Newsletter: February 2020

Welcome to the latest edition of our client newsletters.

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 topics include:

- Super investment options - what's right for you?
- Make Australia save again
- 5 tips for green investing.

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

Sefton Financial

Sefton Financial
Suite 4, 741 Main Road,
Eltham Vic 3095
P (03) 9431 3255
E info@seftonfinancial.com.au
W www.seftonfinancial.com.au

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.

Make Australia save again

Are you one of the 20 per cent of Australians with less than $250 in their savings account?[i]

Recent research from AMP Bank has found that one in five Australians isn't saving any of their monthly income.

And we're all different when it comes to saving. People in Tasmania and Western Australia have the least amount of savings, while men on average have nearly 20 per cent more money saved than women. Unsurprisingly, young people (those aged 18 to 24 years old) have the lowest savings balances with nearly a third having less than $250 in a savings account.

Why are we saving so little?

With low wage growth and the cost of living increasing, it seems Australians' savings habits are changing. AMP Bank's research found that people's wages are mostly used for everyday living costs and bills, while other costs such as school and day care fees were also called out as factors preventing people from saving.

Another reason people aren't saving is that they're actually paying down debts, such as their home loan, faster, due to our record low interest rates.

But we need to save to make sure our financial wellbeing is taken care of. As AMP Bank CEO Sally Bruce points out, "For most Australians, having a pot of money to use when times are tough or to fund the nicer things in life such as a new home or a holiday can have a huge impact on health and morale as well as your wallet."

Saving for holidays and rainy days

Saving is an important part of our finances. It gives us a safety net when we need it or allows us to have enough money to afford the big things.

According to the moneysmart website, the top three savings goals[ii] of Australians are:

- **Holidays.** Whether close to home or on the other side of the world, a holiday is what a record 53% of people indicated they are saving for.
- **Rainy day fund.** 46% of people nominated a rainy day fund, or emergency fund, as their top priority for savings.
- **Buy or renovate a home.** The dream of owning property is still a goal for most Australians, with 40% of people saving to buy a home or renovate.

So what steps can we take to start saving?

- **Find the right savings account to suit your needs.** There are many different savings accounts available to you. Online savings accounts and term deposits could offer higher interest rates than a typical transactional account.
- **Set a savings goal.** Identifying your savings goal is the first step in creating good financial habits, plus you'll know exactly how much you need and when you need it by so you can commit to reaching your goal.
- **Work out where the money will come from.** For most people, this might be the money left over from their pay after they've covered all their bills and expenses each month. You could also think about getting a side gig for extra income, or cutting back on spending to free up more money.
- **Set up a regular savings plan.** Once you've identified your savings goals, you'll need to work out the best method of saving for you. The way you save might differ depending on whether your saving goals are long term or short term. For example, a separate savings account where your money is readily accessible might be useful for a short-term goal. A term deposit, where your money is tied up for a set period of time in return for higher interest, might be more suitable for a longer-term goal.

Make sure you're getting the most out of your savings account

According to the research, more than a quarter (26%) of Australians currently don't have a savings account. Of those who do, nearly half (43%) don't know their interest rate.

As Ms Bruce explains, "The more we can encourage Australians to take an interest in interest, the more they will be able to grow their wealth and reduce the impact of unexpected costs or afford the extra things in life they want."

So, when looking for a savings account, some important features to consider are:

- Does it offer attractive interest rates?
- What fees might I be charged?
- How do I access my money?
- Is there a minimum or maximum amount of funds allowed in the account?
- Will my savings be secure with the financial institution I choose?

Saving is an important part of your financial success. Making small changes to build that safety net could help to improve your financial situation. Talk to us if you would like a hand.

i AMP commissioned Pure Profile to conduct a survey among 1,000 Australians.

ii https://www.moneysmart.gov.au/managing-your-money/saving/how-australians-save-money

5 tips for green investing

How to build environmental, social and governance factors into your investments.

The climate change debate has made it to the top of the news agenda, with many Australians now considering what they can do to help the environment. For some, this will include making changes to their finances in line with their environmental values.

Whether it's through super, investments or savings, more and more people are reviewing their financial arrangements to ensure their funds are put to work in a way that does no harm, and ideally leaves the world in a better place.

Responsible investment is a process that takes into account environmental, social and governance (ESG) factors into the investment process of research, analysis, selection and monitoring of investments.

It has become a major part of the investment landscape across Australia. Nearly half of all investments in Australia are now being invested responsibly and ethically according to the Responsible Investment Association of Australia (RIAA)[i].

Here are some tips to help Australians who want their finances to be environmentally friendly.

Understand what matters to you

Everyone's values are different so you need to first work out what's most important to you. Do you feel strongly about not investing in fossil fuels? Are you interested in discovering cutting-edge solutions for climate change or is improving energy efficiency a greater priority for you? How will these preferences affect your investment performance? From here you can identify the areas where you don't want to invest or, conversely, where you'd rather put your money to make a positive impact.

Do your research and get to know the ESG principles

Each investment manager has its own investment policy when it comes to ESG investing. For instance, some may apply a 'negative screening' or 'exclusion' policy, meaning that they steer clear of certain sectors like fossil fuels. Be mindful of exclusion policies as they may lead to increased volatility in your portfolio. Climate change investing tends to be a form of 'positive screening'—in other words, actively choosing to invest in companies that are making a difference in areas such as renewable energy. RIAA is a good resource to use when you're starting on this journey as it details the investment strategies of ethical and sustainable funds. Many super funds or investment managers also now have information about sustainability and ESG on their websites. Look to see if they have signed the United Nations backed Principles of Responsible Investing and whether they have published their scorecard.

Start with super

Do you know where your super is invested? Does it offer a socially responsible investment (SRI) option? Make sure you read all the information provided by your super fund about the particular sectors, businesses and investment activities considered for investment. It's worthwhile knowing that some people believe many SRI options don't go far enough. Again, it pays to know what matters most to you and then you can find an option that aligns with your values.

Don't forget the eggs rule

One of the key principles of good investing is diversification—not putting all your eggs in one basket. It spreads risks and ensures you're not exposed to any single investment or asset class. So consider the risks of crafting a portfolio that's too narrow and concentrated. Climate-themed funds also haven't been around for a long time, with many having only launched several years ago. This makes their performance hard to assess.

Ask for help

Being a more responsible investor involves a lot of research and working out exactly how far you want your investment decisions to reflect your sustainable and ethical concerns and can be a minefield (pun intended). For example, you might not want to invest in coal companies, metallurgical coal miners and mining companies, but what about transport companies that freight coal, coal seam gas, oil and conventional gas, electricity generators, or diversified energy generators that may have large investments in renewables as well as coal?

We are here to help if you need more information about what you're invested in or how to access more responsible investment options.

i 'From values to riches: charting consumer attitudes and demand for responsible investing in Australia', Responsible Investment Association Australasia, Nov 2017