INSIDE

JANUARY 2024
FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

Vanguard economic and market outlook for 2024: A return to sound money

Our economic and market outlook for 2024 reflects the house view of Vanguard's global economics and markets teams as of December 12, 2023.

A return to sound money. It's a theme we at Vanguard have been communicating for more than a year, and in 2024 we believe that the greater investing world will come around to its implications.

Sound money is the result when interest rates are above the rate of inflation, a development we expect to persist in the years ahead. For well-diversified investors, the persistence of higher real interest rates provides a solid foundation for long-term risk-adjusted returns.

Our outlook in brief:

Policy takes hold

We expect monetary policy to become increasingly restrictive in real terms as inflation falls toward central banks' targets. As economic resilience fades, central banks will be in position to reduce policy interest rates.

Equilibrium Elevated

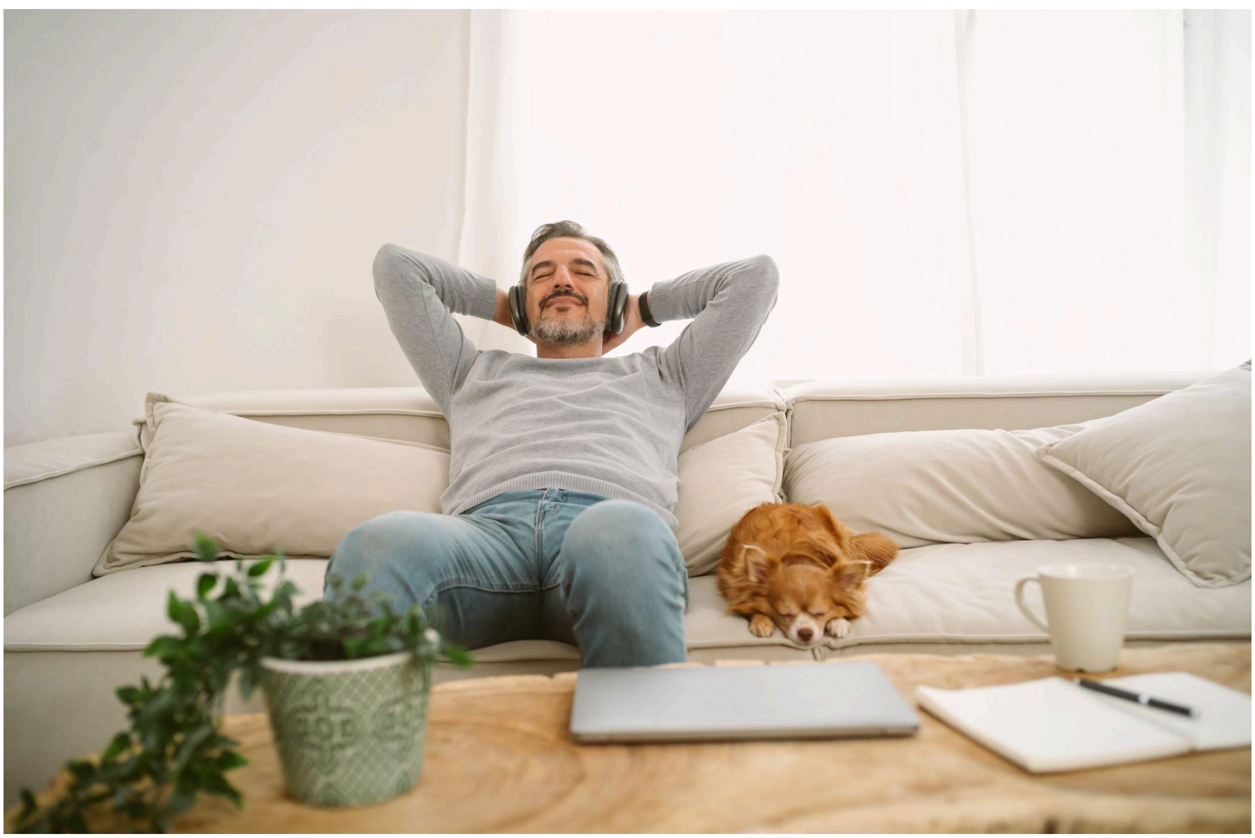
After policy rates recede from their cyclical peaks, we expect rates to settle at a higher level than we had grown accustomed to before the COVID-19 pandemic. Zero interest rates are gone; a higher-rate environment is here to stay.

Bonds are Back

Higher interest rates mean higher returns for long-term bond investors. We see Global aggregate bonds as close to fair value and our long-term return outlook has increased significantly. U.S. equities, meanwhile, and U.S. growth stocks in particular, appear more overvalued than a year ago.

Learn more about our views on the global economic outlook by downloading the 2024 report below.

https://www.vanguard.com.au/adviser/learn/insights/markets-and-economy/VEMO_2024_a_return_to_sound_money



A Simple Way to Retire Earlier

Using a fundamental investing principle could help many Australians bring their retirement forward.

It's simple investing mathematics really. The more money you can save in investing fees, the more of your total returns you ultimately get to keep in your pocket.

In actual fact, investment fees (management and administrative fees, commissions and other costs) are the one thing in investing we can control.

And, when we're talking about investing, don't forget your superannuation fund is also charging you to invest your hard-earned retirement savings. They won't hit your hip pocket directly, because super fees are generally deducted from the regular contributions made into your super account.

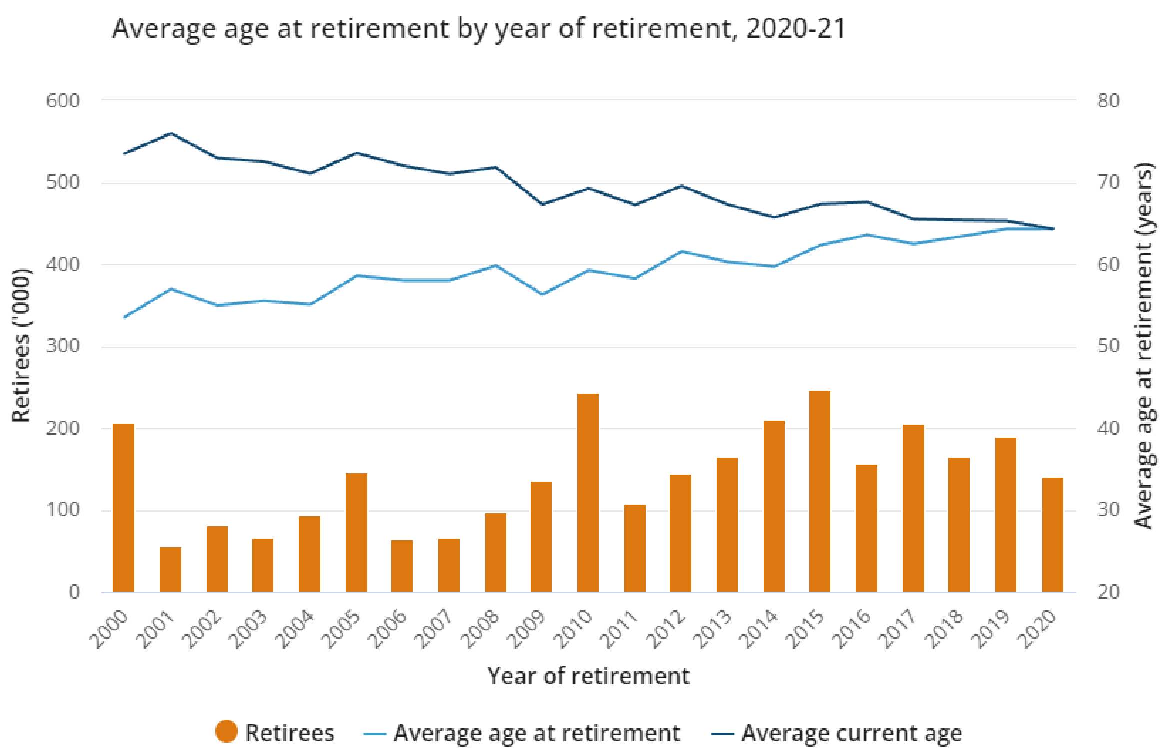
Alarmingly, Vanguard's ***How Australia Retires*** study, released in May this year, found that one-in-two Australians don't know how much they are paying in super fees, and two-in-five are unsure if their super fund is charging them low fees.

Australians are retiring later

The Australian Bureau of Statistics' latest ***Retirement and Retirement Intentions*** data covering the 2020-21 financial year, released at the end of August, shows that the average age of retirement has been steadily increasing over time. So is the average age that people intend to retire.

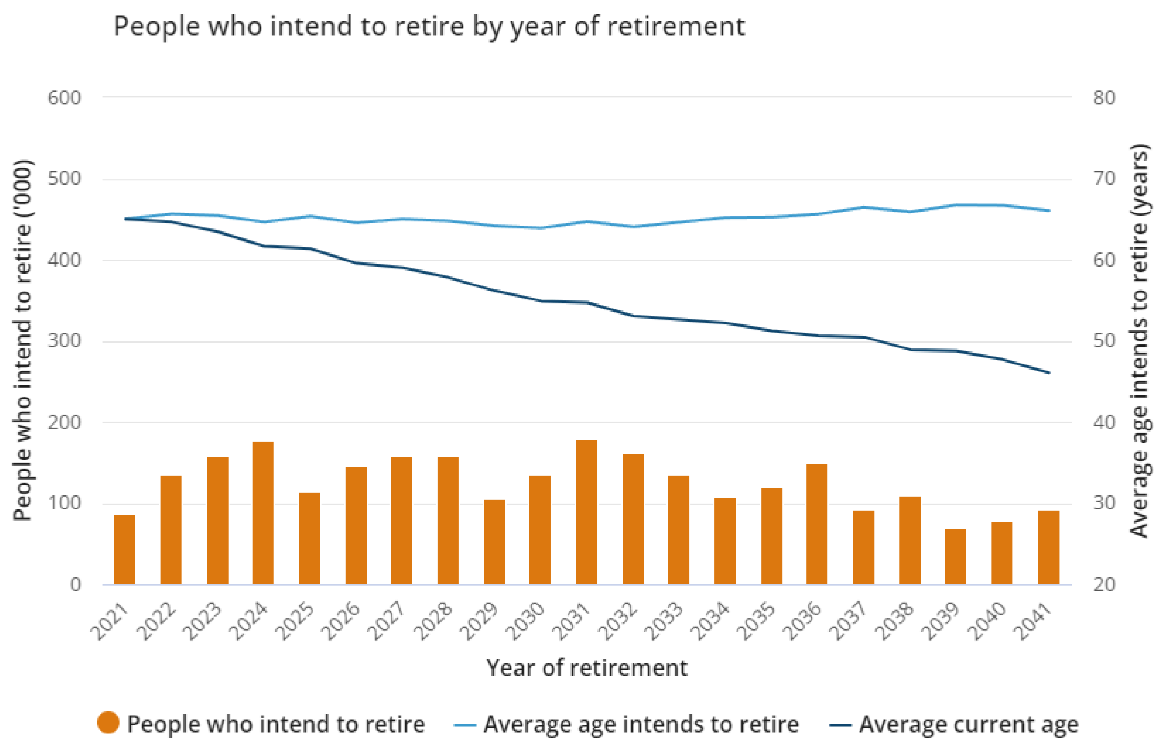
Of the total number of Australians who retired in 2020, the average age at retirement was 64.3 years. For men, the average age was 65.4 years and for women the average was 63.7 years.

That compares with 2000 when the average age at retirement was 53.5 years.



Source: Australian Bureau of Statistics

The average age when Australians intend to retire has also been creeping up over time. In 2020-21, when the latest ABS data was captured, it was 65.5 years. For men, the average intending to retire age was, 66 years and for women the average was 64.9 years.



Source: Australian Bureau of Statistics

Tying Costs to Retirement Age

There are a wide range of reasons why people earmark an intended retirement age. It can relate to financial reasons, lifestyle reasons, personal reasons, or a combination of all three.

One's actual age of retirement may be the same as one's intended age of retirement, but of course one's circumstances can change and result in retirement being brought forward or pushed out.

Having the financial capacity to retire is a key reason why many people decide to retire earlier than they expected to.

This is where 2018 research by the Productivity Commission ***(Superannuation: Assessing efficiency and competitiveness)*** on the impact of superannuation investment costs has particular relevance.

The Productivity Commission's analysis revealed a strong negative relationship between net returns and total fees – that is, funds with higher total fees on average deliver lower returns (net of administration and investment fees) for their members.

"The material amount of member assets in high-fee funds, coupled with persistence in fee levels through time, suggests there is significant potential to lift retirement balances overall by members moving, or being allocated, to a lower-fee and better-performing fund," the Productivity Commission found.

"Fees have a significant impact on retirement balances. For example, an increase of just 0.5% a year in fees would reduce the retirement balance of a typical worker (starting work today) by a projected 12% (or $100 000)."

On a pure financial level, the benefits that can be achieved by reducing super investment costs (the potential positive impact of doing so on one's retirement balance) may be the catalyst for many Australians to bring their intended retirement age forward.

Source:
https://www.vanguard.com.au/personal/learn/smart-investing/retirement/simple-way-to-retire-earlier

How Does Gold Stack Up

Gold has been glittering for some time, but many share market investors have outperformed.

In early November four men were charged over the 2019 theft of an 18-carat gold toilet from Blenheim Mansion, the former home of British Prime Minister Sir Winston Churchill.
Valued at around A$9 million based on its weight in gold, the fully functioning toilet created by Italian artist Maurizio Cattelan and titled "America" is still missing in action.
It may never turn up again. Since America was stolen, the price of gold has surged more than 33%, from just under US$1,500 an ounce to almost US$2,000 an ounce. By now the glistening loo may have been melted down into gold ingots and converted into hard cash.
The gold price has been on an upward trajectory for the last decade. In November 2013 gold was trading at US$1,240 an ounce – about 60% below its current price.

That's a good total return, but gold has done even better in Australian dollar terms. In November 2013 it cost A$1,370 to buy an ounce of gold. The current price is over A$3,050 an ounce (as of 24 November) based on the U.S. dollar exchange rate. This equates to an Australian dollar gold price gain of more than 124% over the last decade.

These returns are before any investment fees or taxes.

Gold price drivers

Behind the gold price is a complex mix of economic, geopolitical, supply and demand factors.

As an economic or geopolitical crisis hedge, gold has a solid history, driven by its lack of credit risk and negative correlation to risk assets. It is considered a physical store of wealth, because as a substance gold can't be dissolved.

According to the World Gold Council, central banks account for almost a fifth (18%) of gold demand to help diversify their reserves.

Central banks bought a net 77 tonnes of gold in September, with China alone purchasing 26 tonnes of the precious metal. Poland bought a further 19 tonnes.

In the past, many central banks have been forced to print more money, but this increase in supply, while helping to stave off economic turmoil, has carried the cost of devaluing their currency.

Gold, by contrast, is a finite commodity whose supply can't easily be added to. It is therefore a natural hedge against inflation.

Gold supply is ultimately driven by the production output from gold mines around the world, and gold demand continues to exceed supply.

Ongoing strong demand also continues to come from consumers buying gold jewellery, and from technology companies needing to use gold within computers, mobile phones and other devices.

In addition, investors in listed gold investment funds, which purchase physical gold, have also been strong demand drivers.

Investment return comparisons

While gold may seem alluring to some as an investment, it's important to understand its characteristics as an asset class.

First and foremost, gold investors need to solely rely on price growth over time because, like all commodities, gold itself does not generate an income stream.

On this level, it's worth comparing the 10-year return from gold with the total investment returns from the Australian share market, the U.S. share market and from international shares since November 2013.

As noted above, the 10-year return from gold in U.S. dollar terms (25 November, 2013 to 24 November, 2023) has been 60.6%.

In Australian dollar terms, over the same period, the return has been 124.9%. In other words, the U.S. dollar to Australian dollar exchange rate has provided a strong tailwind for Australian investors.

By comparison, let's use an example of an Australian investor who in November 2013 invested A$10,000 into the broad Australian share market using an index-tracking investment fund.

Unlike gold, share market index funds are paid dividends from the listed companies they invest in, which are later passed through to the fund's underlying investors as income distributions.

By 31 October 2023, when measured by the performance of the S&P/ASX All Ordinaries Total Return Index over the 10 years, and assuming all the investment income earned over time was reinvested back into the same fund, a A$10,000 initial investment would have grown to A$20,067.

That's a 100.7% return before any investments fees or taxes.

Using the exact same criteria, an investor who invested into an index fund that invests in international shares (when measured by the MSCI World ex-Australia Net Total Return Index – in Australian dollars) would have achieved a total return of 216.4%. Their initial A$10,000 investment would have grown to A$31,638.

Finally, if they invested their capital into a U.S. share market index fund, their initial A$10,000 investment would have grown to A$43,234 over the last 10 years. That's a 332.3% total return when measured by the S&P 500 Total Return Index (in Australian dollars).

Conclusion

While gold has achieved strong growth over the last decade, when measured in U.S. dollar terms it has underperformed Australian, U.S. and international share markets on a total return basis.

But it has outperformed the Australian share market when measured by its performance in Australian dollars, thanks to the fall in the value of the Australian dollar.

For investors, the main things to understand is that any returns from gold can only be realised upon a sale of physical bullion, and that unlike shares, bonds or cash, gold can never generate an income stream.

Notes: Historical gold prices supplied by World Gold Council. Share market performance data supplied by Vanguard Digital Index Chart and Andex Charts Pty Ltd.

Source:

https://www.vanguard.com.au/personal/learn/smart-investing/investing-strategy/how-does-gold-stack-up

This article explores superannuation for the self-employed, defining who a self-employed person is, and highlighting the shocking statistics on how few contribute to super. It also provides insights into the benefits of super for the self-employed and uses a simple roadmap to explain how to get started.

A Self Employed Superannuation Guide

When you're at the helm of your own business, it's easy to get caught up in the whirlwind of the present – chasing sales, generating leads, and growing your business. Often, self-employed people prefer reinvesting back into their businesses, hesitant to stash money away in superannuation. Yet, there's a compelling case for setting aside a slice of your earnings.

The Facts Don't Lie

At present, self-employed Australians are not required to contribute to superannuation. According to the Australian Tax Office's (ATO) data, while self-employed people make up about 10% of the workforce, their super contributions account for just 5% of the retirement pie in 2014-15(1). Dive deeper into the numbers, and fewer than 1 in 10 self-employed Australians opted to make tax-deductible super contributions that same year.

What is 'Self-Employed?'

The ATO has clear guidelines on what a self-employed person is:

- If you're self-employed as a sole-trader or in a partnership, you don't have to pay superannuation to yourself.
- If you're a contractor, it depends on your agreement or working arrangements with the company that you're doing work for. You may pay your own or you may be eligible for super guarantee contributions from the company.
- You may own the business, but if it's a company and you're considered an employee, then you should be paying yourself the superannuation guarantee, which is currently 11%.

For more information see the ATO website.

Why Contribute to Superannuation ?

While it's tempting to pour every hard-earned dollar back into your business, the reality is that not all businesses come with a pot of gold at the end. Some self-employed people and businesses rely solely on their own labour, with no substantial business assets to lean on. That's where superannuation can come in, providing a great way to plan for your retirement.

A Nest Egg for Retirement

By contributing to super, you are building a nest egg that will provide you with financial security and income in retirement. Putting a small amount of money into superannuation regularly can provide financial stability over time, allowing you to focus on growing your business knowing that you have another income stream building in the background.

Tax Benefits

Here's a big one: self-employed people may be entitled to a full tax deduction for contributions made to super.

If you're self-employed, you can make personal contributions up to the annual cap, which is $27,500 per year for the 2023-24 financial year. These contributions are taxed concessionally at 15 per cent, rather than marginal tax rates. So not only are the contributions taxed at a lower rate, self-employed people can also claim a tax deduction on those contributions.

To claim a deduction for personal contributions it's important to note that:

- Contributions need to be made before 30 June to claim them as a tax deduction for that financial year.
- You need to notify your fund before claiming a tax deduction, using a specific form. Strict time limits and additional criteria may apply.
- The ATO website has more information about claiming a tax deduction for personal contributions as a self-employed person - search 'Personal super contributions' on the ATO site.

Compounding

Superannuation remains one of the most tax-effective ways to grow wealth. Over time, your contributions can benefit from compounding growth, as your investments earn returns on both your initial contributions and any earnings generated. Starting early and contributing consistently, even with small amounts, can significantly boost your retirement savings.

Diversification

Many self-employed people see their business as their retirement strategy. But by putting money away into the tax-effective superannuation environment, with investment strategies that can be tweaked over time, you can diversify your investment, reduce risk, AND plan for retirement.

How do I contribute to super if I'm self-employed?

Just because you're self-employed doesn't mean super has to be complicated!

- First thing is to set up a super account. You can:
  - start a new fund with the majority of superannuation providers;
  - contribute to an existing fund you may have had when you were an employee; or
  - go down the self-managed super fund route.

- The next step is to contribute to your super fund. If you receive:
  - A wage — set up a regular transfer into super from your before-tax income.
  - Income from business revenue — transfer a lump sum when you have enough cash flow.

With various tax benefits, flexibility of contribution size and frequency, and having another source of income for your retirement, if you're self-employed why wouldn't you be contributing to super?! If you'd like to get started, talk to your adviser today.

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b) For publication (for readers' information)

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Stability vs Freedom - The Evolution of Housing Choices

The image of a standalone family home, a spacious backyard for the kids to play, and a barbecue area for weekend gatherings was once the status symbol of society; an indicator of success and stability for all that held the title (deed).

But, has this dream now been retired to its resting place in the local antique store, alongside the black and white televisions, typewriters, and telephones with cords that once lived inside these homes?

The Great Australian Dream - A Historical Perspective:

The post-war era saw Australia rebuilding and reimagining its future.

Owning a home became more than just a need; it was a symbol. It influenced family dynamics, career trajectories, and even the layout of our cities. Suburbs sprawled, and the housing market boomed, fuelled by this collective aspiration.

The Modern Australian – A New Dream Emerges:

As the world shrunk with globalisation, Australians were exposed to diverse lifestyles. Cities became melting pots of cultures, ideas, and aspirations.

The rise of remote work, the allure of freelancing and the gig economy, and the charm of being a digital nomad (#laptoplifestyle) meant that, for many, being tied to one place became less appealing.

The value shifted from owning a patch of dirt to experiencing all that life and the world has to offer – be it a jazz bar down the lane, a pop-up art exhibit, or the freedom to pack up and travel on a whim.

As a result of this new trend, more and more individuals are now choosing freedom over stability, renting for life over buying a home, or investing over paying off a mortgage.

This shift in mindset is not just a fleeting trend but a conscious lifestyle choice for many. But what drives this decision, and is it the right one for you?

Pros of Renting for Life:

Flexibility and Mobility: One of the most significant advantages of renting is its flexibility. Without being tied down to a mortgage or a specific location, renters can easily move cities, neighbourhoods, or even countries. This mobility is especially beneficial for those whose careers require frequent relocations or those with a wanderlust spirit.

No Maintenance Hassles: Owning a home comes with its fair share of responsibilities, from fixing leaky roofs to mowing lawns. Renters, on the other hand, are often free from these burdens, with maintenance issues typically being the landlord's responsibility.

Financial Flexibility: Without the commitment of a hefty down payment and ongoing mortgage repayments, renters often find they have more disposable income. This can be channelled into investments, travel, or other life experiences.

Cons of Renting for Life:

No Asset Accumulation: One of the most significant drawbacks of renting is the lack of asset accumulation. While homeowners build equity in their property over time, renters do not have this advantage. The money spent on rent does not contribute to an investment that can appreciate over time.

Lack of Stability: Renting can sometimes mean a lack of long-term stability. Leases can end, rents can increase, and there's always the possibility of needing to move on short notice. This becomes particularly relevant in our latter years when our ability and/or desire to be mobile and flexible has likely lessened.
Limited Personalisation: Renters often have restrictions on how much they can personalise or modify their living space. This limitation can be a drawback for those who wish to make a space truly their own.

The decision to rent for life or pursue homeownership is deeply personal. It depends on individual priorities, financial situations, and life goals. While renting offers unparalleled flexibility and freedom, homeownership provides a sense of stability and long-term investment.

Ok, so maybe it's a little soon to be retiring 'The Great Australian Dream' just yet.

While this dream is still alive for many, it's important to recognise that it has competitors - new dreams shaped by modern values, aspirations, and global influences.

Neither is superior; they're simply different paths to the same goal – a life of fulfilment, joy, and contentment.

Active or Index Funds: What's Your Best Bet?

Ever glanced at a list of different managed funds and wondered why some have remarkably low fees compared to others? Chances are, the ones with lower fees are index funds, also known as passive funds.

Over the last couple of decades, index investing has become increasingly popular, with big players like Vanguard and Blackrock managing trillions of dollars in assets (as of 2022).

Before we dive into the reasons and consequences of this trend, let's break down the two main investment styles:

- **Active Investing:**
  - Involves investment managers or private investors analysing securities, forming opinions on their value, and deciding which securities to include in the portfolio.
  - Investors pay fees for the manager's expertise.
- **Index Investing:**
  - Builds a portfolio to mimic an index, like the ASX200 or S&P500.
  - Portfolio holdings mirror the securities and weightings of the relevant index.
  - Changes to the portfolio occur during set intervals or due to events like mergers.

So, why has index investing gained so much ground?

1. **Lower Fees:**
   - Index investments generally have much lower fees compared to active investments.
2. **Performance Challenges:**
   - Active investments struggle to consistently outperform benchmark indexes over the long term.
   - The S&P Index Versus Active scorecard (SPIVA) reveals that a significant percentage of active managers underperform the index, even after factoring in fees.

For instance, at the end of 2022, 58% of Australian General Equity funds returned below the index. Over 5-, 10-, and 15-year horizons, the underperformance proportions were 81%, 78%, and 83%, respectively. Similar trends are observed in international equity markets.

While choosing index funds may seem logical, it's essential to consider their underlying premise. Returns come from income (like dividends) and changes in capital value over time. However, for the latter to happen, there must be market activity—investors trading securities. If everyone exclusively invested in indexes, the market would cease to exist.

Index investing doesn't screen shares, meaning investors get exposure to both 'good' and 'bad' companies. Also, there are no exclusions based on environmental, social, or governance (ESG) criteria, which some investors prioritise.

In the active versus index debate, there's no clear right or wrong. Many investor portfolios combine both approaches. Index funds or ETFs are often used for broad exposure, while active investment may be reserved for specialised exposure, such as smaller companies, property, or infrastructure.

Regardless of your choice—active, index, or a mix—the fundamental principles of investing still apply: diversification and time in the market are key to building long-term wealth.

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The Hidden Gem of Travel - Insurance

Lost luggage, medical emergencies, travel disruptions, theft—these are the unexpected surprises that can accompany travelling.

While they can be difficult enough to manage in the comfort of your own home, they become even more daunting when in a foreign country.

To keep your holiday truly stress-free and enjoyable, consider travel insurance as your secret weapon. It acts as a financial safety net, ensuring you can tackle unexpected situations with confidence and ease.

A survey by Smartraveller.gov.au found one in four people experienced an insurable event on their last trip overseas, with over 300,000 claims for travel insurance lodged in FY2018/19 and nearly 90% of those paid out to travellers. A lifeline to those insured!

Take these examples:

Medical Emergency – Italy

Keith, a regular cyclist at home, was on holiday with his partner and friends in Italy. They spent the day touring the countryside on bikes they had rented when Keith misjudged a corner and fell, resulting in a fractured pelvis. His travel insurance covered his hospital stay in Italy and arranged and paid for repatriation back to Melbourne.

Flight and accommodation cancellation – USA

Katie and her partner had booked and paid for flights and accommodation for a holiday in Maui in August 2023. Deadly wildfires engulfed large parts of the Hawaiian island right when they were due to travel. Their flights were cancelled, and their hotel couldn't accommodate guests during the recovery and clean-up operation. Their travel insurance reimbursed them for these pre-paid costs, allowing them to make alternate holiday plans.

Australians have a reputation for thinking 'she'll be right', and most times when you travel, that will be the case. However, there are a few common misconceptions when it comes to travel insurance:

- **Government assistance:** Consular staff can assist Australian citizens with obtaining local medical treatment, but they won't pay for it, nor can they cover the cost of getting you back to Australia if you need repatriation.

- **Cover through credit cards:** Some credit cards offer travel insurance as an additional service. Often, cover is only in place if you use the card to purchase return flights with a minimum spend. This may mean you're not covered if you use frequent flyer points for your flights. The excess amount can be higher than under individual policies, and cover may not be extended to all destinations. Similar to standalone policies, pre-existing medical conditions may not be covered.

- **Purchase a policy at any time:** You can buy a policy any time before you travel (sometimes even after you've left), but coverage for cancellation is only in place once you've purchased a policy.

- **Crowdfunding will be my 'insurance':** Crowdfunding to cover unexpected costs incurred overseas is not a realistic option. A study by the University of Washington researched over 400,000 medical GoFundMe campaigns over five years. The median amount raised per campaign was just US$2,000, while 16% raised zero, and only 12% met their target. In the case of a severe medical crisis, you would need to rely on others to run the campaign for you, which adds further stress to the situation.

Having cover and simply lodging a claim doesn't guarantee reimbursement success either. Be sure to be aware of your policy exclusions; for example, the activity was explicitly excluded (e.g. skiing), your actions contributing to the event occurring (e.g. being affected by alcohol), or your actions were illegal (e.g. driving without the appropriate licence).

It's essential also to understand your policy excess, if pre-existing medical conditions are included or excluded, and whether an item is still covered if it was unattended when stolen.

Relative to the stress and expense of an overseas trip, the cost of travel insurance could be invaluable!

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