informed investor

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How close are we to a cashless society?

With tap and go payments becoming ever more popular and the advent of instant transfers between domestic bank accounts, how much longer will we be using cash as a form of payment?

According to recent survey results produced by You Gov Galaxy and commissioned by payments provider Square, the average answer to this questions is likely to be 'about $38' if you're under the age of 40. Baby boomers are much more likely to have a few more notes and coins on them, carrying $72 in cash on average. And almost five million Aussies haven't visited an ATM within the last 4 weeks or can't even recall the last time they withdrew cash.

Put this together with the Reserve Bank of Australia's report from 2016 that found only 37% of payments in Australia were being made in cash and you can see where we're heading – a time when having cash just won't be necessary or practical for the vast majority of the transactions we make.

Tap happy?

Unfortunately, the convenience of tap and go payments may end up having a negative impact on our ability to keep our spending within reasonable limits. According to a study from the University of Sydney, people can be expected to spend up to 50% more by paying with any payment type other than cash.

"There's good empirical evidence that people spend more money when they don't actually have to use cash, and that goes across different alternative forms of payment," says Donnel Briley, Professor of Marketing and Behavioural Psychology at the University of Sydney.

A survey of high school students back in 2017 demonstrated that many teens simply don't understand key concepts around personal borrowing with credit cards. This makes them particularly vulnerable to the perils of buying something without really thinking through how much it costs in real terms. When there is interest to pay on their purchase, as well as the opportunity cost of having already spent the money, young people can be particularly vulnerable, to buyer regret as well as serious financial

Welcome

Welcome to our latest edition of the Informed Investor newsletter.

As always, should you have any questions or would like some further information, please get in touch and we'll be happy to help.

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struggles when they're saddled with repayments on long-term debts.

Good and bad for business

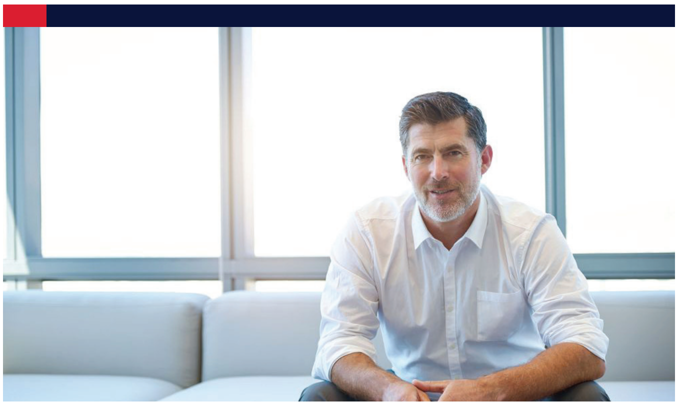
As well as presenting economic challenges for consumers, a cashless world also has pros and cons for businesses. While some small and medium sized businesses might celebrate saying goodbye to hours spent counting notes and coins – 216 hours on average each year according to the You Gov Galaxy/Square survey – others could be losing out on revenue with less cash changing hands.

A 2017 survey by ME Bank reports a 51% fall in cash payments in the last five years for industry employees traditionally remunerated in cash, such as tradespeople and hospitality staff. Tipping and on-the-spot charity donations are two of the biggest casualties of the disappearance of cash, with each recording falls of 45% and 44% respectively in the frequency of cash payments in the same period.

Easier than EFT

A significant game changer for Australia's move towards being cash-free could well be the National Payments Platform (NPP). Officially launched in February 2018, the NPP technology could end up replacing many EFT and cash transactions but hasn't been offered broadly by financial services institutions yet. Assuming that widespread adoption of the NPP, and its associated services like PayID and Osko, are just a matter of time, the move towards a cash-free economy could pick up speed in the months and years to come.

Source: FPA Money and Life



Market Volatility: An Overview

Many investors become concerned when volatility occurs in global financial markets – particularly about the impact on their superannuation and other investments. In times like these, it is important to understand the causes of market movements and how to minimise your risk.

Why do markets move so much?

Markets are influenced by many things – industrial, economic, political and social factors can all have an impact. For example, consumer and business confidence affect spending and therefore company profits. Global trade and production naturally affect economic growth.

Poor political and fiscal decisions in some countries may lead to a flow-on effect in other countries who are owed money. And of course, natural disasters can cause major damage to any economy with no warning. During times of market volatility, it's important to remember one of the fundamental principles of investing – markets move in cycles.

What is the effect of market volatility on super funds?

In times of market volatility your super balance may decline, but it is important to remember that markets move in cycles. Volatility is a natural part of the economic cycle. Markets are influenced by a range of factors and are inherently unpredictable.

The Australian Securities & Investments Commission's (ASIC) MoneySmart website states "Don't panic if the short-term returns are negative: remember that super is a long-term investment." History demonstrates that over the long-term, the general trend of share markets has been upward.

Don't lose sight of the bigger picture

Super is a long-term investment. Shares, which usually form a large part of most balanced super accounts, are also generally a long-term investment. They are designed to provide capital growth over a period of five years or more. Think in years, not days.

The time frame for super may be 20 years or more, so short term volatility shouldn't diminish the long-term potential of your investments. Growth assets (such as shares) tend to fluctuate in the short-term, but have historically provided excellent returns for investors over the long-term.

When share markets fall in value, it may be tempting to sell up. However, trying to time the market by selling now and buying back later is a risky strategy that rarely results in investors coming out ahead. By taking a long-term view of investing, you can ride out any short-term fluctuations in the market and take advantage of growth opportunities over the long-term.

Diversification

Diversification is one of the most effective ways of managing volatility. It can help deliver smoother, more consistent results over time. Your investment may benefit by being spread across a variety of asset classes, including shares (domestic and global), fixed income, cash, direct and listed property and alternatives.

This diversification should help soften the effects of any share market falls as some asset classes often tend to do well whilst others are struggling. Also, spreading your assets around means you are less reliant on any one asset class at any particular time.

Understand your risk profile

All investments carry some risk. How much risk you're willing to accept will be influenced by your financial situation, family considerations, time horizon and even your personality. If market volatility has caused you to reassess the way you feel about risk, it's important that you see your financial adviser to discuss any necessary changes to your financial plan.

Understanding the implications of withdrawing

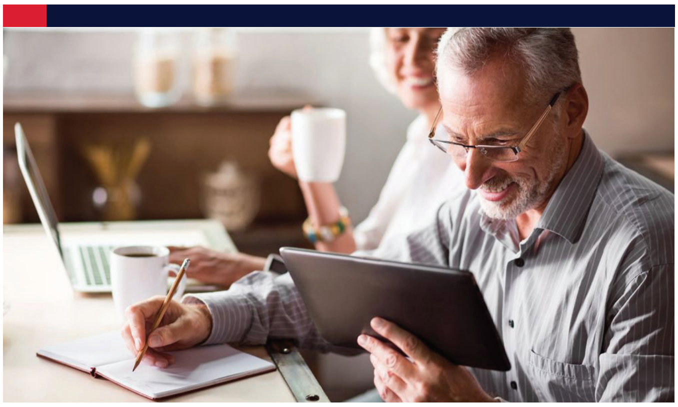
- Before you withdraw from an investment you should understand all the implications, risks and costs involved.
- Crystallising losses. If the value of your investment is falling, you are technically only making a loss on paper. A rise in prices could soon return your investment to profit without you doing anything. Selling your investment makes any losses real and irreversible.
- Incurring capital gains tax (CGT). Make sure you know what your CGT position will be before selling any asset.
- Losing the benefits of compounding. If you're thinking about making a partial withdrawal from an investment, remember that it's not just the withdrawal you lose, but all future earnings and interest on that amount.

Key takeaways

Keep in mind that:

- Super is a long-term investment designed to generate sufficient money so you can enjoy your retirement.
- Diversification is an important part of a long-term super investment strategy. To create the lifestyle you want in retirement, it may be necessary to invest in growth assets like shares so that your returns stay ahead of tax and inflation.
- It may be beneficial to ride out the bad times in order to achieve long-term growth.
- Your financial plan was designed exclusively for you to suit your investment objectives and risk profile. It's important to stay focused on your long-term goals.

Source: Colonial First State



Six things to consider when investing for retirement

Many people aged between 50 and 65 are uncertain about being able to cover living expenses in retirement. In the past retirees could rely on the age pension to secure their retirement. Many retirees are now less confident about this source of support, as a growing number of baby boomers are retiring and the number of working people to support them is not keeping pace.

Governments are now encouraging Australians to save and invest on their own, so they can build income streams for retirement to supplement social security payments, and the earlier people focus on how to fund their retirement, the greater their capacity to respond.

How to set retirement goals

The first factor in retirement planning is establishing a retiree's goals. Not everyone will have the financial resources to meet all their goals, so an adviser must help their client set priorities.

Retirement goals can be diverse, but most belong to one of three broad categories:

1. Essential needs

A person's immediate need in retirement is to have an income to deal with the essentials in life, including food, housing, transport and paying regular bills. This represents the most important set of goals and requires the most pressing financial attention.

Confidence about the receipt of a steady cash flow becomes paramount. An adviser may recommend strategies centred on income-focused securities that deliver sustainable cash flow which keeps up with increases in the cost of living.

2. Lifestyle wants

Retirees may also want to set aside some capital to fund discretionary spending on goods and services such as holidays, hobbies, or the purchase of a new car. Attainment of these lifestyle wants enables a more enjoyable retirement, but the retiree doesn't regard them as essential to their wellbeing. To help fund these lifestyle wants, investment strategies should grow capital steadily over time and have a low probability of producing a major or protracted decline in value.

3. Legacy aspirations

Finally, retirees with additional financial resources may aspire to leave a bequest for future generations.

Six things to look for when considering investment solutions

There are six key factors that advisors and investors should focus on when considering retirement investments.

1. A predictable and reliable stream of income: Consider strategies that aim to deliver a steady income in the form of coupons from quality bonds, dividends from shares or distributions from Real Estate Investment Trusts (REITs) and infrastructure.
2. Resilient returns: Focus on strategies that are designed to exhibit greater resilience in challenging market environments.
3. Inflation protection: It's important that the overall portfolio seeks to grow with the cost of living to maintain purchasing power over time.
4. Tax effectiveness: Even though most retirees have an income tax rate of zero per cent in retirement, franking credits attached to the sustainable dividends of quality Australian companies represent a good additional source of retirement income. But it is important to watch out for potential regulatory change in this area.
5. Liquidity: It is easier to redeem money from liquid investments when a change in circumstances may require it.
6. Transparency of strategy: Seek strategies that are easy to understand and where the manager offers regular communications and insight into how funds are performing against retirees' goals.

Set up success

The key is to understand retirement goals: what does success and failure look like? What do retirees want at this point in life and how might that evolve over time? What constitutes a 'must have'; what is 'nice to have' and what is 'aspirational'?

By answering those important questions, various goals can be matched with investment strategies that meet the unique challenges and risks of retirement.

Source: AMP Capital

What's next for Brexit?

A 'black swan' refers to an event or occurrence that deviates beyond what is normally expected of a situation and is extremely difficult to predict.

Brexit arguably is a 'black swan' that, paradoxically, has taken years to unfold. Despite this, we still do not know what the effects of Brexit will be.

We know the basic facts: on 23 June 2016, the UK held a referendum on leaving the EU, in which a majority of British voters voted yes.

On 29 March 2017, the UK government invoked Article 50 of the Treaty on European Union, commencing the legal and political process whereby a member state of the EU ceases to be a member.

On 20 June 2018, the UK Parliament passed The European Union (Withdrawal) Act 2018, which became law by Royal Assent on 26 June 2018. This Act declares "exit day" to be 29 March 2019, at 11pm Greenwich Mean Time, or midnight, Central European Time.

There is a great deal that we do not know

Negotiations between Britain and the EU are ongoing, and there is still uncertainty as to the 'deal' they will strike. The next formal European Council summit, due to be held on 18 October 2018, had previously been viewed as the deadline for striking a deal, but talks may continue beyond this date.

Commentators have suggested that the outcome of these negotiations may fall into one of the following broad categories:

Hard Brexit:

The UK leaves the EU in every sense, giving up full access to the single market and customs union, as well as all EU rules and regulations, financial commitments to the EU and the jurisdiction of the European Court of Justice (ECJ). Hard Brexit would see Britain gain full control over its borders, the laws that apply within its territory, and the responsibility for making its own trade deals with other countries – and with the EU – under the World Trade Organisation (WTO) rules for trade.

Soft Brexit:

This approach would try to leave the UK's relationship with the EU as close as possible to the existing arrangement, particularly so as to retain unfettered access to the European single market and customs union. But since the UK would not be a member of the EU, it would not have a seat on the European Council, nor would it be represented in the European Commission.

No deal:

A hard Brexit without the arrangements being pre-agreed between the UK and the EU.

In the light of the above, anything seems possible, even a fresh referendum or a snap general election, which could change everything.

The politics of Brexit remains fraught

After the government issued a statement in July, which included a number of concessions aimed at reviving negotiations with the EU, politics remains fraught within the Conservative Party among those who are in favour of a Soft Brexit and those who are not.

Examples of a Soft Brexit include Norway, Iceland and Liechtenstein, which are not members of the EU but are part of the European Economic Area (EEA). In return, they must make payments into EU budgets (which sets out the EU's long-term spending priorities and limits), accept the EU's "four freedoms" of movement of goods, services, capital and people, and be subject to EU law through the European Free Trade Association (EFTA) Court.

A Soft Brexit could be applied in the same way to the UK, but the UK government is likely to insist on tighter controls for immigration into the UK.

Brexit is debated not only among political parties, but also among other organisations. These include, on the one hand, Leave Means Leave, the Bruges Group, and the European Research Group, and the Open Britain group, Best for Britain, Britain for Europe, InFacts, and the People's Vote campaign, on the other.

The initial effect of the Brexit vote, which caused panic on the stock markets, is now in the past. The British pound was impacted by the Brexit vote, falling by 13.3% on the day the result came out, from US$1.50 to a 31-year low of US$1.3012. The pound fell as low as US$1.15 in October 2016, which the Financial Times called a 168-year-low in terms of a trade-weighted index measuring sterling against a basket of its trading peers and is now trading at US$1.28.

However, just as no-one can predict the final outcome of the Brexit negotiations, no-one could possibly state categorically that all potential final deals and arrangements are factored into stock market prices. Brexit is very much a black swan still.

Source: BT

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