INFORMED INVESTOR

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FURTHER INFORMATION

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WELCOME

KEEPING YOU INFORMED

Welcome to the latest edition of our quarterly newsletter 'Informed Investor.'

In this issue we explore:

- Investment Fundamentals in Volatile Times
- Australians and Investment Scams
- Your Biggest Investing Problem may be You
- Five Questions to ask before Plunging into an ETF
- Managing Money in Retirement

As always, if you have any questions about the information contained in these articles or how certain aspects may apply to your personal situation please feel welcome to contact us.

INVESTMENT FUNDAMENTALS TO CONSIDER IN VOLATILE TIMES

Sharp share market falls are stressful for investors as no one likes to see their investments fall in value.

But at times like these, there are number of key things for investors to bear in mind.

COMPOUNDING

Compound interest is magical! The value of $1 invested in 1900, allowing for the reinvestment of dividends and interest along the way, by the end of May this year would have been worth $243 if invested in cash, $901 if invested in bonds, and $757,136 if invested in shares. Of course, this is pre-tax and fees but the relativities remain the same. The higher end point for shares reflects their higher long term return. So, to grow our wealth we need to have a long term exposure to growth assets like shares.

IT'S CYCLICAL

Sharp falls in share markets as we are now seeing are not nice, but they are a regular occurrence and the price we pay for the higher returns they provide over the longer term compared to assets like cash and bonds. The key is to recognise that these setbacks are part of the cycle. So, the key is to not get thrown off by the higher returns that shares and other growth assets provide over the longer-term by cyclical falls.

DIVERSIFY

The best performing asset class each year can vary dramatically. Last year's top performer is no guide to the year ahead. So it's important to have a combination of asset classes in your portfolio. This particularly applies to assets that have low correlation, i.e. that don't just move in lock step with each other. A well-diversified portfolio is less volatile.

UNDERSTAND RISK AND RETURN

Put simply: the higher the risk of an asset, the higher the return you should expect to achieve over the long-term, and vice versa. There is no free lunch, and you should always allow for the risk and return characteristics of each asset in which you invest. If you don't mind short-term risk, you can take advantage of the higher returns growth assets offer over long periods.

TIME-IN, NOT TIMING

In times of uncertainty like the present it's tempting to try to time the market. But without a proven asset allocation or stock picking process, it's next to impossible. Market timing is great if you can get it right, but without a process, the risk of getting it wrong is very high and can destroy your longer-term returns.

Selling after big share market falls can feel comfortable given all the noise is negative but it locks in a loss and makes it much harder to recover.

TIME IS ON YOUR SIDE

Since 1900 there are no negative returns over rolling 20-year periods for Australian shares. Short-term share returns can sometimes see violent swings, but the longer the time horizon, the greater the chance your investments will meet their goals.

When it comes to investing, time is on your side, so invest for the long-term.

REMOVE THE EMOTION

Emotion plays a huge roll in amplifying the investment cycle, both up and down. Avoid assets where the crowd is euphoric and convinced it's a sure thing. Favour assets where the crowd is depressed, and the asset is under-loved. Don't get sucked into the emotional roller coaster.

THE WALL OF WORRY

It seems there's plenty for investors to worry about at the moment. While this is real and creates uncertainty, in a long-term context it's mostly noise. The global and Australian economies have had plenty of worries over the past century, but they got over them. Australian shares have returned 11.8 per cent per annum since 1900.

So, it's best to turn down the noise around the short-term movements in investment markets.

Source: AMP

AUSTRALIANS ARE LOSING MORE MONEY TO INVESTMENT SCAMS

Australians are being urged to be extra diligent when it comes to investment opportunities that look too good to be true.

According to Scamwatch, Australians lost over $205 million to scams between 1 January and 1 May this year - a 166 per cent increase compared to the same period last year.

INVESTMENT SCAMS ON THE RISE

The majority of losses over this period have been to investment scams with $158 million lost - an increase of 314 per cent compared to the same period last year.

However the true losses to scams are likely to be much higher, as research suggests that only around 13 per cent of people report their losses.

While the reported losses have increased the number of reports has reduced slightly, indicating that on average people reported higher individual losses.

The majority of losses to investment scams involved crypto investments, with $113 million reported lost this year. Cryptocurrency is also the most common payment method for investment scams.

People aged 55 to 64 reported the highest total losses, $32 million between 1 January and 1 May and over 80 per cent of losses reported by this age group was lost to investment scams ($26m). Scammers are becoming increasingly sophisticated in their techniques and strategies with one such strategy targeting victims again through "money recovery" scams.

WHAT IS A MONEY RECOVERY SCAM?

These scams target people who have already lost money to a previous scam by promising to help victims recover their losses after paying a fee in advance. Australians have lost over $270,000 to these scams so far this year, an increase of 301 per cent.

"Scammers will ask for money and personal information before offering to 'help' the victim and will then disappear and stop all contact," ACCC Deputy Chair Delia Rickard said.

"Money recovery scams are particularly nasty as they target scam victims again. These scams can lead to significant psychological distress as many of the people have already lost money or identity information."

This year Scamwatch has received 66 reports of money recovery scams - a 725 per cent increase compared to the same period in 2021.

Scammers target previous scam victims, contacting them out of the blue, and pose as a trusted organisation such as a law firm, fraud taskforce or government agency. They may have official looking websites and use fake testimonials from other victims they have 'helped'.

As well as an up-front payment they often ask victims to fill out fake paperwork or provide identity documents. Scammers may request remote access to computers or smart phones, enabling them to scam their unsuspecting victims.

Another tactic scammers use is to contact people by phone or email who haven't actually been a victim of a scam and convince them that they've unknowingly been involved in one and are entitled to a settlement refund.

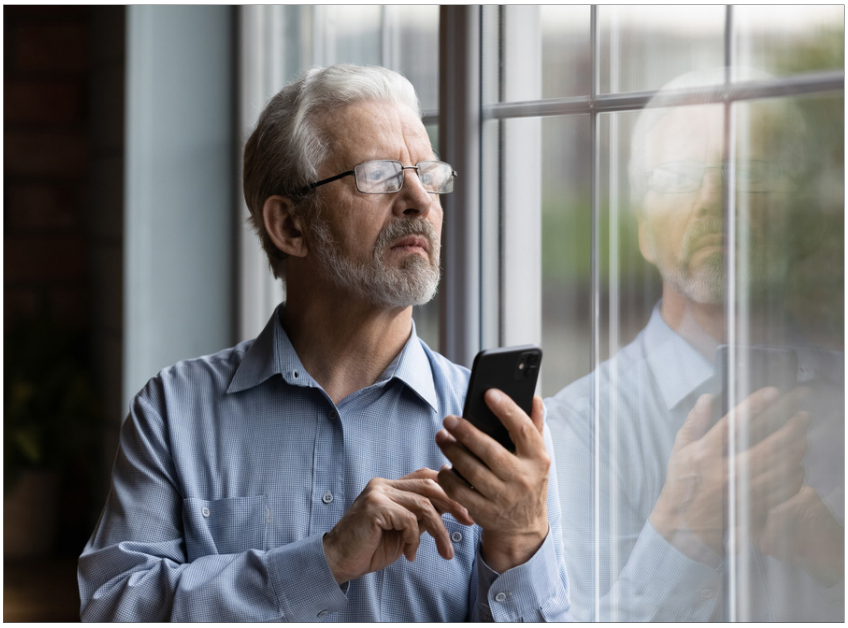
"If you get contacted out of the blue by someone offering to help recover scam losses for a fee, it is a scam. Hang up the phone, delete the email and ignore any further contacts," Ms Rickard said.

"Don't give financial details or copies of identity documents to anyone who you've never met in person and never give strangers remote access to your devices."

"Scammers can be very convincing and one way to spot them is to search online for the name of the organisation who contacted you with words like 'complaint', 'scam' or 'review'," Ms Rickard said.

WARNING SIGNS OF AN INVESTMENT SCAM

- Promise of low risks with high returns: Always remember, if something seems too good to be true it probably is. If you are promised 'guaranteed returns' this is a warning sign.
- You are contacted out of the blue: You receive a call, email or message on social media from someone offering unsolicited advice on investments.
- High-pressure tactics: You are contacted repeatedly and are told that you need to act quickly and invest or you will miss out.
- Remember you have less protections with cryptocurrency investments and scammers know this.
- Someone you haven't met in person offers you investment advice: Never take investment advice from someone you meet on social media or a dating app.
- Use of celebrity endorsements or images: These are usually fake. Celebrities rarely discuss their investments or financial decisions in public.



- Someone has convincing promotional materials or websites: If documents like prospectuses aren't registered with ASIC, it is likely part of a scam.
- You are asked to deposit funds into different accounts for each transaction: Scammers may claim this is for security reasons, or because they are an international company.

DO YOUR RESEARCH

Do not let anyone pressure you into making decisions about your money or investments and never commit to any investment on the spot.

Take time to research before investing. You can check who owns a website using search websites such as who.is. It's also a good idea to check whether any account details you have been told to transfer to match the name of the company you are supposedly dealing with.

If you feel an offer to buy shares might be legitimate, always check the company's listing on the stock exchange for its current value and recent shares performance. Some offers to buy your shares may be well below market value.

IF YOU SUSPECT YOU HAVE BEEN SCAMMED

People who have lost money to a scam should contact their bank or financial institution as soon as possible. If they are not happy with the financial institutions response, victims can make a complaint to the Australian Financial Complaints Authority which is a free and independent dispute resolution service.

Financial institutions may be able to find where the money was sent, block the scam accounts and help others to avoid sending money to scammers.

People who are a victim of a scam or identity theft should act quickly to reduce the risk of financial loss or other damages.

For more advice on how to avoid scams and what to do if you or someone you know is a victim of a scam, visit the Scamwatch website (www.scamwatch.gov.au).

Source: Scamwatch

YOUR BIGGEST INVESTING PROBLEM MAY BE YOU

The human brain is an incredibly powerful processing unit.

Every day we make numerous judgements and decisions – hundreds if not thousands if you conclude everything we do is an individual 'decision'.

As the human brain has evolved, in part due to the increasing complexity of our environment, it's developed little shortcuts, or 'heuristics'. These mental pathways circumvent multi-stage decisions and allow us to make judgements quickly and efficiently.

While heuristics are helpful and allow us to function without stopping to think about our next action, they can – and do – lead to cognitive biases. There are actually over 100 of these recognised habits, and their mix and dominance varies from person to person.

Unfortunately, these biases sometimes trip us up leading to bad judgements and poor decisions.

Consequences of sub-par decisions or erroneous conclusions are most often inconsequential but unfortunately – and consequentially - such biases exist in the full spectrum of our decision-making, including those in the realm of safety – and investing.

A vital ingredient to successful investing over the longer term is knowing yourself – and specifically knowing the mental traps you may fall into when making investment decisions. So to better help know yourself, here are a few of the more typical behavioural biases of investment decision-makers.

ANCHORING BIAS

Anchoring bias is the tendency to rely on, or anchor to, a particular piece of information, or event. There are a few common anchors for investors. Many people base their investment decisions on the current price of an asset relative to its history.

Where a price is now relative to where it has been in the past is not a reliable indicator of the future direction of the price, or whether the asset might be cheap or expensive.

Another Anchor is the purchase price of an asset. While a gain or loss represents the difference between the current price and the purchase price, is this actually helpful when deciding to buy, hold or sell?

An event Anchor; a good example being the Global Financial Crisis. Many investors, scarred by their loss of capital through the GFC, now anchor to the event (and the associated financial loss or psychological pain) when making investment decisions.

An asset should be assessed based on its intrinsic value and investors should attempt to determine an asset's current and potential future worth in isolation from other values (or events). Disconnecting from Anchoring bias can be difficult, but a good starting point is to consider what you anchor to and when you do it.

> **"THE INVESTOR'S CHIEF PROBLEM – EVEN HIS WORST ENEMY – IS LIKELY TO BE HIMSELF."** BENJAMIN GRAHAM

HERD MENTALITY

There's something innately safe about being in a herd. We humans are hard-wired to herd. So it's not surprising that this is common in investment circles where investors place a big emphasis on what groups are doing.

There are all sorts of emotions at play with this bias. There's an element of FOMO (fear of missing out) when there's a bull-rush to a type of investment; there's the psychological pain of going against the crowd; and then there's the fear of humiliation or embarrassment (aside from the financial consideration) of just being proven wrong.

Recognising the lure of running with the pack requires an ability to think independently. Be self-aware about the social and emotional pull of the herd. If this is confusing or overwhelming, then consider using a professional investment manager to dislocate you from this pull.

CONFIRMATION BIAS

Confirmation bias is the tendency of people to pay close attention to information that confirms their belief, and ignore information that contradicts it. This can lead to overconfidence and the risk of being blindsided.

Our natural tendency is often to listen to people who agree with us. It feels good to hear our opinions reflected back to us. Many people choose their news sources based on a confirmation bias. Do your news sources reflect your views and opinions? There's nothing particularly wrong with this per se, but such bias can be disastrous for investors, as it can validate and reinforce a view which may be flawed. Instead, we should be looking for disconfirming information to test against an initial view.

A discipline of stress-testing and deconstructing ideas runs consistent in many of the world's most successful investors. To overcome this bias start looking for information that might disprove your ideas, rather than confirm what you want to do.

OVERCONFIDENCE BIAS

People tend to overestimate their skills, abilities, and predictions for success. This bias is prolific in behavioural finance. Careful risk management is critical to successful investing and overconfidence tends to make us less cautious in our investment decisions. Many of these mistakes stem from an illusion of knowledge and/or an illusion of control.

Anecdotally, a significant number of SMSF-holders suffer from overconfidence bias. Asset allocation data collated by the ATO suggests the average SMSF is highly concentrated in domestic assets (particularly shares and cash), poorly diversified and consequently exposed to various material risks.

Overconfident investors often put down their wins to talent and losses to plain bad luck. Guarding against overconfidence involves acute self-awareness and the ability to isolate the role of skill versus timing, or luck.

LOSS AVERSION

Loss aversion is a tendency to dislike losing money a lot more than enjoying making money. This kind of bias is commonplace with stock traders, but definitely also applies to longer term investors. The GFC is a period in many investors' lives which created an enduring fear of substantial loss. Scarred by losses from such periods, investors can be at risk of creating portfolios too conservatively invested with a primary goal of fortifying against loss, rather than looking at their time horizon and structuring a portfolio to suit.

Investors need to remember that to generate a certain level of returns they need to take a certain level of risk, and periods of negative returns are to be expected when taking on risk.

The idea is to not take excessive risks in seeking to achieve a return goal.

Source: BT

FIVE QUESTIONS TO ASK BEFORE PLUNGING INTO AN ETF

Exchange Traded Funds (ETFs) have been available on the ASX for over 2 decades, but in recent years, this category's variety and representation within Australian portfolios have grown rapidly.

By offering exposure to different global markets, industry sectors and strategic themes, as well as non-equities asset classes like bonds and commodities, ETFs can provide relatively low-cost "building blocks" for a diversified portfolio.

However, as with any investment, it's very important to understand what you are putting your money into, and to ensure that it suits your specific needs. Here are five questions to ask yourself, or your financial adviser, before you purchase an ETF.

Question 1: Does it accurately capture the market exposure that I want?

You wouldn't judge a book by its cover, so make sure to look beyond the ETF's name to properly assess the underlying exposure of the product. Common misunderstandings include:

- Mistaking a "picks and shovels" exposure, through owning suppliers and supporters of a sector, for that sector's output. For example, a portfolio of cryptocurrency miners and exchange operators is not the same as a direct investment into cryptocurrency;
- Confusion between ETFs linked to a commodity's spot price, which is the price for immediate delivery, and those representing a futures curve, which will move with expectations for longer-term pricing; and
- Overlooking exchange rate movements, which can influence your returns from anything not priced in Australian dollars. This impact can be neutralised with a currency-hedged ETF.

Question 2: Is the exposure active, passive, or somewhere in between?

Early ETFs were purely passive, usually linked to an equities index like the S&P/ASX 200, but now, there are also actively managed portfolios within an ETF structure. "Smart beta" portfolios which apply rules-based investment strategies are becoming more common too, for example, one might invest in a basket of stocks which screen well on quality factors. The exposure type affects fee levels and return potential, with passive ETFs tending to be the cheapest, but lacking the potential to outperform an index benchmark.

Question 3: How liquid is this product?

It is possible for the price of an ETF to diverge from that of its underlying exposure, particularly in volatile market conditions such as the COVID-19 panic in early 2020. To ensure that investors can get in and out of a product when they want to, ETF providers often employ a Market Maker, an institution which quotes separate prices to buy and sell units. Generally, ETFs with a smaller pool of units on issue are more likely to have poor liquidity, and this can show up in a wide spread between the buy and sell prices.

Using "at-limit" orders when trading ETFs can help ensure that you receive the price you expect.

Question 4: How does the fee compare to alternatives, and what are the trade-offs?

Low cost is a major benefit of ETFs, but when you have several to choose from, it's worth understanding why one's management fee is cheaper. Active management usually costs more, and ETFs linked to a major market benchmark are sometimes priced higher because the index provider takes a cut of the total fee.

Unusual products may carry a scarcity premium, while new or smaller-scale offerings may have lower fees, both to compensate for their initially poor liquidity, and also to entice more patronage over time.

Question 5: How does it fit with the rest of my portfolio?

Any new investment should be considered in the context of your existing portfolio. ETFs can provide valuable diversification, but they can also be a source of inadvertent overlap or concentrated exposure to certain sectors or factors.

For example, ETFs linked to the S&P 500 index, the NASDAQ 100 and an actively-managed global growth strategy might overlap in high exposure to the Big Tech stocks, so this combination might not provide adequate diversification.

Source: Lonsec

TIPS FOR MANAGING MONEY IN RETIREMENT

How to manage your savings, debt, estate plan and dependants in retirement

Aussies are living longer than ever before, with men expected to live until age 80 and women until age 85.

However, an increased life expectancy also means Australians may spend longer in retirement than previous generations, and in turn, need more money to fund retirement during those extra years.

When you're retired and no longer earning money, it can be difficult to know how much you can afford to spend and what you need to preserve for the future, without the fallback of a regular retirement income.

You may also have added pressures in the mix, such as paying off debt, healthcare costs, and dependants in the form of kids or elderly parents.

Striking the right balance between enjoying your retirement and having enough to live on can be tough. However, you don't have to go without - you may just need to consider your budget a bit differently.

If you're planning your retirement, here are some money management tips that may help you get off on the right foot.

LOOK INTO HAVING A U-SHAPED BUDGET

Rather than a linear budget, where your expenses remain the same year after year, it may be worth considering a 'U-shaped' budget in your retirement.

This is where your spending over the period of your retirement resembles a 'U', with the highest expenses in the first years of retirement and your later retirement years.

When you first retire, your spending will most likely be higher as you take that trip of a lifetime, splash out on that caravan or boat, or pay off your home loan (or all of the above) and engage in an active, and possibly more expensive, social life.

Your spending is then likely to settle into a more regular pattern in mid-retirement, before increasing again in your later years when greater healthcare costs and aged care expenses come into the mix.

TIPS FOR PAYING OFF DEBT IN RETIREMENT

Carrying debt into retirement isn't ideal, but it's a reality for many of us. If you find yourself owing money on your credit card, a personal loan or home loan once retired, there are things you could look into to help manage your repayments and minimise the amount of interest you pay.

Consolidating your debts by bringing them together into one loan could mean you pay less in interest, fees and charges. You could also contact your providers to try to renegotiate your repayment terms.

How much super should I have, and can I use this to pay off debt?

Some Australians withdraw their superannuation as a lump sum once they reach their super preservation age and use it to clear their debts, to avoid having any repayments and interest during retirement.

CONSIDER WHERE YOU CAN SAVE MONEY

Although you may not have a steady income like before, it's still possible to save money so you have more to spend on what's important to you during your retirement. You can do this by leveraging some of the government's benefits and subsidies, or by reducing your expenses.

Here are a few ideas to get started:

Consider selling your second car (if you have one), and take advantage of public transport concessions available to seniors instead. You may be able to save on car registration, insurance and maintenance costs, plus you'll be doing a bit for the environment.

Take a look at government websites to learn about benefits and payments you may be able to access, such as pensions, allowances, bonuses, concession cards, supplements and other services.

Consider bundling your phone and broadband to save on technology bills, and your electricity and gas to save on energy costs. Compare providers' rates through comparison websites and ask if they offer a seniors discount.

Think about ideas to entertain more at home instead of going out, such as dinner parties, game nights or movie nights. It also may be handy to subscribe for newsletters to your favourite restaurants and shops, or invest in a coupon book like the Entertainment Book, so you can take advantage of any offers and special deals when you do go out.

It may be worth putting your bills onto direct debit rather than paying them month by month. This way, you may be eligible to qualify for the pay on time discounts and avoid late fees if you forget a payment.

Groceries are a necessary expense, but it's possible to save money here as well. Consider researching online for sales ahead of time, buying seasonally for fruits and veg, or buying in bulk and sharing with family or friends.

If you're considering this, think about whether you'll still have enough to live on in retirement, and the tax implications of doing this. In this case, it's a good idea to speak with a financial adviser to weigh up your options.

TIPS IF YOU'RE HELPING YOUR FAMILY FINANCIALLY

If you're part of the 'sandwich generation', with elderly parents who are dependent on you and adult kids who are still at home or continue to need a bit of financial assistance, it's still possible to have a good quality of life in retirement.

In order to do so, it's all about finding balance. It's important not to lose sight of your own goals during retirement, while still helping the ones you love. You may consider having some conversations with your children on the limits of what you can provide, and spend more time to help them understand the benefits of financial independence: for example, instead of financial assistance, perhaps you can help them with some invaluable financial education.

TIPS IF YOU'RE ESTATE PLANNING

Estate planning is also an important part of your financial planning in retirement. Estate planning goes beyond just making a will. It can also be valuable to think about who your super beneficiaries are, and how you want to be looked after (both medically and financially) if you can't make your own decisions later in life.

If you get your estate in order during the early years of retirement, it means more peace of mind in the long term and could potentially help prevent some family tensions in the future.

When planning your estate, here are some key things to think about.

Who will get your assets?

Making a will plays a big part in estate planning. A solicitor or estate lawyer can help you draw up a legally binding document that advises who should receive your assets after you pass away. If you don't have a valid will, your estate will be distributed in line with the law in your relevant state.

Who is your executor?

An executor is the person responsible for making sure your assets are distributed according to your wishes, as well as paying bills, closing any banks accounts, and so on.

Who are the beneficiaries for your super?

Your super is often treated differently to the other assets in your will, so it can be useful to think about this as a separate aspect. Consider how you want your super to be distributed after you're gone and try to keep your super beneficiary nomination up to date. If you don't, there's a risk that your super money may end up in different hands.

Who is your enduring power of attorney and/or guardian?

If you have an enduring power of attorney, you are allowing someone to make financial decisions on your behalf. In some states, your power of attorney holder can also make lifestyle decisions, such as health and medical choices and where you live, while in others you'll need to appoint a separate guardian to do this.

Source: AMP