Parkside Newsletter May 2023

As the days get shorter and temperatures begin to fall, Federal Treasurer Jim Chalmers is working to complete his second Budget, due to be delivered on Tuesday 9 May.

All eyes will be on the Reserve Bank board next week as it meets prior to the Federal Budget to decide whether or not to increase the cash rate. The board decided last month to pause its relentless increase of rates designed to reduce inflation to 2-3%.

The good news is that there are signs inflation is slowing. The latest figures show the annual rate at 7%. The March quarter saw prices rise just 1.4%, the lowest increase in two years, although consumers are still feeling the pressure of rising prices in a number of areas. The most significant contributors to inflation remain fuel and utility prices, medical and hospital expenses, tertiary education and domestic travel costs.

The welcome inflation easing and a rally on Wall Street buoyed local markets a little with the ASX200 ending the month slightly higher.

The unemployment rate remains at a near 50-year low of 3.5%. With consecutive months of strong growth in female employment (up 81,000 over the past two months), the female participation rate increased to a record high of 62.5%.

The Australian dollar held on at just over US66 cents against the US dollar.

Meanwhile iron ore prices have been tumbling as China's property market falters and there are fears the falls could continue.

Parkside InvestorPlus® Pty Limited
Suite 27
3-9 Terminus Street
Castle Hill NSW 2154
P 02 9899 4899
F 02 9899 9029
E mail@parksideinvestorplus.com.au
W www.parksidefg.com.au

SUSTAINABLE INVESTING ON THE RISE

Sustainable investing isn't new and is becoming more mainstream. From climate change to gender diversity, more people are aligning their money with their values.

In 2021, Australia's sustainable investment market increased 20 per cent to a record $1.5 trillion. The Responsible Investment Association Australasia (RIAA) 2022 benchmark report found sustainable investments represents 43 per cent of total professionally-managed funds.[i]

In addition to traditional shares and fixed interest sustainable investments offer a wide range of assets, including property, alternatives such as forestry, infrastructure, private equity and cash.

Most big super funds offer a sustainable investment option and some offer this as their default option. You can also buy sustainable managed funds, including a growing list of exchange-traded funds (ETFs).

What are sustainable investments?

Focus on people and planet

Sustainable investing is also known as ethical, responsible and ESG (environmental, social, governance) investing, with the focus on people, society and/or the environment.

Sustainable investments are selected using a variety of screening methods, including:

- Positive screening selects the best investments in their class
- Negative screening excludes harmful sectors, companies or activities such as arms, gambling, animal testing, tobacco and fossil fuels
- Norms-based investing screens for minimum standards of relevant business practices
- Impact investing has the explicit intention of generating positive social or environment impacts.[i]

The term ESG investing is used when a fund or company commits to sustainable investing in these three areas:

- Environmental – air and water pollution, biodiversity and climate change
- Social – child labour and labour standards, ethical product sourcing, gambling and human rights
- Governance – board diversity, corruption, business ethics, corporate culture and whistle-blower schemes.

The report found gender diversity and women's empowerment are also gaining popularity.

Sustainable investing is not all warm and fuzzy. Performance still matters.

Performance gains

Initially, sustainable investing often came at the expense of returns but that is no longer necessarily the case.

The report compared the performance of what it terms responsible investment funds and mainstream investments funds (on average and net of fees) over the past 10 years to December 2021.

Responsible multi-sector growth funds consistently outperformed mainstream funds and their benchmark over 1, 3, 5 and 10 years. Responsible Australian share funds generally outperformed or were on par with mainstream funds. Only responsible international share funds disappointed, underperforming mainstream funds across all timeframes.[i]

Watch out for greenwashing

Increased demand for sustainable investments has led to a rapid increase in the number of products available. The rush to cash in on the trend has sometimes led to what is known as ''greenwashing''. The Australian Securities and Investments Commission (ASIC) describes greenwashing as the practice of misrepresenting the extent to which a financial product or investment strategy is environmentally friendly, sustainable or ethical.

ASIC warns investors to review the product terms. For example, a fund might describe itself as ''no gambling" but may invest in companies that earn less than 30 per cent of revenue from gambling.

Look for a clear explanation of how the product will achieve its aims and don't rely on vague language like "considers", "integrates" or "takes into account".

Australian companies lifting their game

It's not just super funds and managed funds taking sustainable investing more seriously, Australian listed companies are also adapting to changing investor preferences and regulatory environment. A recent analysis of ESG reporting by Australia's top 200 listed companies, PwC found a 13 per cent increase in companies declaring a commitment to net zero emissions. However, only 55 per cent of those disclosed a transition plan or activities that will enable them to reach net zero.[ii]

There was also a 10 per cent increase in companies disclosing climate risks and opportunities, and a 30 per cent increase in companies disclosing a gender diversity policy.

For investors seeking sustainability along with financial returns from their investments, momentum and choice is growing. So please get in touch if you would like to discuss your investment options.

i https://responsibleinvestment.org/wp-content/uploads/2022/09/Responsible-Investment-Benchmark-Report-Australia-2022-1.pdf

ii https://www.pwc.com.au/assurance/environmental-social-and-governance-reporting.html

Getting your BOUNCE BACK

Life is pretty frantic, and it is common to feel like it's a struggle to keep up the pace. In fact, feeling exhausted is so common that it has its own acronym, TATT, which stands for "tired all the time".

While it's somewhat comforting to know you're not alone, it's certainly not a nice feeling, so let's look at some of the best ways to get some bounce back into your step.

Watch what you take on

One of the first and most obvious things is to look at your busy lifestyle and see if something has to give.

Don't be afraid to decline invitations if you are feeling overcommitted, in particular say no to the things that are a drain on you physically or emotionally. No one can be busy 100% of the time and it's important to ensure you have a little downtime to just do sweet nothing - even if you need to schedule it into your calendar!

As you manage your time think about what is most important to you and prioritise things that make you happy and give you energy.

Catching some zzzz's

Of course, the most powerful downtime, is getting a good night's sleep. If you are not a great sleeper making some small tweaks to your evening routine can help. Anything you can do to wind down, be it having a hot bath or reading a book, is great for getting in the right zone for a restful night's sleep.

Avoiding screen time for an hour or two before bed is beneficial as the blue light from laptops and phones is known to trick your brain into thinking it's still daytime. This reduces hormones like melatonin, which help you relax and get deep sleep.

And while caffeine may be your friend if you are feeling a little lacklustre, it's not ideal to have caffeine after 3-4pm if you want to have a good night's sleep.

Stress less to recharge your batteries

Winding down can be easier said than done, however – often we don't even realise how stressed we are until it gets to a point where it creates a problem for us.

Being in a constantly anxious state is draining. Our body is sending messages to put us on high alert – the fight or flight response – which is fine for short periods of time, but when it's constant our batteries get drained pretty quickly.

Simple practices like deep breathing and progressive muscle relaxation can be very effective in reducing stress and improving energy and don't have to take a lot of time or effort.

The right fuel for sustained energy

No amount of relaxation or rest is going to help, if we are not giving our bodies the best fuel for energy. We can't expect to perform at our peak if we are running on fumes, which is where a balanced diet and hydration are key. Sugar in particular, is a culprit in giving you a burst of energy and then a crash, so instead of reaching for that chocolate bar mid-afternoon, try a handful of nuts or a banana for an energy boost.

Another easy tweak is to make sure you are drinking enough water. Just putting a jug in easy reach on your desk can be enough to have you humming along through the day.

Get your body moving for an energy boost

The last thing you probably feel like doing if you feel exhausted is to pop on your running shoes or go out for a brisk walk, but getting your blood pumping and your heart beating fast is a great way to shake off the cobwebs and boost your energy. It's important to listen to your body and pace yourself but expanding energy is a great way to create more energy!

Life is to be lived and making some tweaks to your lifestyle and routine might just help you get that boost you need to enjoy life to the fullest.

Note: It's important to also consider that chronic tiredness can have a medical cause, so be sure and see your doctor if you have any concerns about your overall health.

Why an emergency fund delivers *peace of mind*

When life tosses up an unexpected event – such as retrenchment, a medical emergency or even just a big bill to fix the car – it can be nerve-wracking worrying about how to deal with the crisis. And, if funds are short, that just adds to the stress.

But imagine that you have a secret cash stash – an emergency fund – that will cover the costs, giving you the mental space to deal with the problem.

In fact, an emergency fund is the basis for a strong financial strategy and provides a crucial safety net. It makes sense regardless of your age or income because the unexpected can happen to anyone.

Without a cash reserve, you may have to rely on credit cards or loans, which can put a further strain on your financial situation and your mental health.

An emergency fund gives you the peace of mind to be able to weather the storms that come your way without racking up unwanted debt and interest payments.

How much is enough?

Of course, it can be tough to save when inflation is eating away at your income. Rising interest rates, rents and the cost of groceries is putting a big strain on households.

The Australian Bureau of Statistics reports that household savings have been declining for more than a year as people contend with increased mortgage payments among the other rising costs.[i]

Nonetheless, by putting aside even a small but regular payment into a separate fund you will slowly accumulate enough to cover emergencies.

The size of your emergency fund depends on your own circumstances but an often quoted target is enough to cover between three and six months of living expenses.

It may differ if say, you are planning on starting a family and need funds in reserve to cover the difference between parental leave payments and a salary; you have children in school and want to be able to cover school fees for a year or more, no matter what happens; you need to take time off work to care for a family member; or you need to make an unplanned trip.

On the other hand, if you have retired, it can be helpful to have a buffer against market volatility. If there is a downturn in the markets and your superannuation is not providing your desired level of income, a year's worth of living expenses in an emergency fund can make all the difference to your lifestyle.

The main thing to remember is that if you need to raid your emergency fund, start work on rebuilding it as quickly as possible.

Building your fund

Putting together a budget can help you to analyse how much you can afford to put away every week, fortnight or month. Then, consistently saving until you reach your goal is the key, no matter how small the amount.

It is best to keep your emergency fund separate from your everyday transaction account to reduce the chance of you using your saved funds for regular expenses. One option is to pay yourself first by setting up a direct debit, so your emergency fund grows automatically with no extra action needed from you, and to avoid the temptation to withdraw your savings.

The type of account you choose for your emergency fund is important. It should be readily available so, while shares and term deposits may offer higher returns, they are not quickly accessible when required. Shop around for a bank account that offers the highest interest to get the most out of your hard-earned income.

Building an emergency fund is an essential component of a strong financial plan, providing a safety net should something unexpected arise. If you are unsure of the best way to set up an emergency fund, we encourage you to reach out to us. We can provide guidance on the best options for your unique financial situation and help you take steps towards building a strong financial foundation.

i https://www.abs.gov.au/media-centre/media-releases/economic-activity-increased-05-cent-december-quarter