inTouch

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Welcome to our quarterly magazine – in this edition:

- Hitting the reset on 2021
- Managing an irregular income
- What financial mistakes have you made?
- Understanding some of the aged care terminology
- Can social media affect our spending?
- Staying cyber safe this year

Welcome to the first edition of inTouch for 2021. The impacts of the Coronavirus that has plagued Australia for over a year now have been a concern for us all – for our health, wellbeing, friends and family stuck overseas and the financial impacts have been devastating for some.

As we enter 2021 with greater optimism that we are through the worst of it and markets are recovering, we take a look at what might happen to markets in the coming year in our cover article. If you have any questions or concerns about your financial plan, please get in touch with your Financial Adviser to arrange a review meeting.

This edition also looks at how to manage an irregular income stream, what to do if you've made a financial mistake in the past and becoming familiar with aged care terminology.

I hope you enjoy this edition.

Peter Ornsby
RI Advice Group, CEO

Hitting the reset on 2021

As always there will be many different opinions on what might happen to markets in the coming year, but by and large most will agree it is unlikely to top the volatility and uncertainty of 2020.

Amid the stimulus packages, lockdowns, PPE and politics, COVID-19 also brought to an end one long running market cycle and ushered in a new one, offering investors new opportunities with the potential for new risks and returns.

We believe understanding and navigating both will be more important than ever.

One of the main risks that still carries over from the last few years is the concentration of the index in just a few mega-capitalization companies. In fact, when considering the S&P 500, the top 10 companies still account for around 28% of the index, and as of late December 2020 the top 6 were worth more than the bottom 372 companies.

Why is this a problem?

Well if you're buying the index you're buying very expensive companies that have already grown substantially during 2020 such as Apple 86% and Amazon 76%. What's riskier is Tesla (TLA) is nearly 2% of the index but only joined in late 2020, so index investors didn't receive most of the benefit of its 700%+ growth, but bear all the downside if the stock were to fall.

Investors usually choose indices for their diversity – perhaps now they need to look again.

In addition, while global stimulus and support packages have helped economies from falling off a cliff, they have also pumped a lot more liquidity (cash) into the system.

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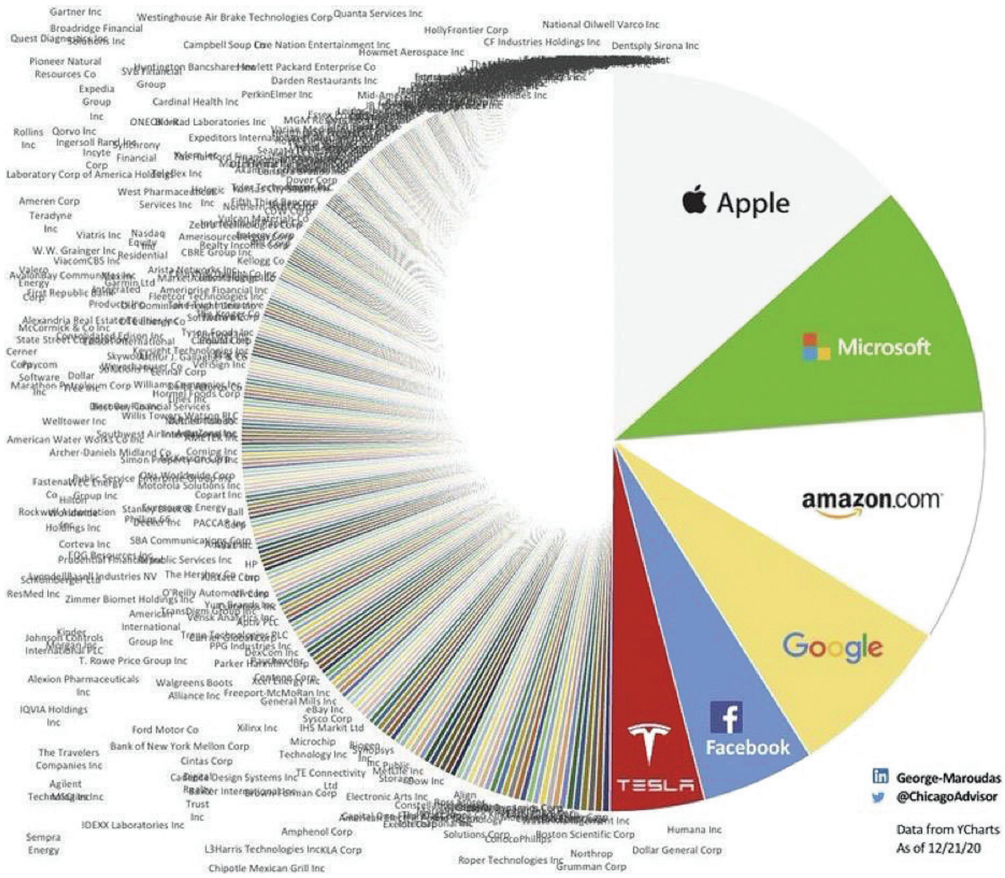


This, along with low interest rates may well support inflation for the first time in decades which even in small amounts can have a profound effect on stocks.

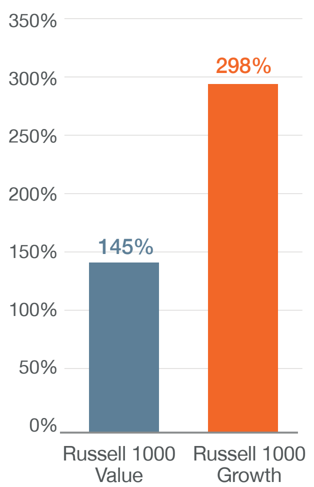
Stocks with high valuations that are dominating the index (technology) are more susceptible to the increase in interest rates that usually accompanies inflation, meaning to get your money back you need to wait years if not decades. This is less the case with other sectors.

Is this likely?

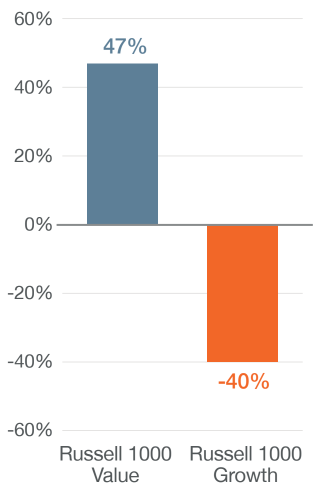
While the potential for inflation is there, so too are signs of a rotation away from the tech stocks to those less highly valued sectors of the economy.

From September to mid-December 2020, the S&P500 Value index outperformed Growth by around 8%, driven by more certainty about the real economy restarting on the back of a COVID-19 vaccine.

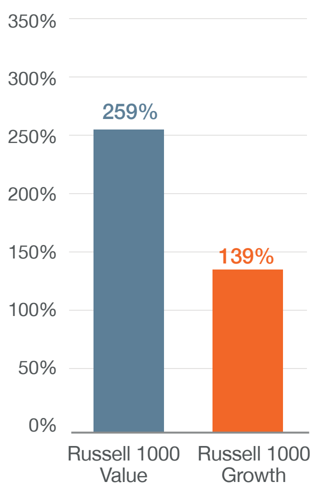
Value's Dark Years
Feb 1995 – Feb 2000



Value's Fightback
Feb 2000 – Feb 2005



Value's Outperformance
Feb 1995 – Feb 2005



Source: Talaria, Bloomberg

While we can't predict the future there is precedent here going back to the dotcom bust of 2000, where in the following 5 years Value had a resurgence to the point where it outperformed over the 10 years pre and post the bust.

To add to this are current data showing a significant increase in activity in the bellwether ISM New Orders Index which measures manufacturing activity, up 40% since the lows of 2020 and its highest level in over 3 years.

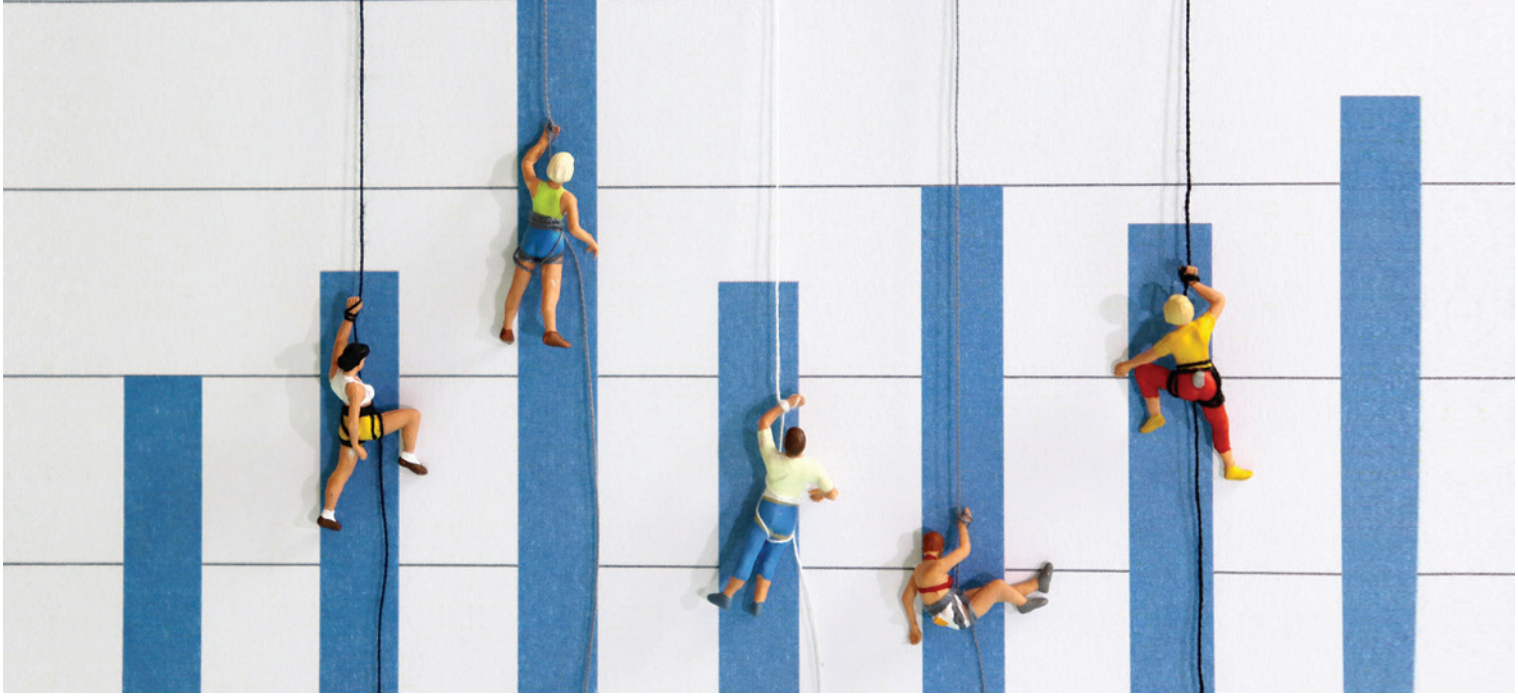
> The opportunity here lies in those sectors and regions that benefit from this new cycle economy, sectors that have been neglected, and so are cheap, but stand to benefit from the surge of global economic activity as populations slowly become vaccinated. The rewards here could be substantial.

The income factor

Finally, it's always important to consider income when balancing risk and return. Over the last 13 years all growth from the ASX200 has come from dividends or reinvested dividends! Plus income is flexible, allowing for retirees to live more comfortably while protecting their capital base, or creating a smoother journey for accumulators to reach their retirement goals or help with ongoing expenses. In a potentially lower investment return environment for the next little while, income can be the difference between a good night's sleep or not.

We can only hope 2021 is a better year for everyone, and for international equity investors we believe there are some great opportunities ahead.

Article courtesy of Talaria Capital:
https://www.talariacapital.com.au/



Managing an irregular income

If you have an irregular income stream, one that is not a fixed amount on a certain day, or days, of the month, you may find it difficult to stick to a budget and possibly be caught out with unexpected expenses. If an irregular income is the norm for you, how can you plan for your regular and irregular expenditure?

There are many forms of irregular income which may apply to retirees, self-employed people, shift workers, freelancers, contractor, part time workers or holiday workers. The fluctuations can make it difficult to manage your finances month-to-month and you may find yourself a bit short throughout the year. If an unexpected expense arises, you might be scrambling around to get the money you need to pay the bills.

This can be stressful to say the least, but we have some tips that you can follow that may help with your money management.

Create a budget – it's easy and effective

Having a budget is crucial to ensuring you have enough money to cover your essential expenses and build up your savings. A budget tracks your spending and factors in your income (including income fluctuations), expenses and financial responsibilities. It may help you set limits for discretionary spending such as entertainment, eating out and unnecessary shopping – to help you stretch your income. Perhaps most importantly, it may stop you over-spending in the months you have a higher income!

There are tools online for helping you develop a budget, take a look at the Government's MoneySmart website.

Expect the unexpected – a contingency fund

Everyone needs contingency funds to cover unexpected events such as unforeseen medical costs. But having money tucked away for emergencies is even more important if your income is unpredictable. A contingency fund is designed to help you stay afloat during periods of little or no income.

Investment income

You don't have to fully rely on your job or trade for income. If you have enough savings on top of your contingency fund, you may want to consider investing a portion of your money. Your professional financial adviser could recommend strategies to help you generate an income from your investments which can provide you with a safety net and a little bit more money to play with.

Retirement savings

You may not be considering retirement savings when you have a variable income, but it's vital for your financial security.

If you're looking to bolster your superannuation account, the 'catch-up' scheme helps eligible individuals increase their super savings by allowing them to make catch-up concessional contributions. You can 'carry forward' any unused concessional contribution cap amounts starting from the 2018-19 financial year for five financial year on a rolling basis.

You may use carried forward unused concessional contributions caps if you had a total super balance of less than $500,000 at the end of last financial year. These amounts can change year-to-year so it's a good idea to check the rules with your Financial Adviser who can help you fully understand your contribution options.

Appropriate insurance coverage

Consider taking out income protection insurance to protect you and your loved ones should a sudden illness or injury prevent you from earning an income.

Income protection insurance may provide a monthly income while you're unable to work. But depending on your job, different types of income protection insurance have different benefits and employment requirements.

Speak to your Financial Adviser to see if such a policy might work for you or how you may tailor a plan to meet your income protection needs.

What financial mistakes have you made? Could they have been avoided?

Have you made a big financial mistake in the past?

One that cost you a lot of time and money to fix? One that caused you a big headache?

Financial stress can be a major trigger for a lot of people, it is a big burden to carry around, but not one you need to carry alone.

Speaking to a professional Financial Adviser can set your mind at ease once you have a plan in place and a financial goal to build towards.

Financial stress

In a report conducted by ME Bank in 2018, they found that many Australian households struggled to afford the basics:

- 17 per cent of households could not pay utilities on time
- 19 per cent surveyed had turned to family or friends for help
- 15 per cent surveyed had resorted to selling items to buy necessities
- 45 per cent of households were digging into more than 30 per cent of their disposable income to pay off the mortgage.

This can take a toll on physical and mental wellbeing.

The value of advice

The value of financial advice can take many forms. It could be the knowledge a professional is looking at your situation objectively, the peace of mind you get when you have a plan in place, or it could be the financial benefits you gain.

A study by CoreData for Fidelity in 2019 revealed that 88.5% of Australians receiving advice believe it gave them greater peace of mind, financially, and 86.2% of Australians receiving advice believe it gave them greater control over their financial situation.

Research by the Financial Services Council showed that people who received financial advice were almost $100,000 better off at retirement. That's a big financial gain achieved by working with someone who provided advice and guidance around a retirement goal.

> Financial advisers are required to complete 40 hours of Continuing Professional Development each year to remain qualified and compliant – ongoing learning and development is a huge part of a Financial Advisers' value to clients!

Many Financial Advisers will often tell you that it is not their clients with the highest income that are the wealthiest. The clients who get advice early in their life, work at it, and take a sensible approach are usually the wealthy – and happy - ones.

Don't let a past mistake deter you from a future goal

You don't need to be wealthy or privileged to receive financial advice. It is accessible to every day Australians who are motivated to get ahead.

You can book an introductory meeting with an adviser to better understand what they do and how they can help you – and this first meeting is at no cost.

You also don't need to feel that any financial mistakes you have made in the past mean that you won't ever get ahead.

Leave your mistake in the past, and talk to an adviser about your future.

Talk to us

We have capacity to take on new clients and welcome the opportunity to meet with you.

Sources:

- The 'Better off with savings advice', 16 February 2011, research shows that a 30 year old would save an additional $91,000, a 45 year old would save an additional $80,000 and a 60 year old would save $29,000 more than those without a financial adviser.
- https://www.fidelity.com.au/insights/investment-articles/the-value-of-advice/
- https://www.fasea.gov.au/continuing-professional-development
- https://www.abc.net.au/news/2018-08-06/tipping-point-as-more-households-dip-into-savings/10078724

Understanding some of the aged care terminology

Aged care is a complex and emotive topic and many people don't think about their aged care needs until the time to do something is upon them – at which point the options can be limiting. This article explains a couple of the key areas to consider around your aged care plan.

Arranging an aged care assessment

When the time comes to move into a facility, one of the first steps is usually an assessment by a team of medical and health professionals who determine the eligibility of any government subsidised care.

You can speak to your family doctor about getting an aged care assessment, or call My Aged Care who can put you in touch with an Aged Care Assessment Team (ACAT).

Understanding an RAD and DAP

If you want or need to move into an aged care facility you will need to research different facilities, compare their services and ask them about the refundable accommodation deposit (RAD) to secure a place at a facility.

The RAD is a lump sum payment for accommodation in an aged care home paid by the in-going resident. It is essentially the cost of a room in the form of a lump sum deposit that you agree to pay. The daily accommodation payment (DAP) is paid if the agreed RAD is not paid in full. DAP is the daily interest on any unpaid RAD, so it is possible to pay part of the RAD and DAPs.

'Low means' residents pay DAC or RAC

Residents who have limited means are called 'low means' residents. They may be asked to make contributions towards their accommodation cost instead of the RAD or DAP.

Contributions can be made in the form of daily accommodation contributions (DAC), lump sum deposits called refundable accommodation contributions (RAC) or a combination of a RAC and DAC. If you are a low means resident part of the cost of the room is paid for by the Government, leaving you to only make contributions based on an assessment of your financial means.

RAD and RAC

The RAD or RAC you pay to the facility as a lump sum deposit is refundable upon permanently leaving the aged care facility. Many times this will be at the time of death, so the amount is paid to your Estate.

In some situations a family member agrees to pay the in-going RAD or RAC to a facility, perhaps because the in-going resident does not have the liquid cash available. If this is the case, there should be sufficient documentation so that upon death the money is refunded to the rightful recipient. The family should seek legal advice on how this can be done.

More information

There is a good repository of information available on the My Aged Care website. It is worth taking a look at the website, noting down anything you don't understand or would like further information on, and talking to your Financial Adviser.

Talk to us

If you or a family member are nearing the time that an aged care plan is required, it can help to talk to a Financial Adviser who understands this complex advice area and can answer any questions you have.

It is often helpful to include close family members in these discussions.

We have capacity to take on new clients and welcome the opportunity to meet with you to discuss your aged care needs

Source: https://www.myagedcare.gov.au/

Can social media affect our spending?

Social media could influence us to spend impulsively.

Can social media use be linked to spending? Research shows it can. For example, one study found that social networks such as Facebook and Instagram can motivate impulsive buying behaviours.[1]

But how does social media affect our spending?

Advertising

Sites like Facebook and Instagram have evolved from social networking platforms to powerful advertising tools. We only need to look at our social media feeds to realise how businesses use targeted advertising to expose us to brands, products and services. Targeted posts are effective at getting us to spend because they're typically developed based on our demographics and even our behaviours.

Fear of missing out

Social media creates a tendency among users to compare their lifestyle to those of others. This comparison can trigger a fear of missing out or FOMO, leading us to buy and consume just to fulfil the urge to keep up with everyone else.

Encouraging imitation

Images of products or aspirational lifestyles posted on social media by people we respect or admire might influence us to spend unnecessarily or indulgently. This happens when we look to them for cues or guidance when we don't know how to act and simply copy what they're doing. Psychologists call this social proofing.[2]

Seamless shopping experience

Social media platforms can also encourage spending by providing a seamless shopping experience. For example, Facebook enables retailers to sell on the platform itself, and Instagram lets them add links to products and services mentioned in their posts so users can purchase them online. This makes it extremely easy to spend.

Making smart choices

Social media can help us make better choices by exposing us to more products and services and enabling us to learn about other people's experiences using them. But it can also influence us to spend unnecessarily or impulsively.

By setting financial goals, you can make smart choices with your money.

Your professional Financial Adviser can help you get started by creating a plan and budget to help you secure your financial future.

Sources:

1 Aragoncillo, L, 2018, 'Impulse buying behaviour: an online-offline comparative and the impact of social media', Spanish Journal of Marketing, accessible at: https://www.emeraldinsight.com/doi/full/10.1108/SJME-03-2018-007.

2 Psychology Notes HQ, August 2015, 'What is the Social Proof Theory?', accessible at: https://www.psychologynoteshq.com/social-proof

Cyber security

Did you know that Cybercrime is one of the most prevalent threats in Australia, and the most significant threat in terms of overall volume and impact to individuals and businesses? According to the Australian Cyber Security Centre, Australians lost over $634 million to scams in 2019.

Make sure you stay cyber-safe this year.

Source: ACSC Annual Cyber Threat Report July 2019 to June 2020

Please feel free to pass our contact details to your friend or colleague who can contact us to be added to our mailing list for a free copy of our quarterly inTouch magazine.