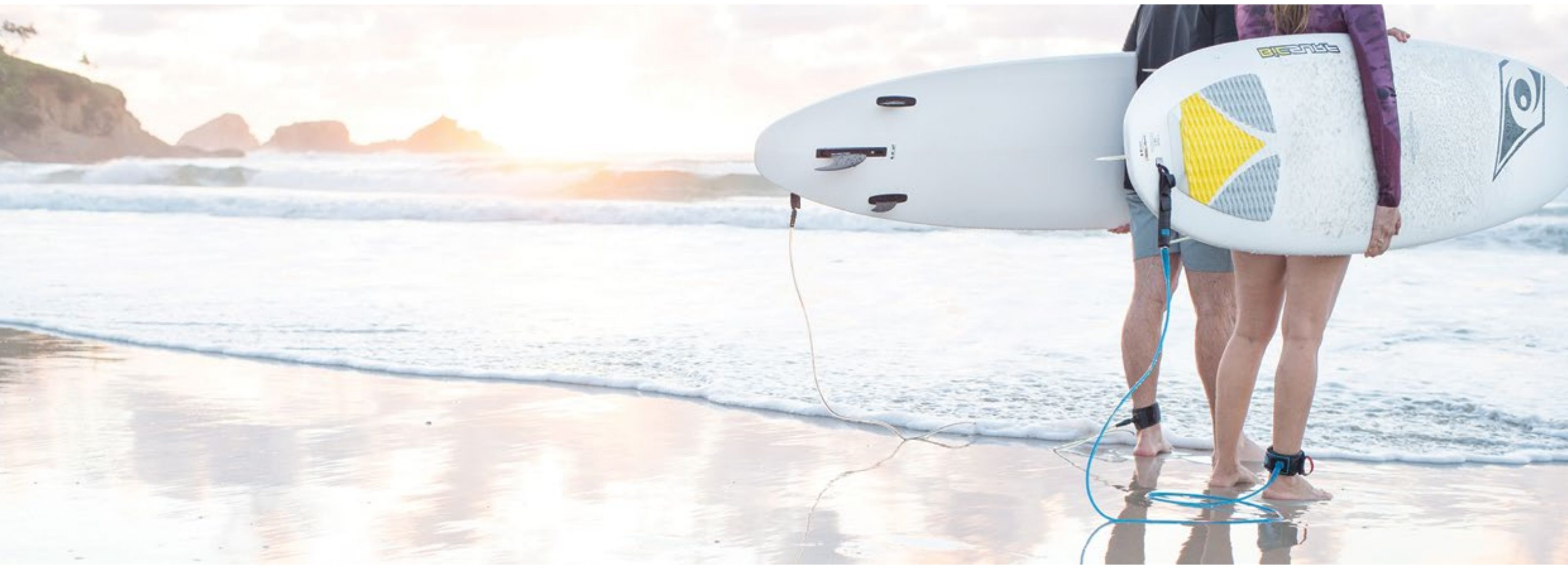

December 2019

Welcome to the latest edition of our client newsletter,

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

In this edition we discuss:

* Super investment options - what's right for you
* How to create realistic goals...and stick to them
* 3 factors affecting retirement income

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.
In the meantime we hope you enjoy the read.

All the best,
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Super investment options – what's right for you?

When it comes to superannuation, most funds offer a range of investment options.

If there's one thing certain in life it's change. And generally your attitude towards saving and investing will change as you get older.

How your super is invested when starting your first job may not be the right approach when you're approaching retirement. Luckily you can change your investment options at any time and this could make a real difference to how much money you have when you retire.

There are usually several different investment options to choose from. If you haven't selected an investment option, you're probably invested in your fund's default option, which will generally take a balanced approach to risk and return.

To get up to speed on your super investment options, we've answered three common questions: how your money is invested, the different options available, and how your stage of life may influence your preferences.

What do super funds do with my money?

Typically, no less than 9.5% of your before-tax salary (if you're eligible) is paid into super, which is then taxed at a maximum of 15%. Your super fund will invest this money over the course of your working life, so you can hopefully retire comfortably.

Your super fund will let you choose from a range of investment options and generally the main difference will be the level of risk you're willing to take to potentially generate higher returns.

If you're not sure what you're invested in, contact your super fund. You may also be able to see your current investment option by logging into your super fund's online portal – this may also give you a current balance and other information such as your projected super savings over a lifetime.

What are the super investment options I can choose from?

Most super funds let you choose from a range, or mix of investment options and asset classes. These might include 'growth', 'balanced', 'conservative' and 'cash' but the terms can differ across super funds. Here's a small sample of the typical type of investment options available:

- **Growth options** aim for higher returns over the long term, however losses can also be notable when markets aren't performing. They typically invest around 85% in shares or property.
- **Balanced options** don't tend to perform as well as growth options over the long term, but the loss is also less when there are market downturns. They typically invest around 70% in shares or property, with the rest in fixed interest and cash.
- **Conservative options** generally aim to reduce the risk of market volatility and therefore may generate lower returns. They typically invest around 30% in shares and property, with the rest in fixed interest and cash.
- **Cash options** aim to generate stable returns to safeguard the money you've accumulated. They typically invest 100% in deposits with Australian deposit-taking institutions, such as banks, building societies and credit unions.

Super funds may have different allocations, so it's important to read your super fund's product disclosure statement before making any decisions. It could be a good idea to consider factors such as your current stage in life, and future plans and goals before choosing the super investment option that's right for you.

What's the right investment option for me?

Choosing the most suitable investment option generally comes down to your goals for retirement, your attitude to risk and the time you have available to invest.

If you're young, you may have more time to ride out market highs and lows, and therefore be willing to take on more risk in the hope of achieving higher returns.

If you're closer to being able to access your super, you may prefer a conservative approach as a share market crash could be harder to recover from than if you're 20 years away from retirement.

While many people put off thinking about super, being informed and engaged from a young age and throughout your career may make a big difference to the returns generated and your final super balance.

How to create realistic goals… and stick to them

Whether it's finances or fitness, spending time on setting your goals can reap rewards.

When it comes to the big things in life we all have our goals. Getting promoted at work. Educating the kids through school. Saving for a comfortable retirement.

It's important to aim high. But if the goals you set are overambitious, with no checkpoints along the way, you could be setting yourself up for disappointment. So it may be a good idea to make sure your goals are realistic and achievable.

One area where setting goals can be beneficial is health and fitness—whether it's losing a few kilos at the gym or aiming for a PB at the next half-marathon.

Think short, medium and long term

Your finances could benefit from the same treatment as your fitness. When you're saving and investing your money, you need to know what you're aiming for.

Think about how much you earn and how much you spend. Are there any ways you could cut down your spending to allocate more money towards your goals?

It could also be a good idea to make your goals and timeframes realistic, and set interim targets. Let's say you're saving $25,000 for a new car[i]:

- You could set yourself a realistic short-term target of saving $5 a day by going without a coffee or bringing lunch to work, and set up automatic debits to a high interest savings account.
- You could set a 'trigger' amount for the medium term—say $1,000—and when you reach it you could consider rolling your savings into something that may generate higher returns, such as a term deposit or a diversified investment option.
- You could start planning your next long-term challenge once you reach the magic number of $25,000 and achieve your goal—after rewarding yourself, naturally.

And different goals could benefit from different approaches.

When you're putting money aside for retirement, superannuation could be an effective tax-friendly option to boost your savings, depending on your circumstances.

But with super, your money is locked away until your preservation age. So if you're looking at achieving a more short-term goal—like saving up to buy a new car—you may need to investigate other options where you could access the savings sooner.

Six steps to creating your financial goal checklist

- **Big picture.** Think about your overall long-term goal—this may not necessarily be financial but more about how you want to live or how you want your family to live.
- **Magic number.** Work out how much money you'll need to achieve your goal.
- **Small steps.** Look at the incremental steps you need to take to achieve your goal—you may feel more motivated to achieve bigger goals if you set checkpoints along the way.
- **Write it down.** Try this…just for a second. Close all your apps, put down your smartphone, pick up a pen and paper…and write it down. It's amazing the effect that putting something down on paper can have on your motivation, especially in a digital age. Sure, you can then get on to your laptop to set up some useful spreadsheets and reminders. But you've got a written record to remind you.
- **Back on track.** Here's the thing. You might initially fail. As a wise man[ii] once said, 'Ever tried. Ever failed. No matter. Try again. Fail again. Fail better.' While there might be ways you can stop yourself going off piste—such as transferring a set amount to your savings account when your pay cheque comes in—it's a good idea to work out how you're going to get back on track when you (inevitably) fall over.
- **You deserve it.** As humans you can say we're hardwired to expect a reward. So you might want to treat yourself when you reach your goals—every step along the way.

i The case example is illustrative only and is not an estimate of the investment returns you will receive or fees and costs you will incur.

ii Irish novelist and playwright Samuel Beckett.

3 factors affecting retirement income

High life expectancy and low interest rates may make it harder for some retirees to live long and prosper.

Here we look at three elements from an AMP Capital Investors report[i] that affect a post-work reasonable income – interest rates, inflation, and longevity.

1. Interest rates - high valuations, low returns

Historically low interest rates have driven valuations of defensive assets such as cash and fixed interest to unprecedented highs. Generally, a defensive asset is seen as a lower-risk, lower reward investment.

High valuations mean low yields (or percentage income returns in the form of dividends and interest) for defensive assets.

AMP Capital Investors reports record-low yields across many fixed income assets and some types of property. Term deposit rates are also at fresh lows, following the Reserve Bank of Australia's reduction in interest rates.

Low interest rates affect variables such as inflation and investment returns, which in turn affect how we save for retirement.

2. The inflation perspective

Inflation has a big impact on retirees who are less able to earn and save more after their working lives have finished. Falling returns mean providing for retirement is challenging, but although returns are low now compared to in the past, the impact is eased when you take inflation into account.

Inflation was running at around 15 per cent in the late 70s and 80s, which ate up much of the bond and term deposit returns.

Nevertheless, the combination of low interest rates and low inflation make it hard for retirees to find returns.

There are risks too, should the current global inflation rate of about three per cent shift higher than the defensive asset classes. As these assets are priced for the very low inflation of today, they would face major negative revisions.

3. The longevity conundrum

Australians are also living longer, increasing the risk that a retiree will outlive their savings. Back in 1980, a man starting a pension at age 65 had a life expectancy of 78 – 13 more years. Now, a male starting a pension at 65 has a life expectancy of 86 – an additional 21 years. While this is great news in many ways, financially it means higher income needs and the need to grow the assets over time to make up for rising costs of living.

This is a concern in an environment which sees retirees drawing down on their pool of retirement assets because they can no longer generate sufficient income returns. This means retirement account balances are being depleted relatively quicker than in the past, especially if retirees lack exposure to growth assets to generate some capital growth over their longer lives.

Supporting an ageing population to achieve their retirement goals in a market of lower investment returns is a major challenge. A stable policy framework for superannuation and a long-term approach will be important in giving retirees the best chance of achieving a comfortable retirement.

Planning ahead

When investing with a goal – such as retirement – in mind, it pays to think long term.

Of course we are also here to help you work out what's right for you.

i Retirement today – the challenge of generating retirement returns. AMP Capital Investors, 19 August 2019.