Lowe Lippmann
WEALTH ADVISERS

December 2022

It's December, summer is here and holidays are just around the corner. We take this opportunity to wish you and your family a happy festive season!

The big story on the global economic front continues to be inflation, and how high interest rates will go to tame it. November began with the US Federal Reserve hiking its federal funds target range by another 75 basis points to 3.75-4.00%. There are signs the tough approach is working, with the annual rate of inflation falling from 9.1% in June to 7.7% in October.

In Australia, the Reserve Bank lifted the cash rate another 25 basis points to a decade high of 2.85%. Inflation fell to 6.9% in the year to October, down from 7.3% in September, but remains high and economic signals are mixed. Reserve Bank governor Philip Lowe is keeping a close eye on consumer spending, where higher interest rates are having an impact. Retail trade fell 0.1% in October for the first time this year. And while the ANZ-Roy Morgan consumer sentiment index was up 5.6% to 83.1 points in the last three weeks of November, it remains 22.9 points below the same week last year. But rate hikes are not yet affecting the labour market, with unemployment falling to a 48-year low of 3.4% in October, while annual wages growth rose 1% to 3.13% in the September quarter, the fastest growth in a decade.

The Aussie dollar lifted 3c to around US67c over the month, crude oil prices fell 10% while iron ore lifted 0.5%. Shares remain skittish but positive overall. The ASX200 index rose more than 5% in November while the US S&P500 index was up more than 2%.

All the best,
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Should I put my money into **my mortgage** or **my super**?

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/

Buying shares for kids:

a gift that keeps on giving

Many parents and grandparents worry about how to help the children in their lives achieve financial independence. But the value of long-term investment can seem like a dry and complicated idea for kids to get their heads around.

In fact, many young people would like to know more about money, according to a Young People and Money survey by the Australian Securities and Investments Commission MoneySmart website. The survey found more than half of the 15-21-year-olds surveyed were interested in learning how to invest, different types of investments and possible risks and returns. What's more, almost all those young people with at least one investment were interested enough to regularly check performance.[i]

One way to introduce investment to children may be to begin a share portfolio on their behalf. The child can follow the progress of the companies they are investing in, understand how the market can fluctuate over the short- and long-term, as well as learn to deal with some of the paperwork required, such as filing tax returns.

How to begin

Setting up a share portfolio doesn't need to be onerous. It's possible to start with a minimum investment of around $500, using one of the online share trading platforms. Then you could consider topping it up every year or so with a further investment.

Deciding on which shares to buy comes down to the amount you have available to invest and perhaps your child's interests.

If the initial investment is relatively small, an exchange traded fund (ETF) may be a useful way of accessing the hundreds of companies, bonds, commodity or theme the fund invests in, providing a more diversified portfolio.

ETFs are available in Australian and international shares; different sectors of the share market, such as mining; precious metals and commodities, such as gold; foreign and crypto currencies; and fixed interest investments, such as bonds. You can also invest in themes such as sustainability or market sectors such as video games that may appeal to young people.

Alternatively, buying shares in one company that your child strongly identifies with – like a popular pizza delivery firm, a surf brand or a toy manufacturer – may help keep them interested and excited about market movements.

Should you buy in your name or theirs

Since children cannot own shares in their own right, you may consider buying in your name with a plan to transfer the portfolio to the child when they turn 18. But be aware that you will pay capital gains tax (CGT) on any profits made and the investments will be assessable in your annual income tax return.

On the other hand, you could buy the shares in trust for the child. While you are considered the legal owner the child is the beneficial owner. That way, when the child turns 18, you can transfer the shares to their name without paying CGT. Your online trading platform will have easy steps to follow to set up an account in trust for a minor.

There is also some annual tax paperwork to consider.

You can apply for a tax file number (TFN) for the child and quote that when buying the shares. If you don't quote a TFN, pay as you go tax will be withheld at 47 per cent from the unfranked amount of the dividend income. Be aware that if the shares earn more than $416 in a year, you will need to lodge a tax return for the child.[ii]

Taking it slowly

If you are not quite ready to invest cash but are keen to help your children to understand share investment, you could consider playing it safe by playing a sharemarket game, run by the ASX.[iii]

Participants invest $50,000 in virtual cash in the S&P/ASX200, a range of ETFs and a selection of companies. You can take part as an individual or a group and there is a chance to win prizes.

Another option, for children able to work independently, is the federal government money managed website. This is pitched at teens and provides a thorough grounding in savings and investment principles.[iv]

Call us if you would like to discuss how best to establish a share portfolio for your child, grandchild or a special young person in your life.

i https://files.moneysmart.gov.au/media/kjvjabp5/young-people-and-money-survey-snapshot.pdf

ii https://www.ato.gov.au/Individuals/Investments-and-assets/In-detail/Children-and-under-18s/Children-s-share-investments/

iii https://www2.asx.com.au/investors/investment-tools-and-resources/sharemarket-game

iv https://www.financialcapability.gov.au/teens

GETTING THE BALANCE RIGHT IN decision making

We all approach decision making in our own way, making a multitude of decisions every day: 'Should I hit snooze again on the alarm?,' 'Do I take the train to work, or do I drive,' 'What should we have for dinner?'

In fact, researchers estimate that the average adult makes 35,000 decisions every day.[i] While most of these are fairly insignificant, we also constantly make complex decisions that may support us in many areas of our lives - from navigating a change of career, handling a new project at work, or even managing the complexities of interpersonal relationships.

Having some knowledge of the decision-making process can help you to be more self-aware when faced with those larger, more complex decisions.

The biology of thought

The human brain is an intricate organ. It contains about 100 billion neurons and 100 trillion connections and controls our emotions, thoughts, and actions. Our brains appear wired to work in complex ways to enable us to make the best decisions possible with the information we're given. In very simple terms the process is a little like a court trial. Our brains register sensory information like sights and sounds and then act as a jury to weigh each piece of 'evidence' to make a judgement or decision.

Thinking fast and slow

Nobel laureate Daniel Kahneman in his hugely successful book *Thinking, Fast and Slow* - suggests that there are two distinct and different ways the brain forms thoughts.[ii]

'Fast thinking' is automatic, intuitive, and used for most common decisions. It is our brain conserving energy by making the bulk of its decisions on some degree of autopilot. This style of thinking uses cognitive shortcuts to let us respond quickly and instinctively to a wide range of fast and ever-changing inputs, like discerning emotions from facial expressions, ducking when something is thrown at us, reading words on a billboard, or driving a car on an empty road.

On the other hand, 'slow thinking' is more thorough and logical but also takes more time and is resource intensive. It kicks in when you focus on a task or problem, monitor and control your behaviour, formulate an argument or do anything that causes your brain to exert itself.

Different thinking for different situations

Of course, both styles of thinking have their place. It's important to be able to make fast decisions when required - in fact, fast thinking comes from the most primal part of our brain to help us make the kind of snap decisions integral to survival. However, there are times when you need to analyse and think through all the implications of a complex decision like whether to accept that new job offer interstate or buy that new car.

Amongst the multitude of small decisions we face every day, it can be hard to find the time and energy for the big ones. Steve Jobs famously explained that he wore the same outfit every day to have one less easy decision to make so that he could focus his energy on the more complex decisions he was dealing with.

Minimising mistakes

If you find you rely heavily on fast thinking in your life, making choices based on gut instinct with little research or consideration, it may be time to consciously slow it down.

While that may not mean wearing the same outfit day in, day out, you might be able to have a few things in your life on autopilot, like putting together a weekly meal plan so thinking about what's for dinner is one less decision to make in your busy day.

Slow thinking takes discipline and effort. It's important to approach critical decisions in a measured way and give yourself the time and head space to think things through, rather than being swayed by emotion or the cognitive biases associated with fast thinking.

Good decision-making, either financial or otherwise also benefits from having a sounding board to talk things through with, and of course we are here to assist with any important financial decisions you may be faced with.

i https://iise.org/details.aspx?id=46559#:~:text=Among%20the%20biologically%20related%20factors,decision%2Dmaking%20is%20described%20next.

ii https://en.wikipedia.org/wiki/Thinking,_Fast_and_Slow