Waverley Wealth News - Spring 2020

Welcome to the latest edition of our client newsletter - Waverley Wealth News.

I hope that you and your families are safe and well, and coping with the current restrictions that are in place. October is here and it's shaping up to be a busy month, with many of us looking forward to an exciting AFL final this weekend in a season like no other. I hope your team is still alive, and if not I hope that you at least tip the winner! We also eagerly await Dan Andrew's next announcement this Sunday 25th October, and hope that Victoria can enjoy a further easing of restrictions.

All eyes have been on the recent Federal Budget, one of the most important Federal Budgets in living memory, after COVID-19 delayed the usual May delivery to October 6th. In September it was confirmed that Australia is in recession. The economy contracted 7% in the June quarter following the 0.3% fall in the March quarter, taking the annual decline to 6.3%, the biggest since 1945. The pandemic has also hit the federal budget bottom line, with a budget deficit of $85.3 billion in the 2019/20 financial year. The biggest government stimulus program since WWII took net government debt to $491 billion, or 24.8% of GDP, with more spending on the cards.

On a positive note, the ANZ-Roy Morgan consumer confidence index rose for four weeks straight in September, to a 14-week high of 95 points (although still 19.7 points lower than a year ago). The NAB business confidence index also improved, from -14.2 points to -8.0 points in August. Unemployment is also headed in the right direction, down from a 22-year high of 7.5% to 6.8% in August.

As in previous editions, attached are three articles that we hope you find both interesting and helpful. If you would like to discuss any of the topics covered, please don't hesitate to contact us on 0403 879 982 or email at - enquiries@waverleywealth.com.au

In the meantime, we hope you and your family remain healthy, happy and safe.
Kind regards,
Scott.

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Getting retirement plans back on track

After a year when even the best laid plans have been put on hold due to COVID-19, people who were planning to retire soon may be having second thoughts. You may be concerned about a drop in your super balance, insecure work, or an uncertain investment outlook.

Whatever your circumstances, a financial tune-up may be required to get your retirement plans back on track. You may even find you're in better financial shape than you feared, but you won't know until you do your sums.

The best place to start is to think about your future income needs.

What will retirement cost?

Your retirement spending will depend on your lifestyle, if you are married or single, whether you own your home and where you want to live.

Maybe you want to holiday overseas every year while you are still physically active or buy a van and tour Australia. Do you want to eat out regularly, play golf, and lead an active social life; or are you a homebody who enjoys gardening, craftwork or pottering in the shed?

Also think about the cost of creature comforts, such as the ability to upgrade cars, computers and mobiles, buy nice clothes, enjoy good wine and pay for private health insurance.

It's often suggested you will need around 70 per cent of your pre-retirement income to continue living in the manner to which you have become accustomed. That's because it's generally cheaper to live in retirement, with little or no tax to pay and (hopefully) no mortgage or rent.

Draw up a budget

To get you started, the ASFA Retirement Standard may be helpful. It provides sample budgets for different households and living standards.

ASFA suggests singles aged 65 would need around $44,183 a year to live comfortably, while couples would need around $62,435.[i] Of course, comfort is different for everyone so you may wish to aim higher.

To put these figures in perspective, the full Age Pension is currently around $24,550 a year for singles and $37,013 for couples.[ii] As you can see, this doesn't stretch to ASFA's modest budget, let alone a comfortable lifestyle, especially for retirees who are paying rent or still paying off a mortgage.

Then there is the 'known unknown' of how long you will live. Today's 65-year-olds can expect to live to an average age of around 85 years for men and 87 for women. The challenge is to ensure your money lasts the distance.

Can I afford to retire?

Once you have a rough idea what your ideal retirement will cost, you can work out if you have enough super and other savings to fund it.

Using the ASFA benchmark for a comfortable lifestyle, say you hope to retire at age 65 on annual income of $62,000 a year until age 85. Couples would need a lump sum of $640,000 and singles would need $545,000. This assumes you earn 6 per cent a year on your investments, draw down all your capital and receive a part Age Pension.

Add up your savings and investments inside and outside super. Subtract your debts, including outstanding loans and credit card bills, to arrive at your current net savings. Then work out how much you are likely to have by the time you hope to retire if you continue your current savings strategy.

There are many online calculators to help you estimate your retirement balance, such as the MoneySmart super calculator.

Closing the gap

If there's a gap between your retirement dream and your financial reality, you still have choices.

If you have the means, you could make additional super contributions up to your concessional cap of $25,000 a year. You may also be able to make after-tax contributions of up to $100,000 a year or, subject to eligibility, $300,000 in any three-year period.

You might also consider delaying retirement which has the double advantage of allowing you to accumulate more savings and reduce the number of years you need to draw on them.

These are challenging times to be embarking on your retirement journey, but a little planning now could put you back in the driver's seat.

Get in touch if you would like to discuss your retirement strategy.

i https://www.superannuation.asn.au/resources/retirement-standard

ii https://www.servicesaustralia.gov.au/individuals/services/centrelink/age-pension/how-much-you-can-get

Managing investment risk *in uncertain times*

This year has exposed investors to the end of a bull market and the start of a global recession, all caused by a totally unexpected global pandemic. The outlook for the global economy and investment markets remains uncertain until an effective vaccine is available.

While there is cause for optimism that one of the many vaccines will become available in the not-too-distant future, the road to financial recovery – for nations and many individuals – could be much longer.

Whether you are working towards major financial goals such as buying a home, planning to retire soon, or already retired and looking for reliable income, it's never been more important to come to terms with uncertainty and manage investment risk.

So how can investors not only survive, but thrive, during this difficult period? Staying the course isn't easy when you can't see what lies ahead, but you need to strap yourself in if you want to achieve long-term financial success.

Stay the course

When markets fall sharply, as the sharemarket did earlier this year, it's tempting to switch to cash investments. All too often, this can mean you lock in your losses at or near the bottom of the market and potentially miss out on the recovery that follows.

After hitting a record high in February, the ASX 200 fell almost 37 per cent by mid-March as the economic impacts of COVID-19 began to sink in. Then against expectations, the market rebounded 35 per cent over the next three months.[i]

Throughout that period, volatility was high with dips of a few percent one day followed by an equally sharp rise the next. But history has shown that it generally pays to ignore the noise.

There have been many studies about the impact of missing out on the best days for a market over a given period. Missing even a few of these days can have a big impact on your long-term returns.

Looking at the Australian market, a hypothetical $10,000 invested in the ASX 200 Accumulation Index (share prices plus dividends) on 30 October 2003 would have turned into $37,735 by 6 September 2020. Missing the 10 best days would have reduced returns by $15,375, while missing the 20 best days would have reduced returns by $22,930.[ii]

Manage investment risks

While it's important to stay invested, that doesn't mean you should forever sit on your hands and do nothing.

Booming markets can make investors complacent, so a market correction is often a good opportunity to stress test your investments to see if they are appropriate for risk tolerance and personal circumstances.

For example, if you're in your super fund's growth option but this year's roller-coaster markets have kept you awake at night, then perhaps a more conservation option would be more appropriate.

Or if your portfolio has become unbalanced after all the market upheaval, with too much reliance on one asset class or market sector, then you might think about rebalancing your portfolio to plug any gaps.

Investors who are nearing retirement or recently retired may have a greater focus on preserving capital, to provide more certainty that their money won't run out.

The importance of diversification

Yet even retirees need to balance their need for capital preservation with capital growth, which is another way of saying they still need to diversify their investments.

By diversifying across and within asset classes, you have the best chance of riding out a big fall in any one asset class.

With interest rates close to zero and likely to stay low for some time, investments such as bonds and cash that traditionally provide capital protection with regular income will be hard-pressed to keep pace with inflation.

By including some growth assets such as shares and property in your portfolio, your savings will continue to grow over the long term even as you draw down income to cover your living expenses. Shares and property also provide income in the form of dividends and rent, which retirees can use to diversify their sources of income.

Whatever your age and stage of life, avoiding knee jerk reactions, managing risk and diversification can help you navigate these uncertain times. If you would like to discuss your investment strategy, please get in touch.

i https://www.asx.com.au/prices/charting/index.html?code=XJO&compareCode=&chartType=line&priceMovingAverage1=0&priceMovingAverage2=0&volumeIndicator=Bar&volumeMovingAverage=0&timeframe=

ii https://www.dnb.co.uk/perspectives/supply-chain/global-supply-risk-report-q12018-cranfield.html

Maintaining *Mental health* through the pandemic

The COVID-19 pandemic has shifted our day-to-day lives in a dramatic way. One of the biggest changes to come from this period, was a transition to working from home for many people.

On top of this adjustment, parents had the additional challenge of monitoring remote schooling for their children. Social interactions were severely reduced and many of the activities that allow us to unwind, such as going to the gym, a cinema or a concert, were no longer possible.

While this return to more of a home-based life has had its benefits, it has also meant a blurring of the lines between work and rest. Coupled with isolation, heightened stress and anxiety which has built up over the days, weeks and now months may become something quite serious, such as burnout.

What is burnout?

Burnout is a form of emotional, mental and physical exhaustion caused by prolonged or extreme stress. You may feel as if you've got nothing left in the tank and you struggle to concentrate and stay motivated. As a result you can start to dislike your job or doubt your ability to effectively do your work.

Burnout can creep up on you as stress accumulates. You may find yourself feeling depressed and anxious, dealing with physical symptoms such as headaches, sore muscles and stomach aches, are no longer able to think creatively or on the spot, and feel tired and drained.

Why burnout is on the increase

According to Safe Work Australia data collected between 2012 – 2013 and 2016 – 2017, 92% of serious work-related mental health conditions were attributed to mental stress.[i] The 2016 Snapshot of the Australian Workplace found that 29% of workers always or often felt a high amount of stress in relation to their job.[ii]

The COVID-19 situation has brought with it significant mental health challenges, as made evident by the increase in calls to mental health support services.

You may be feeling an increased pressure to keep many balls up in the air and placing expectations on yourself (or having them placed on you) to be as productive and efficient as you'd ordinarily be. Not only can working from home make it harder to switch off at the end of the day and compartmentalise your home and work life, it also reduces your social contact which can lead to isolation.

Looking after your mental health

It's important to acknowledge we're undergoing a pretty unique period of time. Society has had to adjust and many people are experiencing a collective uncertainty. Rather than push through with a 'business as usual' mentality, give yourself the space to recognise that you're in a challenging situation.

If you're working from home, you may have greater flexibility, plus no more dreaded morning commutes, but try to keep to a regular schedule as much as possible. Be realistic about how much work you can get through a day while still making time to have your three main meals away from the computer screen and powering off before bedtime.

Limit your exposure to the news, be aware of what you are viewing and reading, and take note of the impact it may be having on your mental health, whether it be depressing news stories or those happy social media posts.

While social distancing and restrictions may inhibit you from what you'd ideally like to be doing, think outside the square for now. Healthy relationships support good mental health. Ask a friend to grab a takeaway coffee with you and have a walk and a chat. Make a regular appointment to call or visit a family member or friend to check in with each other. Get out of the house for a bike ride or sign up to that outdoor bootcamp to get your blood pumping.

Resources to access

There's no shame in reaching out for help, as we all need support during times of hardship and when we are feeling overwhelmed. Beyond Blue is an excellent resource with helpful information, active forums and a 24-hour confidential support hotline (1300 224 636). You can also chat with your GP who can help you form a mental health care plan which provides access to a certain amount of subsidised sessions with a psychologist.

i https://www.safeworkaustralia.gov.au/doc/infographic-workplace-mental-health

ii https://www.convergeinternational.com.au/docs/default-source/research/a-future-that-works-2016-snapshot-of-the-australian-workplace