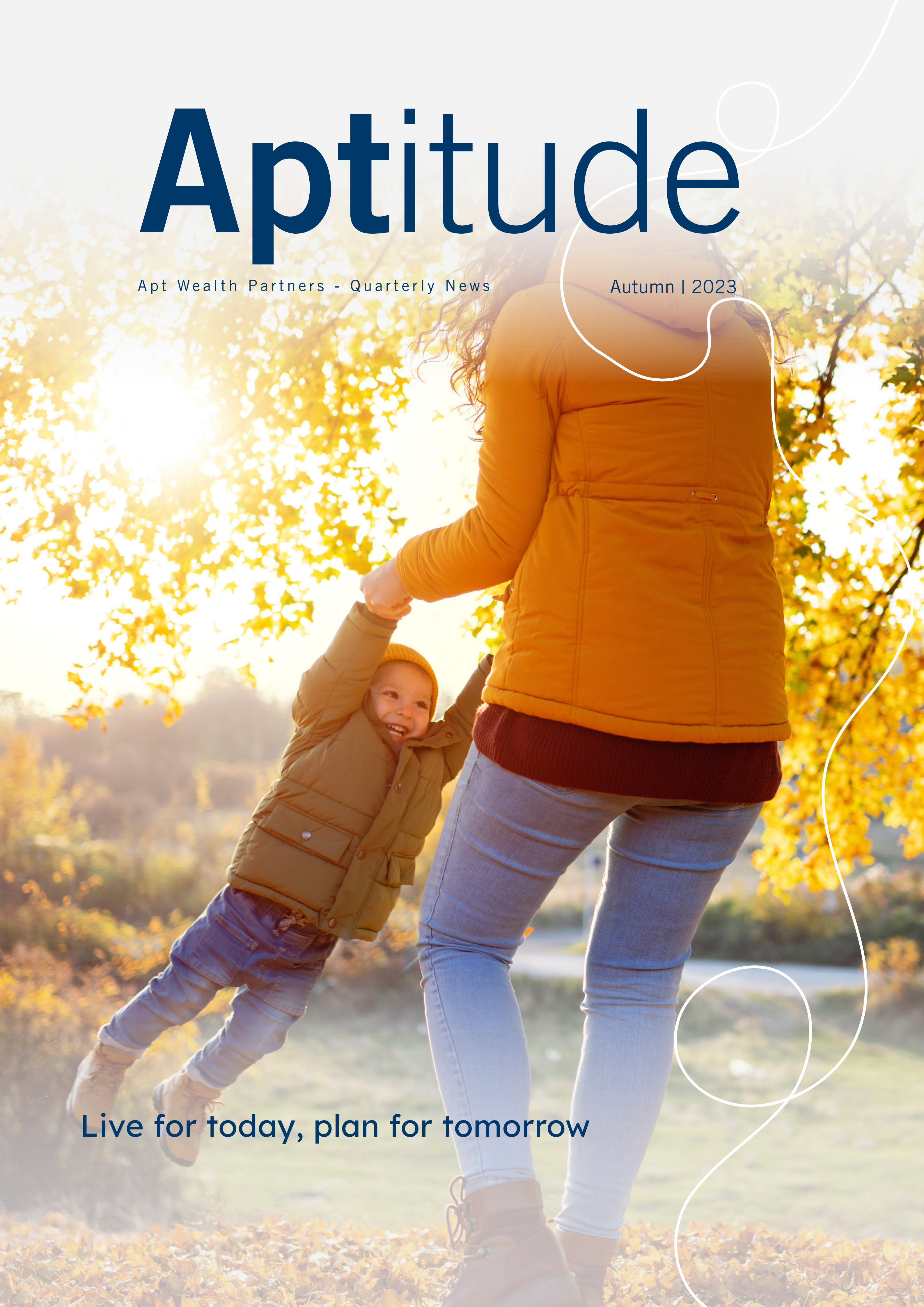
Aptitude

Apt Wealth Partners - Quarterly News

Autumn | 2023



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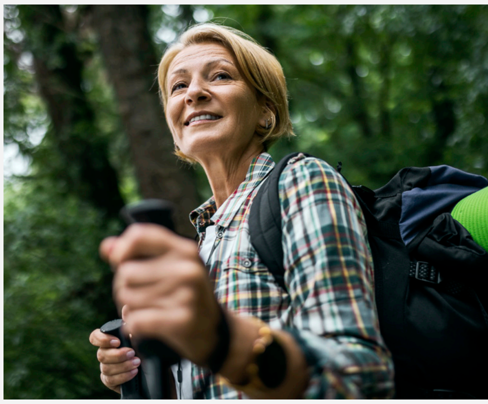


What investors can learn from the fall in cryptocurrencies

Whether you invested or not, the sharp downturn in cryptocurrency markets in late 2022 was a notable event for investors. Here, we talk to Apt's Acting Chief Investment Officer, Adam Bajcarz, about what happened and what every investor can learn from it.

Cryptocurrencies have been around since 2008, when a person (or persons) using the pseudonym 'Satoshi Nakamoto' first published the Bitcoin concept. While Bitcoin remains the most well known, today there are hundreds of cryptocurrencies out there.

"Over the last few years, investors watched as cryptocurrencies rose rapidly in value. We saw retail investors jump on board as they heard of acquaintances, friends or family members selling at wildly inflated prices, at times making upwards of 1000% on a sale," Adam says.

He highlights that markets peaked during COVID-19, leaving some speculation that the fervour was ignited by lockdowns and a sudden change in lifestyle.

"We were at home, many parts of our lives had all but stopped, and there was uncertainty around the long-term impact on global economies. These conditions certainly paved the way for increasing interest in crypto," he says.

And while rising prices might have made them seem an attractive investment, Adam points out that it was also a sign of their extreme volatility.

"Something that rises quickly can fall just as fast, and this is what we have seen," he says.

When the market dropped late last year, some called this a correction, but Adam says it's tricky to point to a single cause.

"It is difficult to point to one factor that triggered the recent collapse," he says, while highlighting that the lack of intrinsic value was a factor, particularly as economies moved into a new cycle.

"As there is no income behind cryptocurrencies, the return must come from selling to someone at a higher price, and the supply of people to buy at higher prices simply ran out. Inflation and rising interest rates meant many investors did not have surplus cash with which to speculate.

"Then we also saw the collapse of a number of high-profile crypto exchanges, such as FTX, further contributing to changing investor sentiment."

Adam says that whether or not you invested, if you made money or lost it, there are some key learnings every investor should take away.

Don't simply follow the crowd

While Adam highlights that activity around a stock or market can indicate there may be value there, it's important to do your research rather than simply follow the crowd.

"In these circumstances, it can be easy to think everyone else knows something you don't, but it's likely many others are thinking the same thing. And then you have a crowd where the majority don't have any knowledge behind their decisions. It starts to look impressive, leading others to follow, growing organically, when really there isn't much behind it at all."

Know the difference between investing and speculating

Adam states this is even more true when looking at speculative investments that don't hold intrinsic value.

"You're relying on someone else paying more, but there's no reason why they will. It's depending on sentiment alone, and that's a risky position – it's speculating," he says.

"Investing is about having a framework, doing your research and staying within your risk profile to make decisions that support your long-term goals.

"Speculating, on the other hand, is making hypotheses with no real evidence behind them. It tends to run on 'feeling' rather than information," he says.

"And it's something some investors are comfortable with, but you need to understand that in many ways, it more closely resembles gambling than investing. And if you're going to speculate, setting and sticking to an exit strategy or trigger is a must."

Understand what you are invested in – and why

Adam says your investments should be part of a long-term strategy, and you should know both what you are invested in and why those investments are likely to support your goals.

"Of course, there is always some risk with investing. If you have applied a solid framework and a risk profile suited to your circumstances, you're on a good track for positive long-term outcomes, and that should be the goal for any investor."

Be aware of the environment in which you are investing

Adam highlights that most cryptocurrencies are unregulated, and the collapse of many exchanges saw investors wiped out with little or no recourse.

"This was an incredibly damaging event for many speculative investors, and it's a lesson in making sure you have adequate protection under local regulations. Otherwise, you are taking on significant risk – risk most of us wouldn't want to hold," he says.

Speak to your adviser before making any moves

If you are interested in a speculative investment or one you know little about, your Apt Adviser should be your first port of call, Adam says.

"Your adviser is there to guide and support you. We are not there to tell you what you can and can't do, but we can give you our expertise and the relevant information to make an informed decision, ensuring you understand the potential impacts on your long- and short-term plans," he concludes.

Tips to strengthen finances for women

This International Women's Day, the Apt Wealth team reflected on the theme of 'Embrace Equity' and what it means when considering finances. Here, we talk to Senior Financial Adviser Suzanne Johnston about the playing field for women.

In 2023, you might assume we have come further when it comes to equality in finances, but the data tells us a different story. According to the Women's Gender Equality Agency (WGEA), the gender pay gap sits at 22.8%, with women earning an average of $26,596 less than their male counterparts each year.

And when it comes to superannuation, it's a similar story, with the Association of Superannuation Funds (ASFA) indicating an average gender gap of 23% upon retirement. The average superannuation for a retiring woman is $137,050, while for a man it's $178,800.

Suzanne agrees there is more to be done to level the playing field from a systemic perspective and it's not something we can afford to wait for.

Take control of your superannuation

“The superannuation gap is a reflection of two key things. Firstly, of course, the pay gap, and then there’s the fact that women are much more likely to take career breaks, whether for children or caring for family members,” she says.

Research from Rest Industry Super highlights that, on average, women earn 29% less than their male counterparts on their return to work, so Suzanne points out that this can be “a double-whammy”.

“There’s a wealth of research out there indicating that Australians generally don’t understand or pay close attention to their superannuation until retirement is close. And by then, it may be too late. This isn’t gender-specific, but unfortunately, women are often the most heavily impacted.”

Suzanne’s first tip is to take control of your superannuation. She points to several areas:

- Appreciate that superannuation is your money, and you can maximise it. If retirement is some time away, it can be easy to feel disconnected, but it’s important to take charge while you have time to grow it.
- Increase your understanding of how it works by talking to your adviser, attending fund information sessions or doing your own research.
- Start at the end with a rough understanding of how much you will likely need to retire, and work backwards to plan for the contributions that will get you there.
- Play an active role in understanding how to structure superannuation to weather downturns and maximise returns.
- If you are earlier in your career, and have yet to take a career break, make additional contributions now if you can.
- Explore options like spousal contributions during career breaks. It may also be tax-effective for you as a household.
- If you are going through a divorce or separation, make sure super is discussed in the settlement, and don’t underestimate the importance of it as a marital asset.
- Stay across tax and legislation changes as there may be tax-effective opportunities to boost your super.

Boost financial knowledge

“Unfortunately, financial literacy is something most Australians weren’t taught in school, and our attitudes to money are likely to simply reflect those of our parents as a result,” says Suzanne.

Again, she highlights that this isn’t gender-specific, but it is critical for women to have a solid understanding of finances.

“You don’t need to be a financial adviser, but you should understand some of the aspects that help you make day-to-day and longer-term decisions.”

Suzanne says if you need to boost your financial knowledge, it’s good to start with foundational concepts, such as understanding how compound interest works and how to leverage it to improve your position.

“Your adviser can point you in the right direction or there are some great programs out there. You can also simply do the research yourself. Whatever you do, have a plan to learn, because when it comes to your finances, knowledge is power.”

Know your financial position – and how you can improve it

According to *Money Magazine*, a staggering 86% of Australians don't know how much they are spending each month.

Suzanne says if that's you, it's absolutely the first thing you need to tackle.

"Knowing exactly where your money is going in detail is the first step to making any positive change. We often think of 'budgeting' as the first step, but really, it's understanding where you are spending.

"When doing this exercise, many people find immediate savings on things they won't miss or didn't even remember they were paying for, before they even begin to budget."

Suzanne says an immediate step should include getting a better deal on your bills. "From the smaller items, such as changing phone or utility providers to the bigger ticket items, like refinancing your loans or reviewing your insurances, checking in and updating this is good financial practice."

Once you understand what you have to play with, you should look at ways to maximise any surplus. Suzanne says there are a range of things you can start to consider once you know your position.

"You might find you can put some additional money aside, and this gives you options, like putting in an offset account against your mortgage, investing or growing your superannuation.

"Your money really should be financing your life goals, long and shorter term, and that's where your adviser can really help you get and stay on track."

Protect your current and future finances

When it comes to life and income insurances, Australia has an underinsurance problem. And it's exacerbated for women.

"According to a report by IFSA, only 50% of female parents have life insurance compared to 62% of men. A fair proportion of that is built-in to superannuation, so may not be adequate to protect a family. And that research only looked at parents, not the broader community."

Suzanne highlights that most of us would not consider leaving our car or house uninsured, yet many of us don't insure our most valuable asset– ourselves. This could leave our future earning potential or our family's future at risk.

"The stakes can be so much higher, yet these types of insurances are often overlooked. The average earning potential in Australia sits around $3.6 million, so it's certainly worth protecting. Personal insurances like life and income protection are a must."

She says it's an area where more women need to take an interest beyond the cover included in their superannuation.

"Insurance is often thought of as an unnecessary expense – until you need it," she adds.

Talk about money

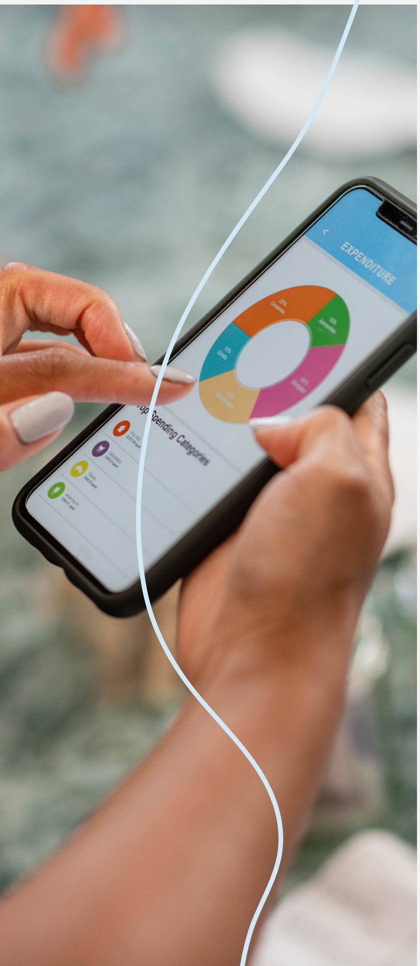
"Many of us were taught as children that money is a taboo subject. And, of course, you shouldn't be shouting about your finances to your entire network, but it is important to have transparent discussions with those close to you, your partner and even your kids."

She points out that your children are very likely to adopt your attitude to money, as you most probably did from your parents.

"If you want them to share your financial attitudes and habits, talk to them about what you do and how you manage money. And if you want them to adopt different beliefs or to avoid mistakes you made, have conversations about that approach instead," says Suzanne.

Suzanne acknowledges that there can be domestic or relationship issues that prevent open discussion about money or making money-related decisions.

In that situation, she highlights that it's critical to put safety first and encourages those impacted to contact 1800RESPECT on 1800 737 732 or go online at www.1800respect.org.au for advice and support.



Changing attitudes to retirement

Retirement is an exciting time, one many of us anticipate for years in advance. However, COVID-19 changed the playing field for many, and long-made plans are being tested. But Apt Director Andrew Dunbar says it still can be a meaningful and exciting time; it may just take a mindset shift.

“COVID-19 changed all of us in some way,” Andrew says. “Particularly when it comes to what’s important to us. For many, it really highlighted the importance of family and proximity to loved ones, but it also put health risks firmly into the spotlight. And for older Australians and retirees, those feelings may have been heightened. For some, this is making it harder to get back into life in the wake of the pandemic.”

Andrew points out that while this reluctance is understandable, it can also have a raft of unpleasant side effects.

“We’re seeing changes to the way retirees are living their lives, particularly when it comes to travel and social events, and that can exacerbate feelings of loneliness and isolation. It can also make the emotional transition much harder as we feel less connected to the world around us.”

Delayed retirement and changing expectations

According to Andrew, the pandemic had two major impacts on retirement. Firstly, he says, many of those due to retire in 2020/21 continued working rather than retiring during such uncertainty.

And while Andrew acknowledges that this might have been a positive for their finances, it may have had a negative impact on their emotional transition.

"In the lead-up to retirement, most of us have a sense of anticipation. We've long planned for this day and have dreams tied up in it. To revise the timing, as so many did in the pandemic, can affect our expectations and feelings toward retirement."

The research supports this, with a report commissioned by Allianz Retire+ highlighting that 1 in 3 prospective retirees had more negative expectations of retirement as a result of the pandemic.

Financial concerns growing

When it comes to retirement expectations, Andrew says it's not just COVID-19 that has put the brakes on for many Australians.

"We are seeing fewer seniors travel than pre-COVID. Some of this is down to concerns about health, safety, risks of cancellation or the hassle of meeting changing international border requirements."

But, he says, finances are also a growing concern for many.

"The other aspect worrying many current and prospective retirees is: 'Can I afford it?'. The rising cost of living and reduced investment returns we've seen over the past few years can take a toll on retirees."

According to the ASFA Retirement Standard, a couple required $61,786 to live a comfortable retirement lifestyle in late 2019. By late 2022, this had jumped to $68,014.

Andrew says this is a significant hike, particularly if we look at historical data.

"Between 2016 and 2019, the cost of a comfortable retirement rose by $2,172. Between 2019 and 2022, the increase was over $6,000."

He also highlights that ASFA's comfortable standard may not be your idea of comfortable.

"For example, ASFA detailed expenditure allows $1,859.52 for international vacations, $323.96 for social club memberships, and $539.76 for cinema, theatre and day trip per couple per year. For many, that might be a more modest lifestyle than they hoped."

Changing mindsets is key

Andrew highlights that while there are undoubtedly new factors for retirees to consider in a post-COVID world, it's not all doom and gloom.

"We are in a new reality, and most of us have had to adjust in some way, but because retirement is so long planned for and dreamed about, it can be particularly unsettling to change plans shortly before or during retirement. But there are steps you can take to ensure you are still getting the most out of yours."

Firstly, he says, it is critical that your spending habits align with your values.

"Many of us saw value shifts during COVID as we started to focus on what's most important in our lives. It's important that your spending habits and financial plans align with these changing values."

As Andrew puts it, a good way to start this process is to think about what you want people to say about you at a milestone birthday.

"When most people do this exercise, they quickly realise that it isn't 'she drives an expensive car' or 'they ski in Europe every year'. Most of us really want to be known for the fundamentals of who we are, and spending our money in a way that aligns with that really is key for a more meaningful life – in retirement and at every stage."

Interested in revisiting the alignment between your spending and your values? Your Apt Adviser can provide you with *More than Money,* a free roadmap to uncover values and build alignment with your finances.

Secondly, he says, it's about ensuring you are still getting out and engaging with others and not forgetting the importance of the emotional transition.

"If health concerns are keeping you away from busy social events, think about how you can engage in a smaller way, at local events or with smaller groups. Even if it's one-on-one catch-ups with friends, social activities are critical. Isolating yourself is rarely key to a happy lifestyle, so it's important to get back out there."

And when it comes to travel, Andrew says swapping international plans for local options might surprise you.

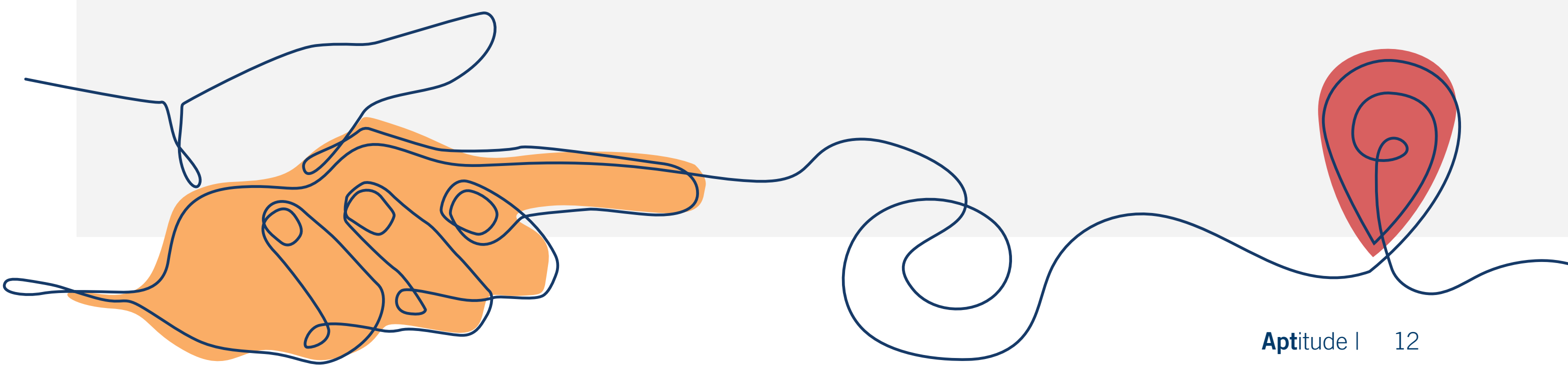
"Australia has some incredible once-in-a-lifetime experiences, so if you don't want the hassle of overseas travel, or financial concerns are holding you back, take a look at what you can do here at home. There are some incredible adventures to be had in our own backyard."

Last but certainly not least, Andrew says it is critical to talk to your financial adviser.

"Not only can your adviser help you understand your options in changing economic circumstances, but we are also here to help you achieve life goals. Our advisers understand the importance of the emotional transition to retirement and can help you navigate that."

He concludes by saying, "Uncertainty, whether in our own lives or on a global scale, is nothing new. From world wars to the GFC, there have been many periods of uncertainty throughout history.

"What we see is that those who continue to thrive are really focused on what's most important in life. So, stay positive, focus on your values, and talk to your adviser about how you can use your retirement funds in a truly meaningful way; that's ultimately how you will live your dream retirement."



It's time to talk about the **great wealth transfer**

As it stands today, baby boomers hold more than 50% of the wealth in Australia, but as they move through life stages, much of this is set to be transferred to the younger generations in the years ahead. Here we talk to Senior Financial Adviser and intergenerational wealth transfer expert Preston Foster about why family discussions are critical and how 'ruling from the grave' is rarely effective.

According to the Productivity Commission, baby boomers will be passing on $224 billion a year to younger generations by 2050, and, as highlighted by the *Australian Financial Review,* 'record housing and super wealth, and fewer heirs, [will] create a $3.5 trillion bonanza for younger generations…'

"Whether your children are set to inherit significant assets or closer to the average (estimated at $320,000), you no doubt want that money to set them up for a better life," Preston says.

So, he highlights that it's critical to consider and plan your transfer during life rather than leaving it as bequests in your will.

Mediated discussion will uncover issues

Preston explains that as a mediator, his role is to help the discussion go beyond the surface.

"Whether there are additional factors at play, such as blended families or particularly challenging dynamics, or it's a more straightforward family situation, there are always underlying issues, and it's important to uncover these as early as possible."

He describes these discussions as being an 'iceberg', where 80% and often the most damaging parts of it are submerged.

"No one wants to sit in a room and discuss what will happen after their parents pass away. It's an uncomfortable topic, and it's not unusual to hear family members in these situations say that it's not about the money."

But the reality is, it's not about the money until it is, Preston asserts, and this can lead to significant conflict after you pass.

"Having these uncomfortable discussions during life can bring issues to light while they can be addressed. Addressing them doesn't necessarily mean changing your plans, but it will shed light on why you have made these decisions. While knowing this reasoning may not lessen how they feel about it, it will close the door on speculation."

He adds that speculation can be an express pathway to legal challenges upon execution of your estate plans, and then the lawyers are often the only winners.

Talking about your plans

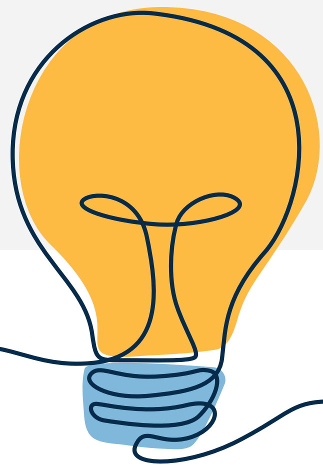
"You have your will as a legal document for how you want your money divided, but that doesn't help you support your children in how it will be used or in understanding your wishes. You can only do that in life, so it's important to have these discussions."

Preston has been mediating these discussions for over a decade, working with high-net-worth business and farming families. In his experience, he says, how you prepare for them is vital.

He points out that it is crucial to enter these discussions with an understanding that 'ruling from the grave' is rarely an effective strategy.

"Setting 'bright line' standards on how the money is to be used after you pass away likely won't achieve the outcomes you want for your family members and may just increase guilt or even resentment.

"There are many legal structures and trusts you can look at to safeguard the funds, particularly where you feel there might be additional issues. But, typically, the best way to ensure your wealth helps your children is to talk about it while you're here to do so."



"Once lawyers become involved in an estate disagreement, a portion of your wealth will end up with them, and nobody wants that. So, alongside legal agreements, it also helps to have family members on board with your plans."

Guidance is key for beneficiaries

Once you have discussed your plans, he says, you can guide your children on how to use the funds without ruling from the grave.

"As mentioned earlier, there are structures you can put in place to manage the flow of funds to your children, such as trusts. These structures can be particularly effective when there are concerns about a beneficiary's ability to manage money, whether due to young age or other concerns such as gambling, addiction or simply poor money management skills."

But he says a critical puzzle piece is ensuring your beneficiaries have long-term financial plans that will enable them to use the funds meaningfully.

"Inheriting a large sum can be a pathway to poor financial decisions, particularly if beneficiaries have not previously managed wealth. We often see this with third-generation beneficiaries, who might be removed from the process of building the wealth."

He highlights that encouraging your children to receive financial advice is a must.

"Working with a planner to understand how the money can be used to achieve financial and life goals can act as a guide to help them make the most of the money when you are no longer there to do so."

You need a 'traffic director'

He points out that you will need various professionals to set and enact wealth transfer plans, from your financial adviser to legal and estate planning specialists, accountants and tax advisers. Therefore, ensuring you have a team that works together is critical.

"If your professionals are working in a vacuum, you probably won't get the most effective outcome – and it's likely to be inefficient and end up costing you more."

With his clients, Preston often plays a role he describes as 'traffic director'. Alongside mediating discussions and developing financial plans, Preston ensures the process flows smoothly between professionals.

"This way, you don't just have expert advice; you have a team of professionals in your corner who understand your needs from different angles and combine this knowledge to deliver a successful outcome."

Preston concludes by saying that at the end of the day, we all want the best for our children and hope that our money can help them achieve it. And the key to that lies in transparent discussion and planning that will guide them when you no longer can.

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