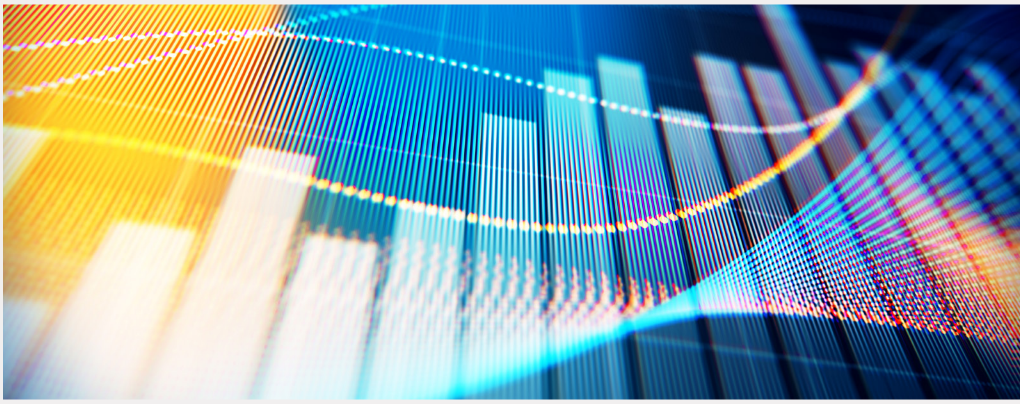
Aptitude

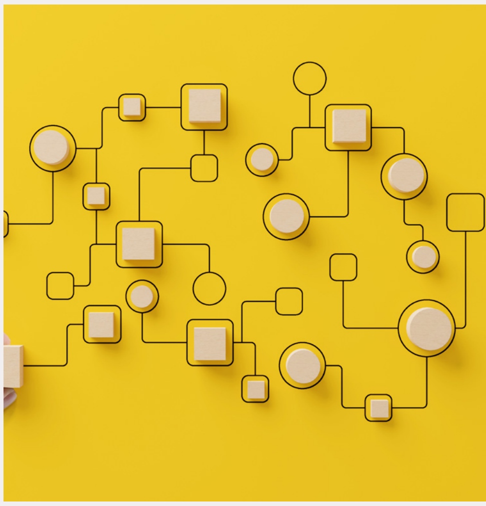
Apt Wealth Partners - Quarterly News

Summer | 2022/23

Live for today, plan for tomorrow

CONTENTS





Investment trends shaping 2023

With a new year comes new opportunity. We asked Apt Chief Investment Officer Sarah Gonzales to weigh in on some of the trends that will shape investing in 2023.

Sarah highlights that, although the pandemic is officially behind us, its impact on the investment landscape is set to continue for some time to come. In particular, she points to three areas: cloud computing, cybersecurity and e-commerce.

E-commerce

While Sarah says the shift to online retail spending was already in train pre-COVID, it's another area that was accelerated by the pandemic.

Delivery service providers reported global online retail sales doubled from 10% in 2017 to 20.4% in 2022, with Australia being the 11th largest market for e-commerce globally.

The e-commerce trend is expected to continue into 2023 and beyond with research and analysis company Statista forecasting e-commerce sales will continue to grow to around US$8.1 trillion by 2026.

The great adoption of cloud computing

"While the technology to do so had existed for some time, the sudden need to work from home at the onset of the pandemic accelerated the remote work trend. This, in turn, accelerated the adoption of cloud computing," Sarah says.

"And, despite lockdowns easing, the demand continues to grow with many companies adopting work-from-home or hybrid models."

Sydney-based Gartner research is forecasting spending on cloud services to increase by 20.4% in 2022 to a total of US$494.7 billion, up from US$410 billion in 2021. And, in 2023, cloud service spending is expected to reach around US$600 billion.

Increasing need for cybersecurity solutions

"Remote work has increased the pace at which we have adopted the Internet of Things (IoT) and cloud computing, and this, in turn, has increased the need for more sophisticated cybersecurity solutions," Sarah says.

She points to the 2022 data breach events at Optus and Medibank Private as examples of how damaging a cyberattack can be.

"These threats will only continue to rise as more and more businesses transition online. Cybersecurity research firm Cybersecurity Ventures is forecasting cyber-related damages will reach around US$10.5 trillion worldwide by 2025.

"As a result, the demand for cybersecurity solutions will only continue to increase."

Continued infrastructure spending

According to Sarah, infrastructure spending is tipped to continue as governments attempt to balance controlling inflation with continuing economic growth.

"Central Banks are expected to continue raising interest rates in 2023 as a means to control inflation, and there is growing concern that they will push interest rates to the point where economic growth will start to slow down, resulting in recessions in some regions.

"Infrastructure spending has been a key policy item for governments globally to support continued economic growth and is expected to continue into 2023," she says.

It's a trend that is being seen here at home and across the globe. In the October 2022–23 budget, the Australian Government announced its commitment to deliver $9.6 billion in vital infrastructure projects across the country.

In the US, the Democrats' US$1 trillion package of road and other infrastructure projects was approved by the US House of Representatives.

The transition to sustainable energy

Global attention on climate and the current Eurozone energy crisis as a result of the war between Russia and Ukraine are driving demand for alternative energy sources.

"Demand for sustainable energy will continue to grow with an estimated US$33 trillion expected to be invested to transition to sustainable energy by 2050," Sarah says.

Dividends will still play an important role in portfolios

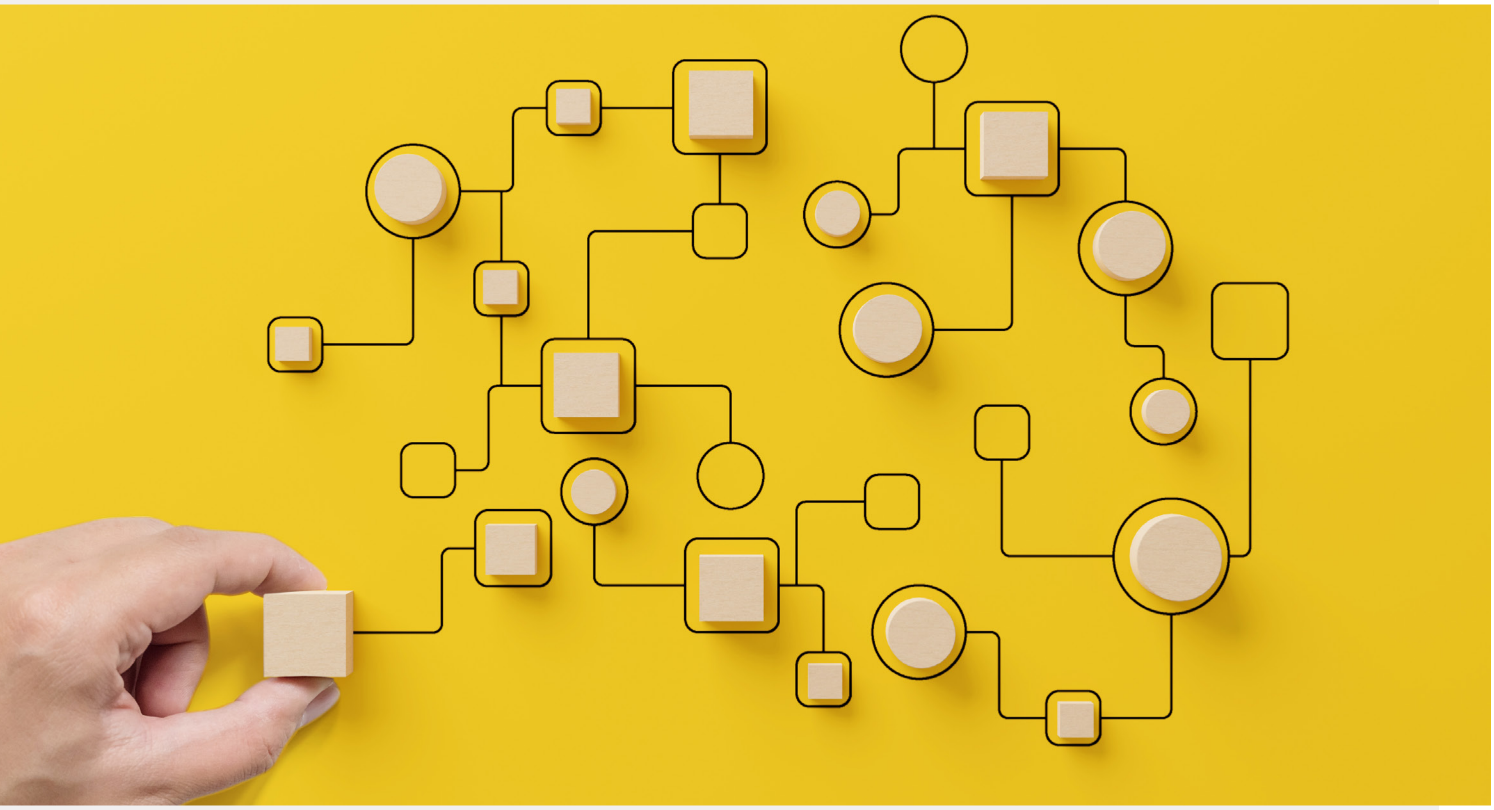
Dividend income from investments is expected to continue playing an important role in the total return for client portfolios, particularly during periods of share price volatility.

"Inflation and higher interest rates have been the key focus in investment markets during 2022. This is expected to carry into the 2023 calendar year as global markets continue to battle inflation, with Central Banks still tightening monetary policy, particularly raising cash rates," Sarah says.

This combination of inflation, rising interest rates and Central Bank policy has created market uncertainty and elevated volatility.

"Since 2021, as global economies started to recover from the worst of the COVID-19 pandemic, global dividends have started to also recover, sometimes surpassing their pre-COVID levels, and as such, they are likely to continue to play a key role in returns in 2023," Sarah concludes.

How to think differently about your financial decisions



Do you ever notice yourself spending more time on trivial everyday decisions than on major life ones? It's likely you're experiencing 'decision quicksand', whereby the small decisions seem to suck you in. According to Apt Wealth Senior Financial Adviser Sean Moran, it's a common pitfall, and the solution lies in having a framework to guide decision-making.

How much time have you spent considering what you will wear to work or buy for lunch versus the investment mix in your superannuation? Many of us will attest to spending far more time on the former, despite the enormous difference in stakes.

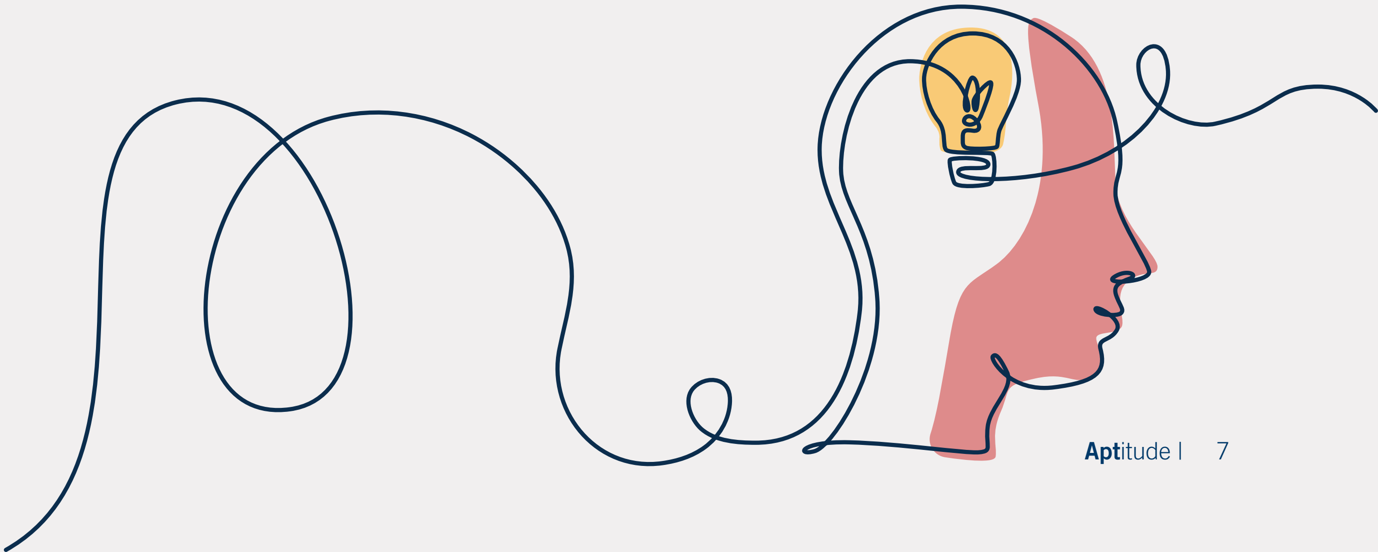
“This is just one example where the balance is often out of whack with the stakes. We all find ourselves in this trap at times, and that’s why it’s important to have a strategy or framework for the bigger life decisions, to make sure we are giving them the time and weight they deserve,” Sean says.

When it comes to choosing a decision-making framework, he adds that there simply isn’t a one-size-fits-all option.

“There are many strategies out there to guide your life and financial decisions, but it’s critical to find the approach that works for you. And in my experience, that usually comes from amalgamating a few different methods.”

Whatever strategy you decide on, Sean highlights the need for three key things:

1. A weighted approach
2. A system for considering potential implications before the decision is made
3. An accurate post-decision quality review



Rethinking the pros and cons list

Sean points to the pros and cons list as an example of a common methodology that can quickly lead you in the wrong direction.

"Pros and cons lists are often seen as a numbers game. You have a metaphorical scale with the good on one side and the bad on the other; however, most decisions are far more nuanced than that.

"It's not about quantity; that will steer you wrong almost every time. For example, if you have five 'cons' and only three 'pros', it would appear you shouldn't proceed. But those cons could vary wildly. If you are looking at moving out of a rental into your own home, you might say that one pro is building equity instead of paying rent, and one con is insurance costs. They simply aren't equal."

In addition, he adds that the pros and cons list doesn't delve any deeper to look at second- or third-order impacts, so you really aren't seeing the whole picture. Sean says this doesn't mean you have to throw the pros and cons list out the window, but you do have to take a quantitative approach to it.

"You need a weighting system that gives each positive or negative its own score that recognises gravity and context."

While he says this may sound complex, it's quite simple in practice, pointing to this example by Mindtools, a personal and professional development website: https://www.mindtools.com/pages/article/newTED_05.htm.

Perform a pre-mortem

We've all heard of and probably innately performed post-mortems on our decisions, but we can't change the result after the fact, so they often become about the 'what if' instead of the 'what next'.

Instead, Sean recommends performing a pre-mortem.

"A pre-mortem is a tool commonly used by project managers, but it can work for your financial decisions too. Essentially, instead of starting by thinking about what might go wrong, you start as though it is the end, and the decision has failed.

"For example, you are about to make a significant investment: Imagine you have made it and it went wrong – you lost your money. What happened? Was it a market downturn? Did you choose the wrong company? Did you take the wrong approach?

"Is it something you could have protected yourself from, either by taking a different direction or putting insurances in place?"

Sean says working back from this 'failure' may not necessarily change your decision, but it will ensure you are going in with your eyes open.

Evaluate past choices on the quality of the decision

Often the best way to make better decisions is to learn from the past, right? In theory, Sean says he agrees. However, he highlights that we are often focusing on the wrong metric.

"When we evaluate our past decisions, we almost exclusively look at the outcome. But whether the outcome was in our favour or not, there are often external factors that are out of our control. So, this becomes misinformation," Sean says.

"Imagine for a moment if you didn't save for retirement but then had a substantial lottery windfall in your 60s. You might say you wouldn't do anything differently. But what we have here is a lack of planning and a whole lot of luck, so you probably should have done everything differently, despite the favourable outcome.

"So, instead of focusing on the outcome, try thinking about the quality of the process that led to a decision. If the process was right but a factor you couldn't anticipate or control impacted the outcome, it was likely still the right decision. And this is a process you shouldn't change.

"Conversely, if you could have done more due diligence, then this is what you need to look at when making your next decision," Sean says.

"Changing your decision-making process can take time and practice, but it is worthwhile to make sure you are making the best financial moves and analysing them on the right criteria," he concludes.

How to better manage debt

According to the most recent Australian Bureau of Statistics Survey of Income and Housing, Australian households have average liabilities of $203,800. With rising interest rates, inflation and market volatility, it's likely debt levels will have risen further when the 2021/22 survey is released. So, if you're feeling the pinch right now, you're certainly not alone. We asked Apt Senior Financial Adviser Emily Lanciana to weigh in on debt management strategies.

"The first thing to realise is that the impacts of debt go beyond the financial," Emily says. "Debt is a major contributor to relationship and even physical and mental health issues, so the stakes are high. It can impact almost every aspect of your life, so it's important to take action."

Understanding good vs. bad debt

She says the first step is to distinguish between 'good' and 'bad' debt.

"Good debt is the kind that is designed to propel you towards better financial outcomes, such as investment loans. Bad debt is debt which has no chance of leading to better financial outcomes, such as that used to purchase consumer goods, electronics, etc."

However, Emily warns that even debt classed as 'good' will quickly become 'bad' if it becomes unmanageable.

Know what debt is really costing you

Emily highlights that it is common to underestimate the true costs of debt, and it's important to consider it over the long term.

"High-interest debts, such as credit cards, are costing Australians billions each year and it's a system designed to keep you in debt. Minimum repayments are there to make you feel as though you are keeping on top of your debt when you are actually extending it substantially."

For example, says Emily, if you have the average Australian credit card debt of $3,258 at an interest rate of 16.58%, it would take more than 22 years to pay off the balance by paying only minimum repayments, and would cost $8,798.

Conversely, if you commit to paying off $158 per month, you'd lose the debt in just 2 years and pay $3,798 (provided, of course, that you didn't make further purchases).

Prioritise your spending

For many people, setting a budget is often thought of as an exercise in restricting their lifestyle, but Emily says that this mindset will most likely ensure you fail.

"A budget is simply about knowing where your money is going and giving yourself the freedom to use it in a way that aligns with your values and what you want out of life – rather than spending on things that don't matter or trying to keep up with the Joneses," she says.

When budgeting, Emily points out that many people are surprised to find that they are spending considerable amounts on things that they don't value.

"Your spending habits should be a direct reflection of what you value, so if it's not actually making you happy today or setting you up for future happiness, give it the flick," she says.

Commit to a payment plan

Once you have prioritised your spending, you'll know how much you can commit to paying on your debt. Emily explains that there are two common methods to pay down debt: the avalanche method and the snowball method.

"The avalanche method is where you pay down debt from highest interest rate to lowest, and it's often a good method to reduce the overall cost as you minimise the interest you pay.

"The snowball method is about paying debts from smallest to largest in amount, regardless of the interest rate. This method can be good if you have many small debts – to avoid multiple fees – and keep you motivated as you can feel a greater sense of achievement as you free yourself from each debt."

She explains that both methods can work effectively; it's just about finding the one that works best for you as this is the one you'll be more likely to stick to.

Changing attitudes is critical to long-term success

Freeing yourself from debt is a big step, and when you have done it, you will feel a greater sense of financial freedom than ever before. But, Emily stresses, it's important that you address the reasons you got into debt in the first place to avoid it happening again.

"While life circumstances and unexpected events can, of course, play a role in accruing bad debt, it often also comes down to our attitudes towards money," Emily explains.

Financial literacy, or how much you know about money, is one of the biggest determinants of financial success in everything from everyday savings to retirement.

"It's an often-overlooked area in educational programs today, but investing in financial literacy really is a gift that keeps on giving," Emily concludes.

Whether you recognise gaps in your own knowledge or that of loved ones, such as children or grandchildren, speak to your Apt Adviser about how we can help you build financial knowledge.

Why a career gap year can be **a win for your finances**

The term ‘gap year’ usually conjures up images of eager school leavers setting out for their first travel adventure, but it’s not always the case. The mid-career gap year is a trend that is fast picking up pace. Although it’s often considered a wellbeing exercise, Apt Director Andrew Dunbar says it can also be a win for your finances.

Sitting at our desks, many of us daydream about taking time out and getting away from it all. Whether it’s volunteering abroad, island-hopping or caravanning around Australia, a gap year has undeniable appeal.

Andrew says a mid-career break is increasingly common among Generations X and Y, who saw their parents work most of their lives to pay off a mortgage.

“Many of us watched older generations working to live, putting other goals on hold until retirement, only to find that they lacked the money, the time or the health to pursue their dreams.

"Understandably, ensuing generations don't want that for themselves," he says.

"A mid-career gap year can be a great way to tick items off the bucket list while you are in a position to enjoy it."

While Andrew highlights that it's a big life decision that is not without financial risks, there can be significant rewards too.

Increased wellbeing can increase earning power

Burnout is a very real problem in today's fast-paced and relentless world. As pressure mounts to 'have it all' (and the definition of 'it all' changes), unmanaged stress contributes to an increase in mental and physical health challenges.

According to Andrew, a mid-career gap year is a great way to break the circuit.

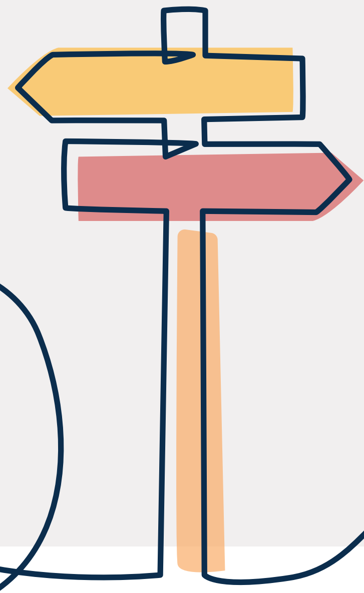
"We have helped a number of Apt clients live their dreams on a mid-career gap year and the overwhelming majority have reported feeling happier, healthier and more content as a result," he says.

"Taking time out can see you re-enter the workforce in better health, motivated, and with a better mindset than when you left, helping you to accelerate your career and even increasing your earning potential."

It opens up new doors

"Stepping away from the daily grind offers new perspectives and a chance to reflect and discover new things about yourself," Andrew says, adding that this can lead to new career opportunities.

"Mid-career breaks have a way of increasing mental agility and this, in turn, can open you up to big changes in every area of your life. In fact, amongst our career break clients, it's not been uncommon to see significant changes in career path and/or life focus on their return."



Planning ahead is critical

Andrew warns that while spontaneity can make things more exciting, it can also be riskier financially.

"You've probably been dreaming of this for some time, so giving yourself some additional time to prepare your finances shouldn't be a big deal," he says.

He recommends planning out strategies to save extra money that will tide you over during your break and looking at any income streams you may be able to rely on while not working.

Andrew adds that you may have assets that you won't be using during your break that could bolster your income; for example, selling the family car if you'll be travelling, or renting out the house.

"Your Apt Adviser can really help you to think about your gap year within the context of your broader life goals and help you make a plan to protect your financial position."

Be clear on your purpose

"Your career gap year shouldn't be simply about 'time off'. It should be about achieving some of your other life goals or ticking things off your bucket list. This could be around travel, developing a new skill, volunteering or gaining life experience – the common thread here is learning," Andrew says.

He also highlights that it's important to think about how your gap year experiences could help your existing career.

"Many of the skills that are highly prized in the workforce today aren't technical; things like creativity, adaptability, collaboration, and even time management, are often best learnt through experiences outside the workplace," he says.

"Having a plan and goals around your gap year is important, not only to ensure you make the most of it, but also to understand how you will frame the experience as a benefit to potential employers when you return."

If you've been dreaming of taking time out from your career, now just might be the time to do it. Talk to your Apt Adviser about how you can make your gap year dreams a reality.

As Mark Twain once famously said, "Twenty years from now, you will be more disappointed by the things you didn't do than by the ones you did."

Disclaimer

This publication was prepared by Apt Wealth Partners Pty Ltd (ABN 49 159 583 847 AFSL and ACL 436121).

The content was prepared with freely available market information.

This publication is intended as general information only and has been prepared without taking into account your particular objectives, financial situation and needs. Before making an investment decision based on the information contained in this research update, you should assess your own circumstance or consult your financial planner.

Apt Wealth Partners, its directors, employees and associates are not liable for any loss or damage arising from reliance placed on the contents of this publication. To the extent permitted by law, all such liability is excluded.

Apt.

WEALTH PARTNERS

PROFESSIONAL PRACTICE
FINANCIAL PLANNING ASSOCIATION *of* AUSTRALIA

1800 801 277

Sydney • Melbourne
Geelong • Northern Beaches

aptwealth.com.au

info@aptwealth.com.au