HEART Financial Advisers

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Five strategies to match your investing to your behaviour

INSIDE

1 Five strategies to match your investing to your behaviour

6 Airports are back – why there's plenty to like for investors

9 Expansionary Budget'23 adds to interest rate risk

11 Q&A: Ask a Question

BY GRAHAM HAND

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"When you act on the emotions of the marketplace, you're making a big mistake. Stay the course, don't let these changes in the market, even the big ones, change your mind and never, never, never be in or out of the market. Always be in at a certain level."

Vanguard founder and former CEO Jack Bogle at CNBC's 'Power Lunch', September 2018.

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Many investors are their own worst enemies, achieving inferior results versus the funds or indexes they invest in due to the timing of their buying and selling. Even after deciding a level of risk that allows exposure of say 50% of their portfolio to equities, investors panic during market falls and cannot maintain an asset allocation discipline. This article offers techniques to control the natural human urge of flight in the face on danger.

BEFORE YOU GET STARTED

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In 2014, leading investment writer and founder of a funds management business, William Bernstein, gave Firstlinks permission to publish a terrific booklet called *"If You Can: How Millennials Can Grow Rich Slowly."* He advises young people to take exposure to equity markets because time is on their side. But it comes with a warning:

"Know that from time to time you will lose large amounts of money in the stock market, but these are usually short-term events - the financial equivalent of the snake and the tiger. The real risk you face is that you'll be flattened by modern life's financial elephant: the failure to maintain strict long-term discipline in saving and investing."

The tiger and the snake are Chinese zodiac signs with different perspectives on life and contrasting aspirations, and there is the main behavioural problem. Short-term volatility hits long-term goals, as many older people worry their investments will not have time to recover.

Let's see if there are ways to invest that might control bad behaviour, but first, what habits are we hoping to fix.

Evidence of poor investor behaviour

Morningstar produces a regular 'Mind the Gap' report which compares investor returns with the performance of a range of managed funds and Exchange Traded Funds (ETFs). The latest report published in July 2022 says:

"Our annual study of dollar-weighted returns (also known as investor returns) finds investors earned about 9.3% per year on the average dollar they invested in mutual funds and ETFs over the 10 years ended Dec. 31, 2021. This is about 1.7% less than the total returns their fund investments generated over the same period. This shortfall, or gap, stems from poorly timed purchases and sales of fund shares, which cost investors nearly one sixth the return they would have earned if they had simply bought and held."

Other research by DALBAR based on 30-year data indicates the average investor in the US S&P500 achieved 7.13% while the index delivered 10.65%.

Locally, the EY Global Wealth Management Research suggests Australians are more inclined than investors in other countries to exit markets when their portfolio declines. The problem is, they may never get back in.

"Australian clients appear more actively aware of declines in their portfolios than those in other markets, with the vast majority (97%) saying they change investment behaviour due to declines in portfolio value, significantly above the global average of 73% ... Continued market stress is amplifying their defensive stance and as well as their appetite for both switching and adding to their portfolio."

Modifying investor behaviour

Here are five ways to modify behaviour with the aim of improving long-term outcomes. Some people may consider these actions inappropriate, but they should be read in context. They are not suitable for everyone.

Behaviour 1. Panicking when the market falls because of fear it will drop further

Solution 1: Invest in a fund or structure that is time-consuming to exit

In every market on any day, there are reasons to sell. Even in bull markets where stocks run ahead for years, there are down periods where bad news suggests the bear may start clawing at returns. It is in these down periods where damage is done. As writer, hedge fund manager and founder of Gotham Capital, Joel Greenblatt, said:

"Unless you buy a stock at the exact bottom (which is next to impossible), you will be down at some point after you make every investment. Your success entirely depends on how dispassionate you are towards short term stock price fluctuations."

Consider what happens when the market falls 5% or more in a single day, equivalent to today's S&P/ASX300 level of about 7,250 falling by 310 points. This index is worth $1.6 trillion, and the headlines would scream 'Market collapse costs Australian investors $80 billion.' Investors worry that the next day will repeat the fall and they sell to manage their losses.

Here is a chart published by BlackRock in 2022 using Morningstar data showing the largest one-day losses in the S&P500 since 1950 and the return one year later. In almost every case, the investor who reacted missed an excellent recovery.

Day	S&P 500 decline*	Return 1 year later*
10/19/1987	-20.5%	23.1%
3/16/2020	-12.0%	69.0%
3/12/2020	-9.5%	61.8%
10/15/2008	-9.0%	20.8%
12/1/2008	-8.9%	35.9%
9/29/2008	-8.8%	-4.1%
10/26/1987	-8.3%	23.5%
10/9/2008	-7.6%	17.8%
3/9/2020	-7.6%	43.6%
10/27/1997	-6.9%	21.5%
8/31/1998	-6.8%	38.0%
1/8/1988	-6.8%	15.3%
11/20/2008	-6.7%	45.1%
5/28/1962	-6.7%	26.7%
8/8/2011	-6.7%	25.2%
Average	-8.9%	30.9%

> **It is usually argued that liquidity is good because it gives flexibility to respond to market changes and personal needs for cash. The development of listed funds such as ETFs is a welcome alternative to the tiresome paperwork still required to invest in some unlisted managed funds.**

It is usually argued that liquidity is good because it gives flexibility to respond to market changes and personal needs for cash. The development of listed funds such as ETFs is a welcome alternative to the tiresome paperwork still required to invest in some unlisted managed funds. Application forms for SMSFs requiring certified copies of the trust deed and identification documents for trustee company directors can be cumbersome and time-consuming.

But it can work to the benefit of investors if exiting a fund at least forces some paperwork in contacting the fund administrator, rather than jumping to an online broker account and exiting in a instance.

A recent example was the immediate collapse of prices on a wide range of capital instruments when Credit Suisse defaulted on its hybrid bonds. Similar bonds fell heavily for a few days while investors sorted out whether other central bank had forced their banks to include clauses where shareholders ranked ahead of noteholders. When the expected hierarchy of repayment was confirmed, the market recovered well but anyone in a listed note fund who sold quickly missed the bounce.

Some funds may prevent a panic sale by:

- Requiring a completed redemption form to be mailed to an administrator.
- Allowing redemptions only at the end of the month with five days' notice.
- Closure to new investors so existing investors know if they exit, they will not be allowed back in.

Behaviour 2: Judging your own results against others
Solution 2: Tread your own path as only you know your needs, worries and risk appetite

Investing is like posting on Instagram. People only tell their followers about the good times. The photos from the holiday ignore the hours stuck in airports, dragging heavy bags around looking for a hotel and the daily search for a decent place to eat. Online, it's all smiles and fun. The investing equivalent is buying Apple or Tesla or Afterpay in the early days, loading up on equities at the bottom of the pandemic, selling before the GFC hit or exiting fixed rate bonds before the rate rises of 2022. The disappearing small tech company is forgotten, while the insider tip from a mate rarely works out.

It's better to decide on your own plan, what works for you and avoid comparisons.

Guy Spier is a fund manager and author of 'The Education of a Value Investor', but this is not a typical 'how to' book. It's more about his personal investing journey to learn what works for him, including moving away from the noise of Wall Street to a quiet village outside Zurich. He says:

"Following my move to Zurich, I focused energy on this task of creating the ideal environment in which to invest - one in which I'd be able to act slightly more rationally. The goal isn't to be smarter. It's to construct an environment in which my brain is not subjected to quite such an extreme barrage of distraction and disturbing forces that can exacerbate my irrationality. I hope that I can do it justice here because it's radically improved my approach to investing, while also bringing a happier and calmer life … The constant barrage of bad news could easily have exacerbated my irrational tendencies, when what I needed most was to screen out the noise and focus on the long-term health of my portfolio."

He has developed what he calls his Personal Scorecard.

"You should judge yourself by your own personal standards and proactively work towards self-improvement rather than indulging in comparisons with the standards and accomplishments set by other investors … Investing has a way of exposing our psychological fault lines. However, you have to live your own life rather than follow the dictum put forth by famous names."

Behaviour 3: Worrying about running out of money
Solution 3: Allocate to cash and high-quality bonds to cover several years of income needs

Faced with the current greater uncertainty than in the halcyon decade leading up to 2020, Australians are now increasingly protecting their wealth at the expense of returns. The recent EY research says:

"According to the survey, over the past two years there has been a shift in the leading financial goals of Australian

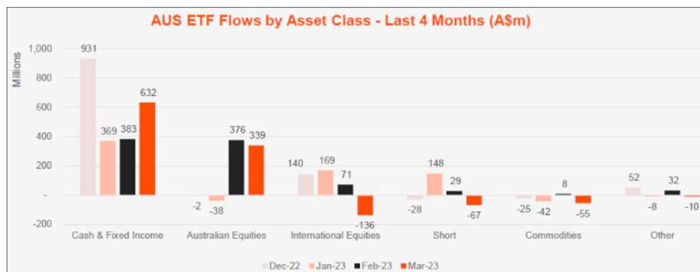
It is not best practice to base investment decisions only on a fee or tax impact, as there is little point in saving fees or tax in a poorly-performing fund. But many investors dislike paying 1.5% annually plus a performance fee to a fund manager, and as the EY research indicates, plenty of investors focus on tax treatment.

investors, with protecting wealth against losses and inflation now the top priority (58% in 2023 compared to 38% in 2021). Ensuring adequate income has dropped from the number one position in 2021 (64%) to fourth spot this year (27%), behind growing investment returns (46%) and wealth transition (28%).”

Back to author William Bernstein, quoted in My Money Journey, explaining how he invests now he has reached the age of 75.

“I often tell people that, when you’ve won the game, stop playing with the money you really need. Perhaps all would be fine if I kept 100% in stocks. But I’m now in my 70s and more interested in financial survival, which is why today I keep at least 20 years of living expenses in bonds and cash investments. That won’t make me rich. Instead, I’ve done something more important: minimized my odds of dying poor.”

Flows into Australian cash and bond ETFs in 2023 are larger than into any other asset class, as this chart from BetaShares shows.



The most popular method of protecting capital in Australia is to place money on deposit with banks, especially given the government guarantee on deposits of $250,000 and less. Listed high-quality alternatives in floating rate bonds with no duration risk include the VanEck Australian Floating Rate ETF (ASX:FLOT) or BetaShares Australian Bank Senior Floating Rate ETF (ASX:QPON), while better returns with a little more risk come from subordinated bonds such as VanEck’s Subordinated Bonds (ASX:SUBD). Cash ETFs offer rates similar to term deposits. An Australian bond fund such as Vanguard’s Australian Fixed Interest ETF (ASX:VAF) offers high credit quality but duration risk exposure.

Behaviour 4: Hating management fees and tax surprises

Solution 4. Find funds which are free to invest in and avoid trusts

It is not best practice to base investment decisions only on a fee or tax impact, as there is little point in saving fees or tax in a poorly-performing fund. But many investors dislike paying 1.5% annually plus a performance fee to a fund manager, and as the EY research indicates, plenty of investors focus on tax treatment.

“Meanwhile, reducing taxes has almost doubled as a goal among Australian respondents in the past two years (23% in 2023 compared to 12% in 2021) although it still remains well below the 2019 survey result of 63%.”

There are many funds in Australia where investing is almost free, and recent competition in the ETF market has driven management costs even lower. Some unlisted funds are free of base management fees where the manager is paid only on performance. Here are a few examples:

- Many ETFs in Australia cost only a few basis points, or less than 0.1%, which is effectively free. The cheapest at 0.03% a year is the Vanguard US Total Market Shares Index (ASX:VTS). In Australian equities, three cheap funds are iShares Core S&P/ASX 200 (ASX:IOZ) costing 0.05%, the Vanguard Australian Shares Index (ASX:VAS) at 0.1% a year while the cheapest Aussie is BetaShares Australia 200 ETF (ASX:A200) at 0.04%. Smart beta is offered by VanEck such as global shares (ASX:QUAL) at a 0.4% fee. In other sectors, recent launches include iShares Core FTSE Global Infrastructure (AUD Hedged) (ASX:GLIN) and iShares Core FTSE Global Property ex Australia (AUD Hedged) (ASX:GLPR) priced at only 0.2%, highly competitive for these thematics
- Managed funds can also be highly competitive, such as Solaris offering a Core Australian Equity fund with a management fee of zero and relying on a 30% performance fee over its benchmark. Tony Hansen’s EGP Capital is another fund which is performance fee only, and many platforms offer low cost index options.

On the tax side, a major headache often arises from trust structures used by managed funds and ETFs but not by

Listed Investment Companies. The problem for a unit trust is that each year, all income received (including realised capital gains) is divided among unit holders based on how many units they hold at the time of a distribution. Unit holders must include their share of this income (which may comprise dividends, interest, capital gains and franking (imputation) credits) in their own tax return in the year it was earned.

An investment in June that receives a distribution in July may be converting capital to taxable income. For example, if someone invests on 25 June when the unit price is say $1.00 and then a 10 cent per unit distribution is made on 30 June, the unit price will fall to 90 cents (assuming no market movement) at the beginning of July. The 10 cents will be taxable income in the hands of the unit holder. The tax shock can be intense.

LICs are companies where the boards can decide whether to pay a dividend, which allows a dividend reserve to build up and smooth payments when returns may not be as good.

Behaviour 5: Losing patience with a fund manager or a share price

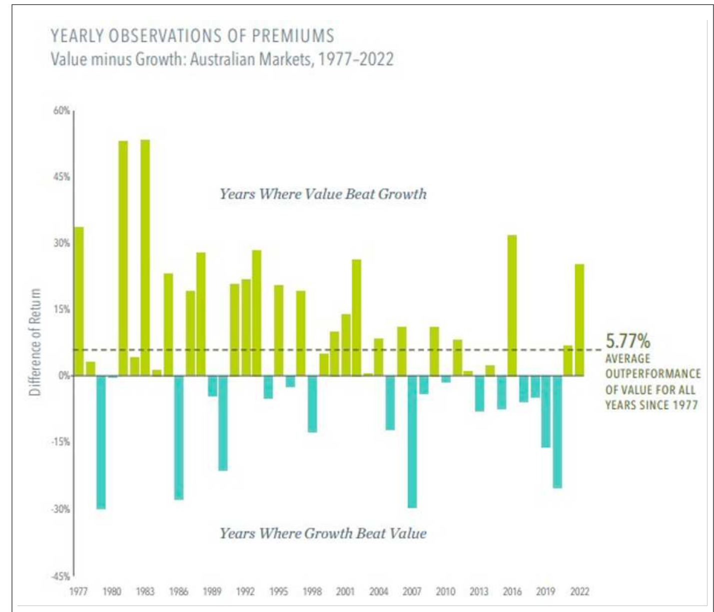
Solution 5: Ignore the market value of your portfolio until the end of the year

Warren Buffett says if you don't feel comfortable holding a stock for 10 years, you shouldn't hold it for 10 minutes. Although a long-term investment thesis remains in place, investors lose patience. Buffett famously said, "Our favourite holding period is forever", and he demonstrates this with Apple, Coca-Cola, Heinz and American Express.

I recently invested with a fund which opened to new applications only briefly and then closed again. The fund manager required me to vouch that I would be a long-term investor, although the fund is open-ended. The fund has excellent historical performance, and while this may not be repeated, I doubt I will exit this fund for at least 10 years. In fact, although they will issue a monthly report, there is no intra-month reporting and I would prefer not to know how it is going for many years.

Here are some strategies to consider:

- Placing funds with an active manager is a long-term decision, say 8-10 years. Their investment style may go out of favour for years, but you can be sure just when you give up on them, they will turn the corner. For example, over the very long term, 'value' investing has outperformed 'growth', but in most of the last 10 years, growth has outperformed value. Is now the time to get out? This chart from Dimensional shows value or growth can dominate for years before underperforming.



- Open another account with your broker, or another account with a different broker, and put the shares you expect to hold for a long term in there, and don't look at it. Sure, you will know if CBA shares are at $100 or $80, but at least the losses will not stare you in the face each day.
- When considering the purchase of a stock, buy half your initial plan. If the stock rises, you can take satisfaction that you invested at a good time. If it falls, you have a cheaper entry price. If you're not a trader, then selling for a loss a few weeks after buying is an admission that the first purchase was a mistake.

It's what works for you

Volatility is the price investors pay for the attractive long-term return from equity markets, but jumping in and out is usually counterproductive. There is nothing wrong with a conservative allocation in a diversified portfolio if protecting capital gives comfort. Know in advance how you will react and manage your behaviour in times of heightened market volatility.

Graham Hand is Editor-At-Large for Firstlinks. This article is general information and does not consider the circumstances of any person. Disclosure: Graham personally holds some of the investments mentioned in this article

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Airports are back – why there's plenty to like for investors

BY DAVID DOWLING

Republished from ampcapital.com

AMP Capital's domestic airports team manages the largest investment (27.32%) in Australia Pacific Airports Corporation Limited (APAC), which is the parent entity of Melbourne Airport and Launceston Airport. AMP Capital also manages a 50% investment in Port Hedland International Airport.

While these airports operate in the same sector and have some common features such as a runway, terminal and landbank for development, all airports are not the same. Melbourne Airport services a major city, is part of one of the busiest domestic routes in the world (Melbourne-Sydney) and pre-COVID, had more than 37 million people passing through its terminals each year.

By contrast, Port Hedland International Airport (PHIA) in north-west Western Australia services the town that is home to the world's largest bulk export port, which ships commodities like iron ore to overseas buyers. The airport moves around 450,000 passengers a year, most being fly-in, fly-out workers. It is a tiny airport compared to Melbourne Airport but due to its high exposure to the commodity sector it was not impacted as severely by COVID.

Despite the significant impact that COVID had on the aviation sector across the world, airports big and small can continue to form an important part of an investor's overall investment strategy. Our airports are operated under long term leases, 99 years for APAC and 50 years for PHIA, and both are managed to realise long-term value for investors. Both airport groups have relatively small management teams that operate the facilities in conjunction with services from the airlines, government agencies and third-party providers like security companies, ground handling agents and retailers. Our airport investments are important, long-term enablers of employment and economic activity in the regions they serve and deliver an ongoing contribution in facilitating 'connections that matter' as APAC puts it.

As we navigate the post-COVID environment with our airports, we are confident that they are positioned well for 2023 – a year for ongoing recovery and growth. But we are also alive to the challenges that the sector faces as the world adjusts to a new 'normal'.

Investment Outlook: 2023

There is little doubt that Australians love to travel domestically and internationally, and our airport infrastructure is ready to facilitate that. We are also ready to welcome back

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international visitors who travel to Australia to work, study, visit family and friends.

Airlines have struggled with resourcing post-COVID, including retraining of staff and finding enough people in a tight labour market. That has constrained their ability to shift to full capacity, and that has limited the short-term performance of airports - which are volume businesses first and foremost.

It is an interesting dynamic for investors and the airlines. From an earnings perspective, the airlines are doing very well because the short-term capacity constraints have helped to push airfares higher, pushing up revenue. That has given airlines the opportunity to consolidate balance sheets, after three very tough years.

But airfares need to come down to ensure there is a sustainable level of demand. Post COVID there's been an initial rush from travel at any cost and people have been prepared and able to pay significantly higher airfares. That will not be sustainable in the long term.

The Qantas Group expects to be at 104% domestic capacity, compared to pre-COVID levels, by June 2023[1] which is positive. Its international capacity may take longer to fully return, in no small part due to the price of jet fuel which has a more significant impact on long haul flying. While prices are lower than the peak of 2022, they are still well above $US100 per barrel and significantly higher than pre-COVID levels[2].

The good news is that after three years, we expect conditions to normalise in 2023. PHIA has recovered with domestic volumes already above pre-COVID levels, while traffic at Launceston Airport has rebounded to approximately 90% of FY19 volumes. Domestic volumes at Melbourne Airport hovered around 85% of FY19 levels for much of 2022, with a further wave of capacity required to bridge the gap. This is likely to happen this financial year if current conditions continue.

In terms of international capacity, there have been some very positive developments to come out of COVID with growth in emerging travel markets such as India and Vietnam, the launch of services by new entrants such as Thai Air Asia X and Bamboo Airlines, and new routes to Dallas Fort-Worth and Jakarta to be launched by Qantas.

China is obviously a very important tourism, education and business market for Australia. Prior to the pandemic, Chinese visitor arrivals into Australia totalled almost 1.5 million[3] per annum and that dried up overnight. The decision by Beijing to reopen its borders in January was welcomed, with the almost immediate return of the 'big three' of China Southern, China Eastern and Air China, complemented by services from Sichuan Airlines, Beijing Capital Airlines and Xiamen Airlines (Xiamen was the only Chinese carrier to operate to Melbourne throughout the pandemic). With further Chinese frequencies expected from the start of the new Northern Summer season, and growth in services to Hong Kong operated by Cathay Pacific and Qantas, flows between Melbourne and its growing network of Asian destinations should increase rapidly.

Investment Outlook: Beyond

The impact of the pandemic on the economy, and specifically airports, has been felt for the past three years. Despite this, the fundamentals of investing in airports have not changed, which still look attractive.

It is clear people still want to travel. We have seen that led by the leisure segment domestically, followed by international.

In the corporate sector, we are seeing a slow return to travel, with business flying interstate to visit colleagues or clients still to reach pre-pandemic levels.

While the airlines are achieving strong commercial conditions with limited supply and high demand, overall passenger movements, which is the primary driver of airport revenues, still have some way to go.

As investors increasingly look to ESG as a measure of performance, it is worth noting that airports have made great progress in managing their Scope 1 and Scope 2 emissions, with Melbourne Airport on track to be net carbon neutral by 2025. As organisations and investors turn their attention to Scope 3 emissions, airports will need to work constructively with airlines to manage the primary source of their indirect emissions.

"Investing in airports in 2023 requires as much analytical rigour as ever, with an extra layer of risk assessment thrown in for good measure. Investors must continue to understand the type of airport they are investing in, the type of markets it serves and the composition of traffic using the facility."

Investing in airports in 2023 requires as much analytical rigour as ever, with an extra layer of risk assessment thrown in for good measure. Investors must continue to understand the type of airport they are investing in, the type of markets it serves and the composition of traffic using the facility. For APAC, we need to consider the drivers of corporate and leisure traffic as well as the ongoing reopening of international markets for airports. This is of most relevance to Melbourne Airport. Research house McCrindle has forecast that Melbourne will become the country's largest city by 2030, thanks to net overseas migration, net internal migration and natural increase4. That in turn will boost traffic through Melbourne Airport. Activity at Melbourne Airport is focussed on a mix of medium and long-term growth enablers for the airport including a new third runway and ground access such as road and rail developments, which we support. It is a long term, stable asset with growth potential. These are good reasons to continue to invest in the asset.

For Launceston Airport, where one of the key drivers of passenger flows is tourism, it has been encouraging to see travellers embrace northern Tasmania and its diverse tourist attractions once again.

For PHIA, the long-term outlook for the resources economy is a key consideration. As we saw during the pandemic, having diverse drivers of demand can be good for investors where relative performance can vary.

We have strong conviction about airports as an asset class. If there is a silver lining to come out of COVID, it forced airports to look at all parts of the business including the cost base, and to accelerate change where possible to survive. Now the focus can turn again to how we thrive into the future delivering long-term value for investors.

David is the Managing Director of AMP Capitals Australian airport investments. Before joining AMP Capital in 2016, David held various roles at Sydney Airport, MAp Airports and Macquarie Capital.

Expansionary Budget'23 adds to interest rate risk

BY DAVID BASSANESE

Republished from betashares.com.au

Contrary to all the talk of a surprise budget surplus for 2022-23, the 2nd Labor Budget under Treasurer Jim Chalmers is unambiguously expansionary, with a boost to GDP growth equivalent to around 1.5% over the next two years. This adds to the risk that the RBA will feel the need to raise interest rates at least once and possibly twice more in the coming months.

It's very unusual for Treasurers to focus on the budget outcome for the current (almost ending) financial year when handing down the annual May Budget. Usually, the focus is on the projected budget outcome for the coming financial year, which is just about to begin. But in a classic smoke and mirrors exercise, the Treasurer has so far managed to successfully divert attention towards this year's "accidental" surplus – caused by the late discovery of a lot more revenue than expected which the Government simply did not get a chance to spend in the remaining weeks of this financial year.

But the real news is not this (almost over) financial year, but the projected deterioration in the budget position over the next two years. The Budget balance is expected to move from a small surplus of $4.2 billion (0.2% of GDP) this financial year, to a deficit of $13.9 billion (0.5% of GDP) in 2023-24 and a much larger $35 billion deficit in 2024-25 (1.3% of GDP). That equates to an expansionary "fiscal impulse" – or shift in the budget balance from surplus to deficit – equal to 1.5% of GDP over two years. This, in turn, largely reflects $12 billion in new net spending in the coming financial year.

Of course, in one sense, the Budget is admirable in that most of the extra budget bounty from a resilient economy and higher export commodity prices is being saved rather than spent (unlike, say, during the commodity boom under

> **The sad reality is that the 2nd Chalmer's Budget again makes no real effort to tighten the budget to support monetary policy in helping to rein in inflation and tackle Australia's now ingrained structural budget deficit. The disappointment is not that the Government has attempted to support some of the less well-off in the community, but rather that greater effort was not made at a still relatively early stage in the electoral cycle to introduce tougher measures elsewhere in the economy.**

then Treasurer Peter Costello). It's also hard to argue over the areas in which money has been spent - mainly helping the least well-off in the community.

That said, the sad reality is that the 2nd Chalmer's Budget again makes no real effort to tighten the budget to support monetary policy in helping to rein in inflation and tackle Australia's now ingrained structural budget deficit. The disappointment is not that the Government has attempted to support some of the less well-off in the community, but rather that greater effort was not made at a still relatively early stage in the electoral cycle to introduce tougher measures elsewhere in the economy. And, however admirable is the provision of "cost of living" support to those less well-off, they also tend to have a higher propensity to spend extra income, which will add to the challenge of slowing consumer demand in the coming year. Hence, this is why it would have been beneficial to introduce other offsetting budget-tightening measures at the same time.

At the micro-level, moreover, most of the measures to support the housing sector are yet more demand-side stimulus programs, which will only encourage renters and first-home buyers to compete more vigorously for the limited supply of accommodation available in our major capital cities. And although various measures have been introduced to lower CPI inflation (energy and rental rebates), the expected 3.25% rate of CPI inflation over the year to June 2024 is more marginally (0.25%) lower than those in the October budget and current RBA forecasts.

As for the future, the challenge of budget consolidation will only get harder, not easier, from here.

David Bassanese is Ex Treasury, OECD, Macquarie Bank and AFR. David is the Betashares Chief Economist and author of The Australian ETF Guide.

BetaShares is a leading Australian fund manager specialising in exchange traded funds (ETFs) and other Funds traded on the Australian Securities Exchange (ASX). Since launching their first ETF more than a decade ago, BetaShares has grown to become one of Australia's largest managers of ETFs.

Q&A: Ask a Question

Question 1

Do I have to pay capital gains when inheriting property?

When you inherit property, such as a house or land, you generally don't have to pay capital gains tax (CGT) on the property itself at the time of inheritance.

However, it's important to note that if you decide to sell the inherited property in the future, you may become liable for CGT on any capital gains you make from the sale. The CGT liability would depend on various factors, including the date of inheritance, the cost base of the property, and any changes in its value between the date of inheritance and the date of sale.

There are a few circumstances where CGT exemptions or concessions may apply when inheriting and selling property, such as the main residence exemption or the small business CGT concessions. These exemptions and concessions have specific criteria and requirements that need to be met.

You should speak to your financial adviser to understand what other implications inheriting a property may mean for you.

Question 2

How do the gifting rules work in Australia?

The gifting rules primarily pertain to the Age Pension and the means-tested aged care fees; albeit they apply to all Centrelink social security payments. The gifting rules are designed to prevent individuals from intentionally reducing their assets and income to qualify for government benefits or aged care subsidies.

For the Age Pension, the gifting rules consider any gifts or transfers of assets made in the five years leading up to the application for the pension. The rules allow individuals and couples to gift up to $10,000 per financial year, with a limit of $30,000 over a rolling five-year period. Any amounts exceeding these limits are deemed as a "deprived asset" and may impact the assessment of your pension entitlement.

For the means-tested aged care fees, gifts made in the five years prior to entering residential aged care are taken into account. The same gifting limits of $10,000 per financial year and $30,000 over a rolling five-year period apply. However, any amounts exceeding these limits are considered as "excessive gifting" and may be counted as assessable assets, potentially affecting the calculation of aged care fees.

It's important to note that these rules are subject to change, and different thresholds and limits may apply depending on your circumstances. Consulting with your financial adviser to obtain the most accurate and up-to-date information.

Additionally, it's worth noting that gifting outside of these rules, such as large sums of money or valuable assets, may have other tax implications, such as a capital gains tax. It's crucial to speak to your adviser to understand the specific tax implications of any significant gifts.

Question 3

What are the benefits of a downsizer contribution?

A downsizer contribution refers to a specific type of contribution that allows eligible individuals aged 55 years or older to make a contribution to their superannuation fund after selling their main residence. Here are some benefits of downsizer contributions:

1. Boosting superannuation: Downsizer contributions provide an opportunity for individuals to increase their superannuation savings. The contribution is in addition to the usual contribution caps and does not count towards the concessional or non-concessional contribution limits.
2. Tax advantages: Downsizer contributions are not subject to the age limit of 67 years that typically applies to voluntary super contributions. Additionally, these contributions are not included in the assessable income of the individual and are tax-free when they are made to the super fund.
3. Diversifying assets: Selling a family home and contributing the proceeds to superannuation can help diversify an individual's assets. This can be particularly beneficial if a significant portion of their wealth is tied up in the family home, and they want to spread their investments across different asset classes.
4. Estate planning: Downsizer contributions can play a role in estate planning. By contributing the proceeds from selling the home to superannuation, individuals can potentially pass on their superannuation savings to their beneficiaries in a tax-efficient manner, as superannuation can offer favourable tax treatment for beneficiaries upon inheritance.

It's important to note that downsizer contributions have specific eligibility criteria and rules, such as the requirement to have owned the home for a certain period and made the contribution within 90 days of receiving the proceeds from the sale. It's important to speak with your financial adviser for detailed information and to determine if downsizer contributions are suitable for your individual circumstances.

If you have a question that you would like to see answered in **Wealth Adviser**, please send it through to **centraladvice@wtfglimited.com.**

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