PARKSIDE INVESTORPLUS

Parkside Newsletter September 2022

Welcome to our Spring newsletter. September means it's football finals season and hopefully the beginning of warmer weather despite the recent late winter chill.

In August, the focus was on US Federal Reserve chair Jerome Powell's speech at the annual Jackson Hole business gathering on August 26, and he was blunt. To hose down talk of interest rate cuts in 2023, he said the Fed was focused on bringing US inflation down to 2% (from 8.5% now), even at the risk of recession. He said this will "take some time", will likely require a "sustained period of below trend economic growth", and households should expect "some pain" in the months ahead. The S&P500 share index promptly fell 3.4% and bond yields rose. Economists expect the US central bank will continue lifting rates each month for the remainder of 2022.

In Australia, economic conditions are less gloomy. Australia's trade surplus was a record $136.4 billion in 2022-23. Unemployment fell to 3.4% in July while wages growth rose to an annual rate of 2.6% in the year to June, the strongest in 8 years but well below inflation. The ANZ-Roy Morgan consumer confidence index rose slightly in September to a still depressed 85.0 points while the NAB business confidence index jumped to +6.9 points in July, well above the long-term average of +5.4 points. Half-way through the June half-year reporting season, CommSec reports ASX200 company profits increased 56% in aggregate while dividends are 6% lower on a year earlier.

The Aussie dollar fell more than one cent over the month to close around US68.5c. Aussie shares bucked the global trend, finishing steady over the month.

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How much do you need to retire?

Working out how much you need to save for retirement is a question that keeps many pre-retirees awake at night. Recent market volatility and fluctuating superannuation balances have only added to the uncertainty.

So it's timely that new research shows you may need less than you fear. For most people, it will certainly be less than the figure of $1 million or more that is often bandied around.

For most people, the amount you need to save will depend on how much you wish to spend in retirement to maintain your current standard of living. When Super Consumers Australia (SCA) recently set about designing retirement savings targets they started by looking at what pre-retirees aged 55 to 59 actually spend now.

Retirement savings targets

SCA estimated retirement savings targets for three levels of spending – low, medium and high – for recently retired singles and couples aged 65 to 69.

Significantly, only so-called high spending couples who want to spend at least $75,000 a year would need to save more than $1 million. A couple hoping to spend a medium-level $56,000 a year would need to save $352,000. High spending singles would need $743,000 to cover spending of $51,000 a year, and $258,000 for medium annual spending of $38,000.

While these savings targets are based on what people actually spend, there is a buffer built in to provide confidence that your savings can weather periods of market volatility and won't run out before you reach age 90.

They assume you own your home outright and will be eligible for the Age Pension, which is reflected in the relatively low savings targets for all but wealthier retirees.*

Retirement planning rules of thumb

The SCA research is the latest attempt at a retirement planning 'rule of thumb'. Rules of thumb are popular shortcuts that give a best estimate of what tends to work for most people, based on practical experience and population averages.

These tend to fall into two camps:

- **A target replacement rate for retirement income.** This approach assumes most people want to continue the standard of living they are used to, so it takes pre-retirement income as a starting point. A target replacement range of 65-75 per cent of pre-retirement income is generally deemed appropriate for most Australians.
- **Budget standards.** This approach estimates the cost of a basket of goods and services likely to provide a given standard of living in retirement. The best-known example in Australia is the Association of Superannuation Funds of Australia (ASFA) Retirement Standard which provides 'modest' and 'comfortable' budget estimates.

SCA sits somewhere between the two, offering three levels of spending to ASFA's two, based on pre-retirement spending rather than a basket of goods. Interestingly, the results are similar with ASFAs 'comfortable' budget falling between SCA's medium and high targets.

ASFA estimates a single retiree will need to save $545,000 to live comfortably on annual income of $46,494 a year, while retired couples will need $640,000 to generate annual income of $65,445. This also assumes you are a homeowner and will be eligible for the Age Pension.

Limitations of shortcuts

The big unknown is how long you will live. If you're healthy and have good genes, you might expect to live well into your 90s which may require a bigger nest egg. Luckily, it's never too late to give your super a boost. You could:

- Salary sacrifice some of your pre-tax income or make a personal super contribution and claim a tax deduction but stay within the annual concessional contributions cap of $27,500.
- Make an after-tax super contribution of up to the annual limit of $110,000, or up to $330,000 using the bring-forward rule.
- Downsize your home and put up to $300,000 of the proceeds into your super fund.

Thanks to new rules that came into force on July 1, you may be able to add to your super up to age 75 even if you're no longer working.

While retirement planning rules of thumb are a useful starting point, they are no substitute for a personal plan. If you would like to discuss your retirement income strategy, give us a call.

*Assumptions also include average annual inflation of 2.5% in future, which is the average rate over the past 20 years, and average annual returns net of fees and taxes of 5.6% in retirement phase and 5% in accumulation phase.

i CONSULTATIVE REPORT: Retirement Spending Levels and Savings Targets, Super Consumers Australia,

ii 2020 Retirement Income Review, The Treasury

iii Association of Superannuation Funds of Australia (ASFA) Retirement Standard

How to Turbocharge your investment Returns

If you'd invested $10,000 into the whole Australian share market back in 2002, your initial investment amount would have grown to almost $50,000 by 30 June 2022.

It's a huge gain. Around 385 per cent to be precise. And, to achieve it, all that you would have needed to do is reinvest all the Aus company dividends you'd received over the last 20 years back into the Australian share market.

You could have achieved similar returns by investing through a managed fund or an exchange traded fund (ETF) that tracks the broad Australian share market. Yet, as good as that all sounds, you could have done much better if you had added to your initial $10,000 investment by making regular monthly investment contributions.

How much better? Just by adding $250 per month your Australian share market investment would have surged to more than $180,000. That represents a 1,729 per cent total return.

In other words, for $60,000 in total additional contributions over 20 years, your end investment would have been worth over $130,000 more than if you had made no extra contributions. The numbers obviously get larger if you had made higher regular monthly contributions.

By adding $500 per month to the initial $10,000 amount your investment would have compounded by 3,074 per cent to more than $317,000. That's a $130,000 total investment ($10,000 plus $120,000 in other contributions) over 20 years to achieve an investment worth $270,000 more than if you had just left your initial investment to grow on its own.

Here's how those numbers would have looked based on the actual performance of the All Ordinaries Accumulation Index (which measures the Australian share market) from 1 July 2002 to 30 June 2022.

The benefits of regular contributions

Date	No extra contrib's*	$250 per month	$500 per month
1/7/02	$10,000	$10,000	$10,000
30/6/07	$24,432	$52,047	$79,661
30/6/12	$19,832	$57,104	$94,378
30/6/17	$34,329	$117,332	$200,335
30/6/22	$48,503	$182,931	$317,359

Source: Vanguard. *Assumes the reinvestment of income distributions only.

It's only when you compare the results side by side that the full picture becomes much clearer. An initial contribution amount combined with a regular investment savings strategy and the reinvestment of distributions over time will deliver much higher long-term results.

In the example used above, there would have already been a significant gap after just five years (in 2007) between investors who had not made additional contributions versus those that had.

And you can see that gap would have kept on widening over time. After 20 years, any investors who had followed a $250 per month regular contributions plan would have ended up with more than three times the amount of money than investors who had made no additional contributions.

A $500 per month contributions plan would have increased the differential to more than six times.

Understanding dollar-cost averaging
There's another major advantage in making regular investment contributions, which brings into play a well-known portfolio strategy called dollar-cost averaging.

You may not realise it, but you're probably already undertaking this strategy (indirectly) if you're a member of a super fund.

Here's how dollar-cost averaging works.
Every time your employer makes a contribution into your super fund account it's automatically invested by your fund according to the default investment strategy that you've chosen.
Maybe you've selected a "high-growth" super option, a "balanced" option, or a "conservative" option.
Behind the scenes your super money is most likely being directed into different managed funds, which invest into shares, bonds, cash, and other types of assets.

While the amount of super your employer pays doesn't change, your investment purchasing power does change every time you receive a new super contribution.

That's because the prices of the managed fund units your super fund is investing into does change every day. If those managed fund unit prices have risen since your last contribution, then your super fund will be purchasing fewer units than last time.

Likewise, if the managed fund unit prices have fallen in value, your super fund will be purchasing more units than last time.
This strategy works in exactly the same way if you make regular contributions at set intervals outside of your super to buy units directly in other managed funds and ETFs.

You'll automatically buy more units when market prices are lower and fewer units when prices are higher.
Over the total period that you keep investing, your average entry cost into specific assets will potentially be lower than if you'd try to guess the best time to buy in.

As your unit balance grows over time, your corresponding distributions via company dividends and other payments will also keep on growing. That's the magic of compounding investment returns.

Just like your super contributions, it's all really about sticking to a disciplined, non-emotional approach to investing that's not affected by what's happening on financial markets at any point in time. Making regular contributions, and taking advantage of dollar-cost averaging, really adds up.

They're a powerful combination in helping you to focus on achieving your investment goals, ideally through an appropriately diversified portfolio, to give you the best chance of investment success over the long term.

Source: Vanguard

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TAKE A BREAK

One of the things many of us have been missing over the past few years is holidays, but now that the world is opening up again for travel and destinations that have been pretty quiet are now eagerly welcoming back tourists, taking a break has never been more appealing.

Holidays are not just a lovely way to spend time, they are fantastic for us on so many levels. Having a break from the daily grind gets us out of our usual routine, opens us up to new experiences and is good for us mentally and physically.

However, the stats tell us that for many Australians it's been a long time between breaks.

In fact, around 8 million Australians have accrued nearly 175 million days of leave over the past 12 months, up from 151 the previous year.[i] That's a lot of missed holidays!

Whether you are one of those who hasn't had much of a break lately or even if you've just got back from a trip and are planning your next one - there are a host of good reasons to take a holiday.

Holiday to keep the doctor away

Holidays have been proven to lower stress which has a myriad of benefits including addressing the risk of cardiovascular issues like stroke and heart attack. A study following more than 12,000 middle-aged men at high risk for heart disease, found those who took yearly breaks were less likely to die from any cause, including heart attacks and other cardiovascular issues.[ii]

It's not just physical health that benefits, taking a break is unsurprisingly pretty good for mental health with even a short break of a few days having a powerful mood enhancing effect.[iii]

Travel to broaden the mind

Lifelong learning is not only good for our careers but also important for our personal growth. And travel is a learning experience like no other, whether you are heading to a new country or a different part of your city or state you'll meet new people and experience a different way of life.

Travel is also the ultimate experience in mindfulness – you are living in the moment when you are on holiday. A break in routine takes us off autopilot and puts us in charge.

Having a break makes you more productive

If you are worried about the impact a break can have on your career – don't be! Research by Boston Consulting Group found that professionals who took planned time off were significantly more productive than those who spent more time working.[iv] Holidays offer time for introspection, goal setting and a chance to recharge your batteries for a new lease on life.

Planning for a wonderful time

Not all vacations are created equal. Just taking any quickly thrown-together escape may not provide all the health and productivity benefits associated with taking a vacation. A poorly planned break can be a source of tension and stress, rather than the opposite.

So how do you get the best out of a break?

Be flexible - While it's important to plan before you leave, have enough flexibility for discovery – be open to new experiences and willing to change the schedule to accommodate those spontaneous magical moments.

Don't sweat the small stuff - Things can and do go awry once you are away but don't let silly little things spoil the break.

Switch off - Don't be tempted to check your emails or socials every few minutes – stay in the moment. A decent break from work will also reinforce that the office doesn't need you 24/7 and that life comes first.

Watch the budget but have some allowances to splurge - Focus on experiences and the memories you'll take home with you rather than what's on sale at the gift shop or duty free.

And finally, don't feel that a holiday must be a luxurious destination or for a long period of time to count. A change of scenery can be as good as a holiday - even taking a mini break and heading off for a weekend away to a lovely destination can provide all the benefits of a holiday. So, what are you waiting for? Start planning that next trip. The wide, wonderful world awaits!

i http://www.roymorgan.com/findings/8696-annual-leave-holidays-march-2021-202105170711

ii https://pubmed.ncbi.nlm.nih.gov/11020089/

iii https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5800229/

iv https://hbr.org/2009/10/making-time-off-predictable-and-required