

Here’s what mums and dads can do

Money Editor **ANTHONY KEANE** asks a roundtable panel of experts for their tips on how mum and dad investors should approach these turbulent times.

THE ADVERTISER: What is your definition of a mum and dad investor?

JAMES MCGILL: Almost every investor potentially is a mum and dad investor. From our marketing perspective, we tend to have mum and dad as someone who probably has under \$100,000 of investable assets, excluding superannuation and their home.

SALLY YOUNG: The majority of our clients would be mum and dad investors, with trading accounts and property investments and superannuation funds.

PEGGY BARKER: I'd define them as middle affluent, most of them married and wanting to increase their wealth.

SCOTT KIRKWOOD: The term actually comes from the Mums and Dads index, which was put together in the early 1990s when shares were floated in Woolies, AMP and the Commonwealth Bank, and it sums up those people who bought into those floats.

THE ADVERTISER: Where is most of their wealth stored?

LAWRENCE ORLANDO: Superannuation, a rental property or a holiday home, and they may have some money tied up in shares or managed funds that they've borrowed with the equity that they have in their property.

SCOTT KIRKWOOD: Most of their wealth is tied up in the family home. With mandated super, that's certainly changing, but it's largely their home. In terms of their share ownership, it's always large blue-chip Aussie heroes that they've grown up with and that they recognise that make up a large proportion of it.

THE ADVERTISER: What are their favourite investments?

PHIL BUTTERFIELD: I think if you ask them, most would say investment property.

LAWRENCE ORLANDO: They like to feel it, touch and see it.

PHIL BUTTERFIELD: It's the Australian tradition isn't it, to go out and buy an investment property once you've got some free cash or free equity.

PEGGY BARKER: Mum and dad investors could also be small-business owners, in the city or in the rural areas, farms and shops.

SALLY YOUNG: Shares had become, in the years from 2003 to 2007, a favourite. Apart from their superannuation, they liked to have an interest in some speculative, particularly mining-type stocks, but there will probably be a lot of people walk away from the market now and not want to come back for a long time.

THE ADVERTISER: It was nice when it was going up 20 per cent a year.

SALLY YOUNG: That's right.

LAWRENCE ORLANDO: It will return.

JAMES MCGILL: Going back to the Woolies and Commonwealth Bank days, we had 55 per cent of Australians owning shares but that's down now to about the mid-40s, including super. But you still have more than one in three Australians owning shares directly, which is far in excess of how many Australians own investment property. I think the difference comes down to the fact that you don't need a lot of money to go into shares. You have that emotional relationship with property, and you don't get this crazy swing like we've had in the past 12 months. People often start with direct shares, build some equity and then when you've got enough money together move into the property market.

PEGGY BARKER: Prior to this serious market downturn, Australians had the largest proportion of the exposure to direct shares in the Western world.

SCOTT KIRKWOOD: Look at Telstra. When T1 came out, it was 530,000 Australians who took up T1, and then with AMP there was something like 730,000 first-time shareholders. The Securities

Institute brought out a survey in November, 2006, which found 20 per cent of people only had one share in their portfolio, and 22 per cent had two or three shares. So the major problem in the past 10 years has been a lack of diversification.

JAMES MCGILL: I think they're the ones who have exited the market. It's that non-active person who didn't buy the shares necessarily because they wanted to be share investors. They did it because everyone was doing it and you had to have a piece of Telstra or you got given a piece of AMP. It was almost a fear thing – especially after T1 which was such a success. If everything is going to be this successful, how do I get a piece of that?

PEGGY BARKER: In the past three years as your mum and dad investors got more confident about owning shares, they branched out to own other banks. And that's really what's put them off, to see major financial institutions lose almost 50 per cent of their value. The buildings are still there, banks are still doing business. They find it very hard to understand.

SALLY YOUNG: There's been a major shift of confidence in share markets everywhere, including Australia, and that will turn a lot of investors away for a long time. Unfortunately probably until the next cycle is about halfway through, and then they'll come back in. Because there was a lot of easy money to be made, a lot of mum and dad investors went to the internet to do their trading. They received no advice and some horrible things have come unstuck in the past couple of months, and that will scare a lot of people.

THE ADVERTISER: How have mum and dad investors fared this year compared with other investors?

SCOTT KIRKWOOD: When you look at the Mums and Dads index, it is a basket of nine different shares – Insurance Australia Group, AMP, the Commonwealth Bank, Qantas, Suncorp-Metway, TAB Holdings, Telstra, Wesfarmers and Woolworths. That's dropped over 43 per cent in the past 12 months, while the All Ordinaries index has dropped just over 45 per cent. So they've fared slightly better, but better in a bad world. Everybody has suffered right across the board. Most of our clients are a little more diversified than holding all of their assets just in shares, so they've probably dropped between a third and a half of what the open market has. But it's been harrowing for everybody.

THE ADVERTISER: Has anyone noticed much fear or panic among their clients?

LAWRENCE ORLANDO: Not at all.

PEGGY BARKER: I've just come back from a Financial Planning Association conference and our CEO did a survey at the end of October and found that there was a marked difference between investors who had an ongoing close relationship with a financial planner and those who didn't. The ones who did know that this is the way that markets behave, and don't intend to change their adviser. They don't blame the adviser. For the rest who didn't have a close relationship with an adviser and did it on their own, in a lot of cases there is a bit of panic in there.

LAWRENCE ORLANDO: If clients have been given good advice, they would have to be made aware that the market can't stay a blossoming bunch of roses forever. If they're aware that at some point in time there could be a downturn in the market, then it's expected. I openly advise my clients that if the market drops tomorrow, I have no control.

SCOTT KIRKWOOD: I think it's fair to say that there is a lot of concern in the marketplace because most people fear what they can't understand or can't control. A lot of mum and dad investors are in fear. But we're seeing a quiet resolve among our investors to just hang in there



INVEST WISELY: Panelists Phil Butterfield, Sally Young, Lawrence Orlando, Peggy Barker, James McGill and Scott Kirkwood.

and look for what I call those white knuckle opportunities, where you're still a little bit scared but you put your emotions aside and you base your decisions on fact and on logic and you make good long-term decisions.

SALLY YOUNG: The awful thing about this downturn is there hasn't been a safe haven, even in property. Listed property trusts have been decimated as a sector much more than the overall market; some are down 80 per cent and 90 per cent. Unlisted property funds have

seen in my time as a financial planner.

PHIL BUTTERFIELD: We're not seeing huge volumes of fear and panic. The other thing to bear in mind is that for those who still contribute to their investments they are getting some dollar-cost averaging. They're getting contributions going in now at cheaper prices. It has been quite negative for shares as an investment vehicle, but buying right now is an exceptional opportunity. If you've still got 10 to 15 years to go in terms of your investment time frame, you'd be sticking

to remain focused on the long term of the market. There's not much else they can do or expect. How long is a piece of string?

PHIL BUTTERFIELD: The big thing is clearly the U.S. – it's the biggest component of the global market. They've got over the sub-prime but now there are banks still going under and we've got the U.S. auto makers wondering what they're going to do next. I think if you want a leading indicator as to what's going to happen in markets, keep a good eye on what's happening in America, and see what Mr Obama can conjure up.

JAMES MCGILL: Australia's market has tracked the U.S. in the past 12 months.

SALLY YOUNG: The U.S. dollar is important too because the U.S. Government can only fund its rescue packages by issuing bonds. And they can only issue bonds if the rest of the world is prepared to still support the dollar. If that collapses, goodness knows what will happen. It's the nightmare scenario.

SCOTT KIRKWOOD: Whatever volatility we're going to see continued volatility on a daily basis. If people can't cope with that level of swings within the market, they really should not be looking because that is not going to go away in a hurry. We may see markets start to stabilise and firm in the second half of next year. Some say that share markets come down in lifts and go up in staircases. It's going to be a slow recovery.

JAMES MCGILL: If you have a decent long-term plan of where you're going, and most planners will talk about three to five years – maybe now it's five to seven –

LAWRENCE ORLANDO: They need

you can take the next 12 months as an unknown. You say: "I don't need to rush this; it's not going to be that if I don't get in tomorrow I'm going to miss out." No one knows where it's going to go in the next few months. So have a plan and take a long-term view. Every time there's been a market correction down, it goes back up. And it will be quite surprising if it didn't happen again this time.

LAWRENCE ORLANDO: At a very fast rate of knots.

THE ADVERTISER: What are some share market strategies that mum and dad investors can use?

SALLY YOUNG: There will be a lot of dollar cost averaging. A lot of companies now having capital raisings, share purchase plans where you can buy up to \$5000. There'll be more capital raisings.

THE ADVERTISER: With share

purchase plans, a lot of companies are doing it now every six months and it is a way of averaging your cost. Look at the price they're offering or the discount that they're offering and make a decision within a week or so of it closing. Because of the volatility, it could be unattractive one week but attractive the next week.

SCOTT KIRKWOOD: It still has to fit within their planning. A lot of mums and dads have got into trouble because they've just taken these shares whenever they've been offered, and they could have been offered by anybody. They've found themselves with 20 or 30 lines of stock that mean nothing to them.

SALLY YOUNG: This is where advice comes in. They need someone to look at the portfolio and say: "Well, no, we don't want any more AMP because we've actually got quite a lot in there".

“Once your emotions start to take control of your decision making, you’re going to make huge mistakes.

purchase plans appearing everywhere, if a company tries to raise money does it mean that it is weak?

SALLY YOUNG: No. It doesn't mean they're weak. If they're having a very large rights issue at a heavy discount, for example like General Property Trust did, the \$2 billion one-for-one offer at a huge discount then that is a big sign that they need to raise equity. But with share

PHIL BUTTERFIELD: I think that the good old days of proper due diligence are probably back with us.

SCOTT KIRKWOOD: You can use these times where share prices are depressed to sell off assets to offset capital gains that you have within your portfolio and manage your capital gains tax. Fine-tune your holdings so that you're ready for when their market starts to rally. And make sure your money is not sitting in shares that are never going to recover.

PEGGY BARKER: The mums and dads who have seen their pension accounts go down, as their earnings are negative and they're drawing down on them, may push some of it back into super so they don't have to draw down on it. And perhaps consider working longer to boost their superannuation nest egg. This has become almost like a kind of group psychology. I've seen some clients who for various reasons have been sitting in cash for the last year-and-a-half, so they have no reason whatsoever to change their strategy because of market conditions, but they're saying: "Given the market conditions, we might continue working for a bit longer."

THE ADVERTISER: Have mums and dads been hit harder because they generally have bigger superannuation balances and less time to regain the lost ground?

LAWRENCE ORLANDO: I think they've suffered like everyone else has. I'm quite open in telling my clients that my personal investments have headed the same way as theirs.

JAMES MCGILL: If you got one or two years until retirement, then you don't have that time for the market to recover. Whereas if you are starting out when you're 30 or 35 and just getting going, this is an opportunity more than an issue for you. If you're 65, it might mean you're in the workforce for another five years. So it really is an issue for people who were wanting to exit the market and live off their super in the next couple of years.

LAWRENCE ORLANDO: And I've found that, having a younger client base, people that do have equity in their property are just taking advantage of the low end of the market, and buying. They've got that long-term view as opposed to people who are nearing retirement that are a little bit hesitant.

SCOTT KIRKWOOD: Even for those who are nearing retirement, I think it's really important that we continue to base our asset allocation and our long-term planning on our life expectancy. Not necessarily just a couple of years beyond retirement. Because most retirees will still live 15 or 20 or even 30 years in retirement. If they go too defensive with their planning now or sell at this point in time, which would be a tragedy for them, they never recover. Whereas if they keep perhaps one or two years worth of income in defensive assets and let their growth assets recover in value and continue to grow, they'll work their way through this.

THE ADVERTISER: What are some other big superannuation issues that they are facing at the moment?

PEGGY BARKER: One of the big issues there's going to be will be that with the drop in interest rates, there's going to be an income drought. Particularly for the more conservative investor who traditionally looks to cash or fixed interest for their income. The people who are used to getting 7 per cent return at the moment are getting 4.5 per cent and perhaps when cash goes to 2.5 per cent it's going to be quite difficult. In that case one might look at some dividend or income fund or shares that pay a higher level of dividend. Very, very carefully chosen ones to make sure that the dividends are there. But they might eventually have to turn to some blue-chip shares just to supplement their income.

JAMES MCGILL: In some ways the past six months have almost been that perfect storm for equity markets, property values and interest rates coming down. It makes it very, very hard for someone who's looking at retirement to figure out how they get their income stream coming forward. If you exit the market now and go and sit in cash, the upside gets lost, so you've got to make sure that you're on top of where your strategy is and keep that diversification.

THE ADVERTISER: So now is not the time to switch to cash?

JAMES MCGILL: It depends on who you are. But if you're in cash and getting a 3 per cent return there's not a lot of upside for the average person.

LAWRENCE ORLANDO: I think now's the time to keep the seat belt on.

SALLY YOUNG: The inverse of that is that if you're young enough or have a high enough risk profile, it's probably going to be a wonderful time to gear – to borrow to invest – if you weren't previously. It would be a wonderful time to gear because interest rates will be low and share prices and other asset prices will be low.

LAWRENCE ORLANDO: So you get the best of both worlds.

SCOTT KIRKWOOD: History shows that markets will rebound and the asset prices will recover. So the text book answer is no, don't sell. But we're human and we all know that text book answers sometimes are not the emotive driving force. So everybody needs to, whether the markets are rising or falling, go back to their own risk profile, their own goals and keep reassessing their own position. Clients who tend to stop seeking advice at times like this tend to make rash decisions and pay the prices.

PHIL BUTTERFIELD: The residential property analogy is the easiest for people to understand. If the value of your house falls by half on paper, would you sell that? Certainly you wouldn't. But if your next door neighbour's house went down by half on paper and they wanted to sell it to you, you'd probably buy it. This is the mentality that people need to understand with shares, that they've come down by half their value.

THE ADVERTISER: What superannuation strategies might be a good idea at the moment?

PHIL BUTTERFIELD: I don't think the strategy issue has really changed. You need good asset allocation, good advice. For those who are approaching 55, boosting your super with transition to retirement is well worth a look. Salary sacrifice. But the fundamentals of superannuation haven't changed.

LAWRENCE ORLANDO: For those that can top up their super to the maximum limits, it's prime time.

SCOTT KIRKWOOD: And pick up things like the government co-contribution. Look for those opportunities that will propel your superannuation contributions. Keep buying as markets are falling, keep buying.

PHIL BUTTERFIELD: With account based pensions, once you're over 60 they are still tax-free. Tax-free income and tax-free earnings.

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OUR EXPERT PANEL

■ Barker Wealth Management managing director Peggy Barker

■ Bernie Lewis Wealth Management senior financial planner Scott Kirkwood

■ Bourke Shaw Financial Services principal Lawrence Orlando

■ KeyInvest general manager business services James McGill

■ Ord Minnett client adviser Sally Young

■ Savings & Loans senior manager financial planning Phil Butterfield

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Here's what mums and dads can do

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PEGGY BARKER: Tidy up your assets with regard to ownership, whether you're going to hold or sell or transfer to another entity. It's a good time to do it from a capital gains tax point of view because a lot of capital gains over the past three years have been wiped out, so you haven't got that problem.

THE ADVERTISER: What sort of properties do mum and dad investors typically look at?

PHIL BUTTERFIELD: Beach houses and units.

LAWRENCE ORLANDO: Residential mainly. Business owners may purchase their commercial property but for a lot of the mum and dads it would be the holiday home or a residential property.

SCOTT KIRKWOOD: It's very lifestyle-driven. The asset needs to reflect who they are as people and their lifestyle.

THE ADVERTISER: Are interest rates impacting them?

LAWRENCE ORLANDO: They're loving it. They're loving it with interest rates coming down.

PEGGY BARKER: They have to be careful if they are in the middle of swapping properties, selling one and buying another. You have to be so careful that you're not caught ending up with two properties when you only mean to have one, because property is moving much more slowly at the moment.

SALLY YOUNG: I heard a story this week that someone in that position sought a bridging loan

from the bank and they were refused. They eventually got bridging finance at a huge, huge cost. So, that's the other problem.

JAMES MCGILL: It's the time, no matter whether it's a property, equities or anything, to tread cautiously. It's a foolish time now to

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REPORT: 2008 the worst investing year on record.

be thinking: "I'll take advantage of this because it's in front of me." You really need to make sure you know what you're doing because this market is volatile and the banks are out to make sure that they're pro-

tecting their investors as well.

SCOTT KIRKWOOD: At this point, go to your adviser and ask them to advise you on all areas, not just your share portfolio. Now's a great time to review your estate planning or your insurance planning or your mortgage funding. Review everything because whatever you do financially it needs to complement where you are going. Quite often different parts of somebody's financial portfolio will be competing against other parts.

PEGGY BARKER: A lot of retirees who never imagined that they would need to consider a Centrelink age pension strategy are able to be considered for one now, and that's why it's very important that they have their eligibility for

a Centrelink pension or part pension assessed, because you don't have to be poor to be eligible for a part pension. For a retired mum and dad who own a family home - and it could be \$1 million house or \$2 million because the house is not assessed - the assets test cut-off is \$875,000. So you can be a millionaire and still be eligible for some age pension.

LAWRENCE ORLANDO: I think investors should push their emotions to one side and think rationally on current market conditions and just remain focused on the reasons why they implemented their investments in the first place. Once your emotions start to take control of your decision-making, you're going to make huge mistakes.

ADVICE | Invest small amounts on a regular basis

Legacy from parents

ACCOUNTANT Brenton Cox follows an example set by his parents when it comes to investing.

And instead of using a financial planner, Mr Cox, from Not for Profit Accounting Specialists, has a cat.

What was your first investment and how did it go?

My first investment was simply putting money on deposit when I started earning income. The concept of earning interest income for apparently doing nothing held great appeal.

What is your favourite investment class and why?

I like property, though I'm far from being a property mogul. It's simply a personal preference thing.

What is the best investment advice you have received?

Probably the example set by my parents has left the greatest legacy. Invest small amounts on an ongoing basis, whether it be paying off extra on a mortgage or putting extra money into super.

How do you approach investment risk?

As a necessary evil. Sometimes not taking any risk can be the greatest risk of all.

What has been your best performing investment?

The funds I have invested in superannuation. Aside from the year just gone, it's grown rapidly.

And the worst?

For some stupid reason I had the urge to lay a few sizeable bets on a simple street performer game in Hungary one day. The guys running the game were con artists and I lost it all.



MY INVESTMENTS

Where do you get your investment information?

I read pretty widely and try to keep abreast of current market conditions.

How would you invest \$25,000 if you were given it tomorrow?

I'd offset it against my mortgage.

How do you feel about managed funds?

They have their place in the market. It can be a good way for someone with a small amount of money to diversify their investment.

How do you feel about investing overseas?

As long as you avoid Hungarian street performers, or any street performers for that matter, investing overseas can be something worth looking at. Information is crucial though. Know what you're getting into.

Do you have a financial planner?

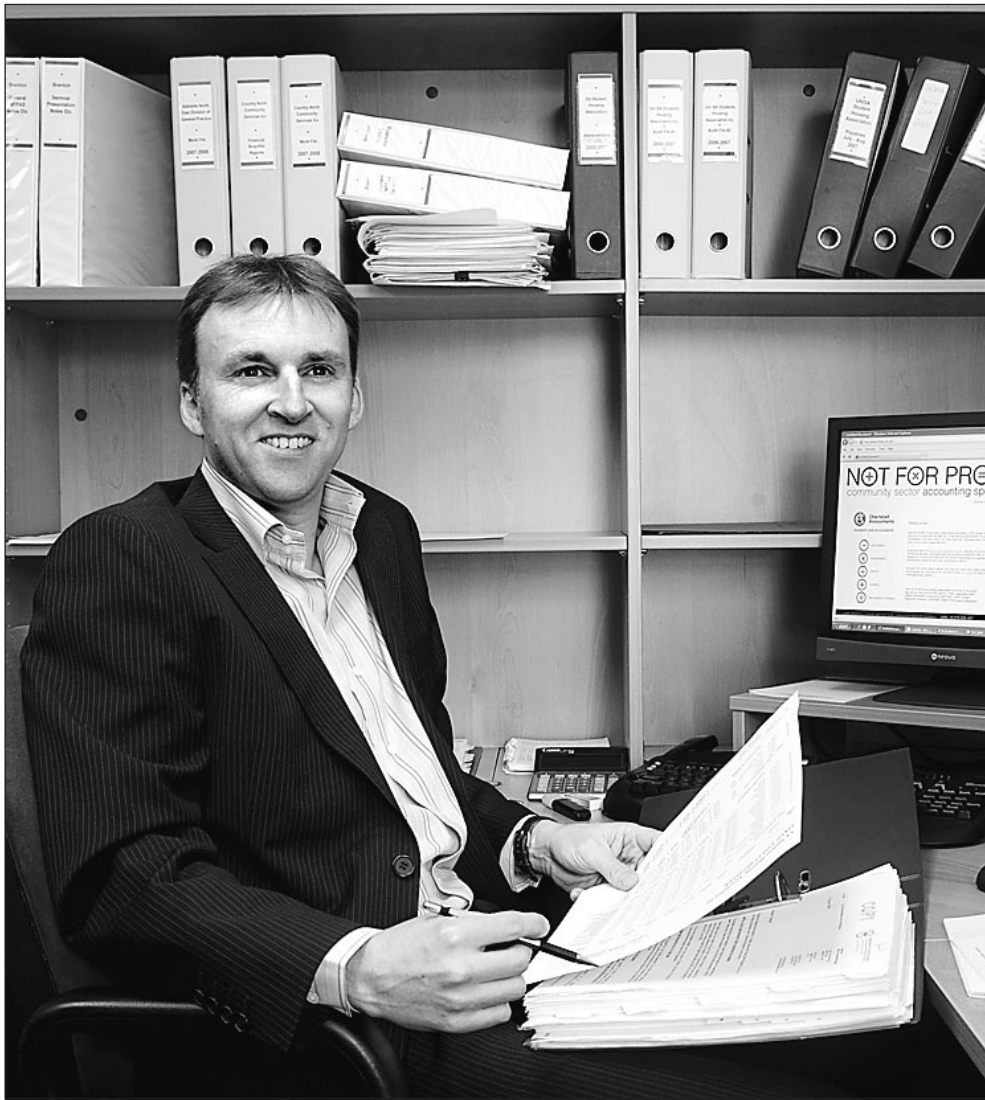
No. I have a short-haired tabby.

How do you treat your credit card?

With respect. It sleeps with me every night. I pay most of my expenses on credit card but I have an automated repayment facility set up so that I never incur any interest.

How do you feel about life insurance and disability insurance?

I've learnt through personal experience how useful it can be. I have an insurance adviser and have both life and disability cover in place. I



STEADY GOES: Accountant Brenton Cox has a personal finance budget which he sticks to.

made a claim for a sporting injury a few years ago.

Do you have a personal finance budget and do you stick to it?

Yes I do, and I think it's

important to stick to it.

What's the most extravagant purchase you have made?

I've been told that I don't spend much money on my-

self, so probably a surprise holiday for my parents in honour of my dad's 70th birthday is the most extravagant, that the family and I paid for.

Comfy old age costs us more

JENNY DILLON

THE cost of a comfortable old age has gone up significantly.

According to the quarterly retirement standard prepared by Westpac and the Association of Superannuation Funds of Australia, the cost of living for the September quarter was up 3.9 per cent on the same period last year.

Food, alcohol and tobacco, petrol and overseas holidays all rose significantly, while a huge drop in sharemarket returns made an ugly dent in retirees' incomes.

The AMP Superannuation Adequacy Index, released last week, found that in the six months to June, super balances fell an average of \$1362, or 3.1 per cent per member.

Older Australians over age 55 were the hardest hit, with funds falling by 8.9 per cent.

According to AMP, Australians are expected to retire with an annual average income of \$41,992 in today's dollars but almost four million - 37 per cent of the workforce - will not have enough in their funds for this sort of income.

The standard said a couple wanting a comfortable retirement needed \$50,561 in today's dollars.

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Lift sales, reduce tax

COMPANIES looking to lift sales and gain a tax advantage are turning to salary sacrificing.

Salary sacrificing allows employees to reduce their taxable income through the purchase of items such as laptops and motor vehicles, or by contributing to superannuation.

It also allows a \$1000 reduction of taxable income a year when an employee buys

goods and services from his or her employer.

"The company can save payroll tax, workers' compensation and GST, and the employee saves on income tax," said Robert Jackson, associate director at business advisers and accountants Moore Stephens.

He said companies could increase sales as well as reward employees.

Bank dividend time

AFTER watching their investments crumble this year, millions of Australians will get some respite this week when bank dividends begin flowing.

National Australia Bank and Westpac will pay their dividends on Wednesday, of 97c and 72c per share respectively.

On Thursday, ANZ shareholders will be paid a 74c per share dividend, and St George

- now owned by Westpac - will pay regular and special dividends totalling \$1.25 per share. The dividend income yields of most bank shares are now above 9 per cent, although most shareholders bought their stock at prices much higher than current levels. There are concerns banks will reduce future dividend payouts.