Aptitude

Apt Wealth Partners - Quarterly News

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Financial planning lessons from the last two years

The last two years have been some of the most challenging many of us have ever seen, starting with bushfires, through to floods, and of course, the COVID-19 pandemic. When it comes to finances, the pandemic put a spotlight on some areas we should all address. Here, Apt Wealth Partners Senior Financial Adviser Preston Foster reflects on some of the lessons we can all take away.

#1 Access to an emergency fund is crucial

Recent data from the Australian Bureau of Statistics highlights that almost 20% of working Australians couldn't access $2,000 in an emergency. And, according to Preston, this isn't limited to low-income earners; it can and does apply to people with significant assets but limited liquidity.

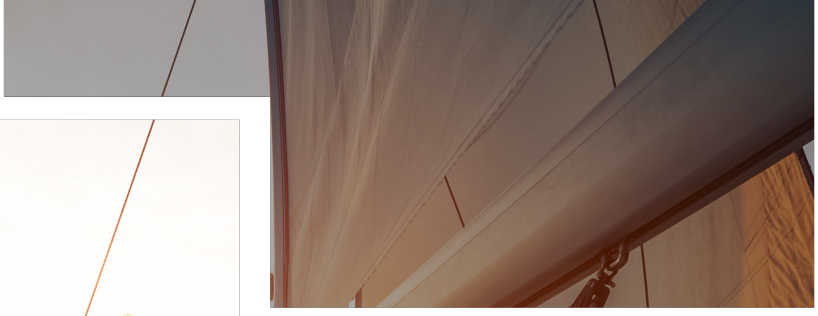
"It's critical to have quick access to at least six months' living expenses, but many Australians don't have this level of liquidity. COVID-19 was a stark reminder that we don't know what is around the corner, so we need to be prepared for anything."

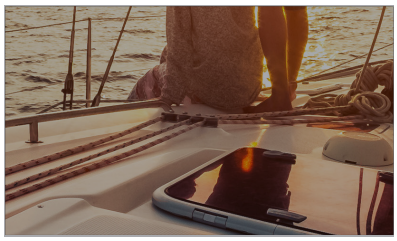
He concedes that keeping cash can feel like missing out on growth opportunities, particularly in the current low-interest environment, but says there are alternatives to a savings account. "A mortgage offset account, for example, can be a great way to ensure you have access to the money, but keep it working for you," he says.

"If you don't have access to at least six months' living expenses, start looking at how you can build it now. Even if it is going to take you some time, the earlier you start, the more ready you will be for the next disruption."

#2 Identify and manage controllable risks

In Australia, underinsurance is a significant issue, particularly when it comes to personal insurances, meaning millions of Australians aren't managing controllable risk.





"The pandemic brought health concerns to the surface for many Australians, and this may have led to revisiting health insurance needs, but how many people considered their personal income insurance?" says Preston.

He highlights that while health insurance may be part of your strategy to reduce bills in the event of illness or injury, it's important to have protections in place for your biggest assets – your income and earning potential.

"What would it mean for you if you couldn't work? From missing mortgage repayments to pulling the kids out of school, it can have a detrimental impact on almost every aspect of your lifestyle.

"If the pandemic has taught us anything, it is that there are many uncontrollable risks in life. If you are underinsured, make 2022 the year you manage those that are within your control."

#3 Taking an active role in your super is critical

In the early days of the pandemic, as markets around the world took a sharp dive, we saw many people panic about their super. A common response was to move superannuation into cash to try and stop the bleed, but this mostly led to locking in losses.

According to Preston, what it did highlight is that whatever stage of life you are in, it's important to take an active role in managing your superannuation. "While it might seem like there is little we can do when a downturn hits, the reality is that there are ways to structure your super to weather financial storms. It's something your Apt Adviser can help you do and it's well worth doing, whether you are just starting in your career, about to retire, or even retired already," Preston says.

#4 Aligning your values and your finances will help you achieve a more meaningful life

During the pandemic, many people re-evaluated their values. From work/life balance to time with loved ones, recent events highlighted what is really important for many of us. And, Preston says, whenever our values change, it's also important to revisit our financial choices.

"More money won't buy you happiness, but aligning your spending and your financial decisions with your values can lead to a more meaningful existence. In fact, your Apt Adviser starts with your values and builds your plan from there – because more money should support your lifestyle, not the other way around. So, if you haven't revisited your goals in a while, it's probably a good time to do so."

#5 Your long-term financial plan is your compass in uncertainty

Every day, we make financial decisions that can have long-term impacts and too many Australians are doing this without a long-term plan. A long-term plan is a guide to inform these decisions, something that is crucial in uncertain times, according to Preston.

"Consider your long-term plan to be like your compass that keeps you moving in the right direction. Your financial plan takes into consideration a variety of scenarios, so when a downturn occurs, whether personal or global, you have a true North to guide you through it."

Investing in disruptive tech

Disruptive technologies are changing the way we live and work, but what do they mean for investors? Here, Apt Chief Investment Officer Sarah Gonzales looks at some of the technologies that are changing the game.

Disruptive technologies are those innovations that significantly change the way consumers, organisations, markets and even economies operate, and we've seen an evergrowing number of them in the last two decades.

"Organisations and governments that respond effectively to emerging threats and opportunities tend to come out on top, and there are many well-known examples of businesses ignoring emerging technology to their detriment," says Sarah. She points to the slow death of businesses like Blockbuster, which didn't respond to the emergence of streaming technologies, as an ubiquitous example.

However, many technologies are billed as disruptors, only to go by the wayside when a new innovation is introduced, making it an inherently risky space for investors. So how can investors approach emerging tech, and what are some spaces to watch?

Electric vehicles and lithium battery technology

With the environmental mandate clear for businesses and governments across the globe, Sarah highlights electric vehicle and lithium battery technology as a potential game-changer in the investment landscape. But, she says, it is not without risk.

"A number of electric vehicle manufacturers and lithium miners have seen significant share price increases despite little in the way of profits yet being generated," she says.

And while this is a good indication that investors have faith in the technology's disruptive potential, Sarah cautions that profits will eventually need to be realised for current share price increases to be sustainable.

"The battery and electric vehicle industry is still rapidly evolving with large amounts of capital being invested by both companies and governments. Due to the early stage, it is difficult to determine which parts, if any, of the supply chain will prove to be a profitable investment for shareholders."

Sarah says this doesn't mean it's a no-go for investors – more of a tread carefully. "If investors are confident that the increased adoption will eventually result in industry profitability and wish to gain exposure, they could do so by investing in a basket of companies across the supply chain."

Cybersecurity

Sarah says that while cybersecurity technologies have been around for some time, the landscape is changing rapidly. "With the rise of remote working and more and more internet-enabled devices in our workplaces and homes, hackers are taking advantage of growing vulnerabilities."

In fact, according to Cybersecurity Ventures, cybercrime is set to cost US$6 trillion in damages this year alone, increasing 15% each year to reach US$10.5 trillion by 2025. This makes cybersecurity a space to watch.

AusCyber's Digital Census 2020 found that Australians spent AU$5.6 billion on cybersecurity in 2020, with the number expected to increase to AU$7.6 billion by 2024. "We've also seen the Australian Federal Government making it a strategic priority by establishing the Cyber Security Skills Partnership Innovation Fund that provides significant grants to improve the quality and quantity of cyber security professionals in Australia, demonstrating they expect increased demand in the future," Sarah says.

But what does this mean for investors? Sarah says the changing face of cybercrime and how consumers and businesses engage with the internet has led to an emergence of new companies as existing players seek to reinvent themselves. "The new landscape is giving rise to a new generation of cybersecurity companies, which are often not yet profitable, but taking market share and seeing strong revenue growth. Then you have the incumbents, who are attempting to evolve to meet changing needs."

She says this can make it challenging to determine which group of companies will come out on top. But, despite uncertainties as to who will capture market share, one thing is clear, according to Sarah. As both a growing industry and a defensive one, there are opportunities for investors. "It's another area where a basket of shares across the space may make sense for investors, so they don't have to back a single player."

Robotics

Robotics is changing almost every industry, but Sarah says it's a space where consumers can be hesitant about innovation, pointing to healthcare as an example. "Today, we have robots that can perform major surgery, but the comfort of patients will play a role in uptake. So while a robot may be able to perform the surgery more accurately with less infection risk as it isn't open to human error or fatigue, is it something we are all comfortable with when it comes to our health?"

Sarah points to the ethical considerations as well. "Consider the role of robots in replacing human packers in warehousing and distribution. This may lead to more profit for companies like Amazon, but it costs human jobs, so it's an area where investors have to consider their level of comfort."

However, despite these considerations, robotics is disrupting a wide range of spaces, presenting opportunities for investors. "Which technologies will ultimately be successful is very difficult to determine, and the average investor doesn't understand the technology or full potential of it. There are however, ETFs and managed funds that give you exposure to the market that can be worth a look."

It's clear that investors can't ignore disruptive technology, but Sarah says you shouldn't rush into investing in every potential disruption. "If you are interested in gaining exposure to disruptive tech, it's important to consider which sit well with your ethics and which you genuinely believe in. This conviction can help you stay the course as the journey isn't always smooth," she concludes.

The great resignation is coming... So what could it mean for you?

The Great Resignation is tipped to hit Australian shores in 2022, so if you've been thinking about a role or career change in light of the last two years, you're not alone. Here, we talk to Apt Director, Andrew Dunbar about the trend and what it could mean for your lifestyle and your finances.

You might have heard about the Great Resignation, it's been a media favourite in the last few months. But in case you haven't, it's a global employment trend that is seeing a large percentage of employees reconsider their employment as life returns to some semblance of normality. And it makes sense. The COVID-19 pandemic changed almost every aspect of life for most of us – including our values.

According to Andrew, time out of the workplace gave us time to reflect on what we want out of life. "Whether it was more time with the family, more flexible working hours or a change in our spending habits and general lifestyle, COVID restrictions and working remotely provided an opportunity to take a step back and consider what makes us happy. For many, that shed light on what we want out of not just our working lives, but our lives in general."

Andrew says he has spoken to many Apt clients who have had an epiphany and now want something different out of life. And the statistics support this anecdotal evidence, with PwC and Deloitte research highlighting that 40% of Australians are thinking about a career move in the next 3-6 months.

If you are thinking about a career move or even a career change, it's likely there will be a number of opportunities on offer as the movement hits our shores in early 2022. But, Andrew says, while it's easy to understand what you want to leave, you also need to be clear on what you want to go to, and why it will be better for you.

"I compare it to deciding to retire. Many people think they want to retire to move on from work, but they haven't worked out that emotional transition – what they want to achieve in the shift, and how they will achieve it. For example, how will a new job make you happy? What will it enable you to do that you can't do today? How will you spend that extra time or money in a way that adds to your life?"

Once you are clear on your reasons for the career or role change, it's critical to weigh up the impact on your lifestyle and your finances before you make any decisions.

"Your long-term financial plans are likely built around your greatest asset, your future earning potential. You may have already planned several life goals around this, and while it doesn't mean a change is impossible, it's worth understanding the impact to make the right decision for you."

He says it's important to speak to your adviser about what a change in salary, a move to a new area or a new lifestyle might mean for your finances and your goals. "More money isn't always the answer to happiness. Happiness can come from having a job and career you love or more time with loved ones, but there are always trade-offs and it's about understanding what it means for you."

Andrew says it's about finding a balance between what will make you happy today and provide the future you want. "We don't know what is around the corner, so putting everything you want today on hold to service future goals is not the best strategy as it may never materialise, but you need to find a balance.

"Starting a new career later in your working life can bring significant emotional and lifestyle advantages, but it will often mean earning less than you expected over your working life."

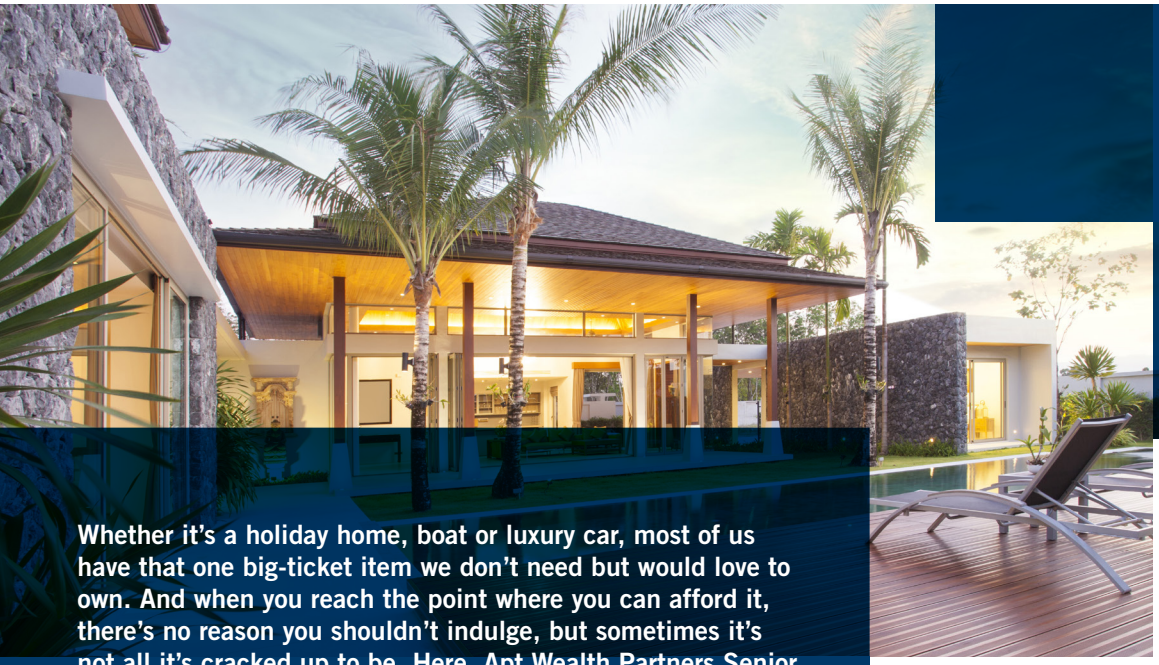
It may be, he says, that you need to postpone retirement in order to reach your savings goals. "That might be perfectly suited to you, but it is a consideration and a change to your life goals. Or you may have had plans for a big-ticket purchase, a new property or that dream holiday, and these may be the trade-offs.

"Life is all about decisions and balance, and that's one of the true benefits of financial advice. It acts as a compass to make these life decisions. Money is there to help you achieve a more meaningful existence, and at the end of the day, what makes you happy should be central to your planning."

So, should you consider that career move if it's been on your mind? For Andrew, the answer is a resounding 'yes' because living your best life is about more than money. But, he says, if you are considering a move, talk to your adviser now and start planning for the change.

"Knowledge is power and understanding what a career move will mean for your finances and your life goals will help you make the right decision," he concludes.

Living the dream: Is a lifestyle asset the right move for you?



Whether it's a holiday home, boat or luxury car, most of us have that one big-ticket item we don't need but would love to own. And when you reach the point where you can afford it, there's no reason you shouldn't indulge, but sometimes it's not all it's cracked up to be. Here, Apt Wealth Partners Senior Financial Adviser Preston Foster shares the questions you should be asking yourself before you take the plunge.

"When it comes to lifestyle assets that don't deliver financial returns, it's often assumed that we would be against them as financial advisers. However, the reality is that we are about helping our clients live their best lives – and this is sometimes about treating yourself," Preston says.

He adds that the first question is always whether you can afford it and stay on track with your other life goals, but once you've cleared that hurdle, it's about deciding whether it is the right move for your lifestyle as well as your finances. And that, according to Preston, starts with asking yourself how often you will use it.

How often will you use it?

"It might sound like a simple question, but it's something we often get wrong. For example, a holiday house in a destination you love can sound like a great idea, but you might find you quickly tire of visiting the same place. Or, you might love the idea of whiling away hours on the water in your own boat, but do you have enough spare time to actually do it?"

According to Preston, this is a crucial decision point that will help you determine whether your purchase will add value and make you happy or simply become an additional hassle and cost.

Although sharing arrangements can get a bad rap, he says it is worth exploring high-end syndication and partnership options. "There are some great options out there that give you the benefits of purchasing without bearing all the ongoing costs or hassle of managing the asset," Preston says. However, he does admit that it can be a minefield, and there are some less scrupulous players in the space, so he recommends speaking to your adviser to explore your options.

Do you understand the actual costs of ownership?

With many lifestyle purchases, Preston says the initial purchase price can be one of the smaller costs. "Take a boat, for example. There are many additional items you may need upfront, from trailers to radios and life jackets. Then there are the ongoing mooring, fuel and maintenance costs. Even if it is financially viable, it doesn't make financial sense if you don't have time to enjoy the boat."

Preston recommends doing your due diligence on these costs and dividing them by the number of times you will use the asset in a given year. "In some cases, you may find the cost per use is so high that it would make more sense to hire the asset when you want to use it."

According to Preston, if you want it and can afford it, there's no reason costly or time-intensive upkeep should be a deal-breaker. However, it's essential to understand it from the outset so that these costs don't become a nasty surprise that take all the joy out of your purchase.

What are the tax implications?

Recently, the Australian Tax Office (ATO) honed in on lifestyle assets, particularly those bought against a business or as part of an SMSF. Preston says this is an area where it pays to tread carefully. "Buying a lifestyle asset against a business or SMSF reclassifies it as a financial asset, and the ATO takes this very seriously. So, for example, if you purchase a home in a holiday destination as part of your SMSF, you are not allowed to access it for personal use, and it's an area where they are cracking down."

Preston says the tax rule around holiday homes, in particular, can be complex. "If you rent it out, you can claim deductions for the rental period. However, it may not be considered 'genuinely rented' if you only advertised by word of mouth, in closed social media groups or to your network.

"It's important that you work with a registered tax agent to understand the tax implications of any lifestyle purchase, ensuring you make use of the deductions available and remain compliant."

Preston recommends speaking to your Apt Adviser, who can work closely with your tax agent to make sure you are making the right moves.

So, should you make the purchase?

Preston says money should lead to a more meaningful and happier existence, and part of this is doing more of what you love.

"Should you buy that boat/car/holiday home? If you can afford the purchase and ongoing costs without impacting your long-term goals, have time to use it, and it will bring you joy, then you likely have your answer," he concludes.

Apt Investment Team Quarterly Research Update

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Cash

The Reserve Bank of Australia (RBA) has kept the official cash rate on hold at 0.10% with term deposit rates also remaining relatively stable. Investors could benefit from increased competition for deposits following the entrance of new financial technology companies and banks to the market, which could result in increased rates for investors, but overall cash returns are expected to remain low for the foreseeable future.

Australia has not experienced the same surge in inflation as some international countries, such as New Zealand or the United States, with the RBA continuing to forecast no increase in the cash rate until 2024 under their base economic scenario.

Fixed Interest

The global increase in inflation has impacted bond yields as investors began to question whether inflation is indeed 'transitory' or more permanent. Due to the inverse relationship with bond yields most fixed interest markets have experienced capital losses. Credit spreads, which is the difference in yield between bonds of similar maturity but different credit quality, have remained relatively tight as the global economic outlook has improved and corporate profitability hits a record high.

Bond yields are likely to continue to rise from record lows, however, the degree of inflation will dictate the speed. If inflation remains persistently high and Central Banks are forced to tighten monetary policy earlier than envisaged, bond markets will experience increased volatility. If inflation does remain in line with Central Bank forecasts then the yield over cash remains attractive.

Listed Property

Performance from the Australian Real Estate Investment Trust (REIT) sector and the Global REIT sectors has remained strong as the sector continues to recover from the pandemic.

Industrial and logistics REITs are expected to continue to outperform with vacancy rates expected to remain relatively low and for rents to increase over the medium term. The outlook for the office and retail sector is more challenging, with rents and capital values expected to remain under pressure due to excess supply and the discounts to net asset values that appeared during the COVID-19 panic largely closed.

Australian Equities

The Australian equity market continues to grind higher with most sector earnings approaching or surpassing pre-COVID-19 levels. Recent weakness has occurred in the materials sector with major miners declining as commodity prices fell. Banks outperformed after winding back debt provisions which has resulted in improved earnings and surplus capital being returned to shareholders. The Energy sector has outperformed following an increase in oil and gas prices due to global shortages and the seasonal Northern Hemisphere winter.

Corporate profitability remains at a record high with many companies returning capital to shareholders through increased dividends or buybacks. Initial public offerings, merger and acquisition activity are also all at cyclical highs reflecting corporate confidence in capital markets. The economic recovery continues, however, this is now reflected in valuations with future gains likely to occur at a slower pace.

International Equities

World equity markets have continued their recovery, led in particular by the American and European markets, with the Japanese and UK markets the clear laggards. Emerging markets have continued to materially underperform developed markets, driven in large part by China following new regulations being introduced, as well as concerns around the property sector. The Brazilian equity market has been the worst performing emerging market while Russia and India have outperformed.

American markets look relatively expensive on a number of measures compared to historical averages, in large part due to the Information Technology sector. However, the announcement of President Biden's US$1 trillion Infrastructure Bill will provide further fiscal support to an already strong economy which should support earnings. Emerging markets have now underperformed for over a decade despite the promise of a growing middle class as investors remain concerned around their vulnerability to higher interest rates given the large amount of debt. International equity markets are likely to continue to grind higher, absent an unforeseen shock, with higher than anticipated inflation and the tightening of Central Bank Monetary Policy the most obvious near-term risks.

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PROFESSIONAL PRACTICE
FINANCIAL PLANNING ASSOCIATION of AUSTRALIA

1800 801 277

Sydney • Melbourne • Geelong

aptwealth.com.au

info@aptwealth.com.au