Cuffelinks
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What export boom?

Ashley Owen

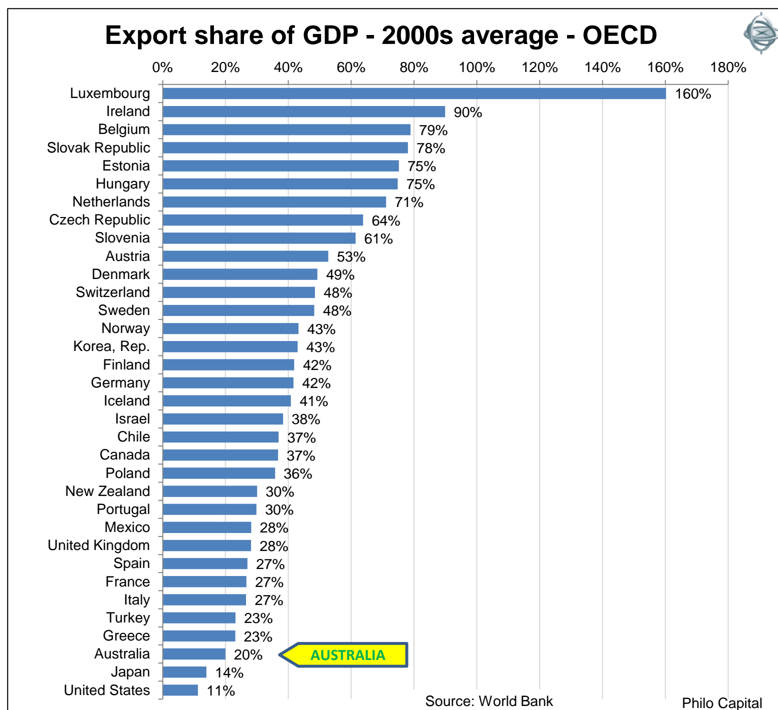
Apparently, Australia has had an 'export boom' over the past decade. But is it (or was it) a boom?

Australians love to talk a lot about exporting but we actually do very little of it compared to nearly every other country in the world.

Australia is one of the smallest exporters in the world, ie one of the least reliant on exports for our national income. Out of the 200 countries in the world only six major countries export LESS than Australia as a share of their national income - Brazil, USA, Japan, Pakistan, Afghanistan and Colombia. There are also a few tiny countries that Australia does manage to beat as an exporter - including Tonga, Ethiopia and Rwanda.

Every other country on the planet exports more than Australia as a share of its national income. And that's during our so-called 'mining export boom' (plus tourism, agriculture and the so-called 'boom' in services exports like education). There a numerous great exporting nations where exports routinely generate more than half of their national incomes from exports - a long list that includes Germany, Denmark, Belgium, Austria, Switzerland, Sweden, Netherlands, Ireland, Korea, Singapore, Malaysia, Thailand and dozens of others.

The first chart shows how the OECD countries rate on the measure of exports as a share of their national incomes, averaged over the years since 2000, which is the period of our so-called China-led export boom.



Even New Zealand beats us as an exporting nation by a big margin, and it doesn't have anything like the abundance of natural resources we have. Even Greece exports more than we do!

The US and Japan have very low reliance on exports as a share of their national incomes. All the currency devaluations they can muster (and they are trying very hard) to boost exports will hardly make a dent on their overall economies because exports play such a minor role to them. Ask any American what America exports and to whom they export, and you will get blank stares. Exports don't matter to Americans.

Ask the average Australian the same question and they will rattle on endlessly about China, iron ore, coal and perhaps even our agricultural exports, as being vitally important to the very survival of Australia's existence as a nation. For some reason, the Australian media have blown the importance of exports to Australia out of all proportion to the point where it has no bearing on reality.

Exports mean even less to Australia's overall economy than in the other non-exporters because our main export industries employ so few people. Digging up rocks and loading them onto the nearest ship, waiting around while other people in other countries make useful things out of them, then buying those useful things back at thousands of per cent mark-up, and paying for them with money borrowed from foreigners because we haven't exported enough to pay for our imports.

That's hardly a long term sustainable plan, but we've been doing it for over 200 years. Not even Australia's proximity to growth markets has helped.

One may say that the great exporting countries like Denmark, Belgium, Netherlands, Hungary, Sweden, Norway, etc should have a natural advantage by being very close to the big export markets of Europe, but there are two great disadvantages with this. The first is that they must compete with the big industrial powerhouses like Germany and Austria which, thanks to the Euro system, have artificially low currencies in their favour. The second disadvantage is that Europe is the slowest growing region on the planet. Around 70% of the exports of European countries go to other European countries, but the whole of Europe is mired in recession and has suffered relatively slow growth for the past decade even before the GFC hit.

In contrast, only 10% of Australia's exports go to Europe but 70% of our exports go to Asia - the fastest growing region with the lowest unemployment levels and greatest demand growth in the

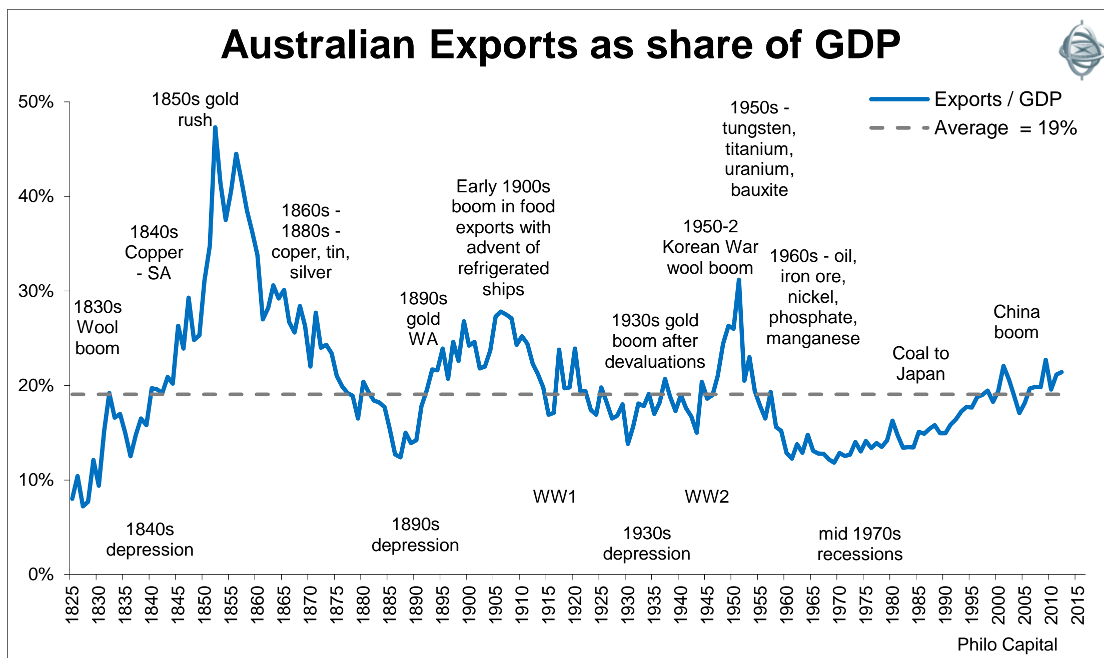
world. More than half of all humans on the planet live in Asia, and they account for 70-80% of the total global growth in demand and wealth.

And we have plenty of stuff Asians want, including billions of tons of rocks they use to make useful things out of, thousands of miles of pristine beaches they love to visit, millions of acres of farmland that produce food they like to eat, and dozens of funny-looking animals they love to photograph. We didn't create or invent any of this stuff - the rocks, beaches, land and animals were all here when we got here. All we did was trip over them.

The so-called 'tyranny of distance' from export markets is only a problem if we export bulky goods like rocks or food. Likewise, tourism and education require people to travel here. Other countries aren't blessed with our rocks, or beaches, or land, or our funny-looking animals, so they have to use their brains instead. In the post-industrial knowledge economy, knowledge and ideas can be transmitted around the world in fractions of a second and so physical distance from markets is irrelevant for real high value, high tech exporters.

The reality is that Australia has never been a great exporter any time in its history. Even in the 1850s gold rush, exports did not reach 50% of GDP (which dozens of countries exceed and have done for many years). Australia's exports have only ever been near 30% of GDP a couple of times, and only for very brief periods.

The following chart shows Australia's exports as a share of GDP since 1825 and indicates all of our export booms.



The so-called China export boom just lifted exports as a share of national income back to its (very low) long term average following the great export slump of the 1970s and 1980s. In fact the only times in our history when we were less reliant on exports than we are today was in the 1840s depression, the 1890s depression, the 1930s depression and the 1970s recessions.

Of course, a country doesn't need to export at all. Its citizens can quite happily make and consume their own goods internally, as hunting and gathering societies did thousands of years ago. However, if we want to buy imports from other countries we need foreign exchange and we can only get foreign exchange by exporting.

Everything we do every day relies heavily on imports. From the sheets on our beds when we get up in the morning, the clothes we wear, the furniture we sit on, the electronic gadgets we communicate with, the household appliances we use, the books we read, the TVs we watch, the cars we drive, and much of the food we eat. In fact most of what we see around us in our offices or

our homes is imported or relies on imported machinery to produce. Just about the only thing we don't import is the water we drink and the air we breathe.

We are addicted to imports and we have always had a chronic current account deficit problem. (The current account is essentially revenue from exports minus the cost of imports and net interest paid on foreign debt). We haven't had a current account surplus since 1973, and before that one-off freak year, back in the Korean War boom in the early 1950s.

The problem for investors is that every couple of decades or so we have a mining 'boom' and for a short while mining companies dominate the stock markets. But the booms soon fade when supply catches up to and over-takes demand, substitutes are found, and prices fall. The excitement goes into hibernation for a couple of decades until the next 'boom'.

Australia does have some world class companies that don't rely on rocks but actually use their brains to compete and win on the world stage (such as CSL, News Corp, Orica, Amcor, Computershare, ALS, Ansell, Ainsworth). These companies are very few and far between and because they are so rare they tend to be over-priced much of the time. But every so often their share prices fall to a point at which they become great value to buy.

Our local stock market is still littered with big, cosseted oligopolies that dominate virtually every domestic market segment - including banking, insurance, retailing, food, telecoms, gambling, gas, electricity, transport, airlines, and just about every other domestic industry in which listed companies operate. They are protected from real competition by the same 'tyranny of distance' and 'high dollar' they complain about.

Let us hope that our companies stop their endless bleating about the dollar and the distance and get on with competing and winning in the knowledge economy where there are no barriers or distances or other excuses for a lack of vision.

Ashley Owen is Joint CEO at Philo Capital Advisers.

Term deposit investors did not understand the risk

Warren Bird

Investors in term deposits (TDs) have taken a significant risk!

As interest rates have fallen, TD rates have declined sharply as well. Therefore, people who expected TDs to give them a reliable income stream are facing a challenging time. How has this come about? What lessons can be learned about risk management from this experience?

Relatively few investors have the comfort of holding TDs that will continue to earn 5.5 – 6.0% for a few more years. This rate or better could have been locked in until around 2016 by investing in 5 year deposits. In fact, Westpac was still offering 8% for 5 years in 2010, a deposit that does not mature until 2015. However, over 90% of all TDs have been taken out for no longer than 12 months. The rates being earned by most investors have fallen nearer to 4% or less.

This presents investors with a significant decision. Do they keep rolling into new six month rates and accept the sharp drop in income? Do they move into a longer maturity, where rates of 4.5% or more are still on offer? Or do they shift into higher risk, but potentially higher returning, assets?

In effect, the majority of investors who have moved into TDs have created portfolios that have short duration. In fact, they have been positioned very short. The duration of the average TD

holding seems to be around 0.5 year. That is at least 4 years shorter than the typical managed bond fund, and a similar amount shorter than a 5 year maturity TD would have been.

Some readers might not be familiar with the term 'duration', and it's not a word often used in relation to TDs. Readers who have heard the term probably understand that it has something to do with bond price volatility. But since the value of a TD doesn't fluctuate, how can an investor be said to have taken a duration position by holding TDs in their portfolio? And what does it have to do with reinvestment risk?

Yes, it's true that duration is a measure of how much a bond's price changes when its market yield changes. As market yields change, long duration bond prices fluctuate more than short duration bond prices. But duration is also relevant to one of the most important drivers of the longer term returns that a fixed interest and/or TD portfolio will deliver. The key is to understand why the word used for 'bond price sensitivity' is one that also means 'length of time'.

The link is as follows. Both bonds and TDs are a series of cash flows: regular interest payments and a maturity payment. The term to maturity is very important, but it isn't the full story. At its heart, duration is a measure of the weighted average time for the payment of all the asset's cash flows, not just the last one at the final maturity date. A bond or TD maturing in X years' time has a duration that is less than X because the regular cash flows that are paid before the final maturity date are taken into account.

Therefore, an investor who owns a short duration asset, whether it's called a bond or a TD, receives all the cash flows from that security more quickly than if they owned a long duration asset. This exposes them to more significant reinvestment risk. They have to deal with the fact that their investment has become cash sooner than if they'd taken a longer position.

This risk cuts both ways, of course. If someone invests in a longer term bond/TD, then yields in the market fall, they are 'happy'. They have locked in a higher rate than is now available. They don't have to reinvest at those lower rates for a longer period of time than if they'd only made a short term investment. On the other hand, if after they invest the market makes higher yielding options available, they are 'sad'. They won't be able to take advantage of the higher rates until much later, missing the extra income along the way.

Some investors have intentionally positioned themselves short over the past few years. They chose to have cash available around now as they expected rates would be higher. In their case they have, as it turned out, made a wrong call on the economy and interest rates. They will be disappointed, but it was intentional on their part to take the risk.

However, I suspect that many investors were unaware of this issue. They may have thought that by owning short term TDs instead of equities their income was protected from future fluctuations. In reality they were actually exposed to significant risk.

When rates fall, short duration strategies result in lower total returns than longer term positions. This shows up quickly in a bond fund by its return being below its index or a competitor's longer duration portfolio. But it also shows up in the fact that cash flows have to be reinvested at lower rates sooner and the total return in the medium term ends up quite a bit lower.

'Duration' is one of the jargon terms used by fixed interest managers and it may be tempting to regard the word as just technical mumbo-jumbo best left to the experts.

However, the conundrum now being faced by TD investors highlights that the meaning behind these words is important for all investors to understand. The duration of your income portfolio is a significant driver of your longer term investment outcomes, whether you are in a bond fund, own direct fixed interest securities or hold TDs.

While duration creates capital price volatility in assets that are marked to market, it also drives the length of time for which current interest rates will be paid. If the goal of an investor is simply to avoid capital volatility, then short bonds or TDs are ideal. But if the investor's income needs are paramount, then the real question to ask is whether you have locked in a decent rate for long enough. How soon will you be faced with the reinvestment decision?

Whether you invest in bonds or TDs, being intentional about the duration of your portfolio is more likely to deliver investment outcomes that meet your objectives than ignoring it.

Technical note

The link between this way of thinking about duration and the more common reference to bond volatility is that, when bond prices change, it is essentially the market's way of measuring the quantum of 'happiness' and 'sadness' from changing market yields that I mentioned in the article. An example should clarify what I mean.

If you invest $10,000 in a five year bond (or TD) paying 4% annually you will be paid $400 a year interest. This is $2,000 in total over the five years. The duration of this asset is 4.45.

Yields then fall in the market to 3%. Your investment is now earning $100 a year more in interest payments than someone entering the market at the lower rate. In nominal terms, that's a total of $500 of 'excess' interest earnings over the life of the investment. When each of the $100 amounts is valued using 3% as the discount rate, this works out at $458. This is the amount by which the value of your asset increases, a capital gain of 4.6% of the $10,000 outlay that you made.

What about a rise in yields? If after you've locked in 4% the market moves to 5%, you will earn $100 a year less than a new investor is able to do. Your bond is revalued downwards by the NPV of those amounts, or $433 – a capital loss of 4.3%.

In neither case have you really 'made' or 'lost' money. At maturity your bond or TD will still repay the $10,000 in capital that you paid for it. The mark-to-market is simply measuring your good fortune or bad luck in regard to the interest payments you are receiving compared with what's subsequently available.

If you invested only for one year, the price changes will be much smaller than these. This is because either the extra interest or the shortfall that you've locked in is only for that shorter time period and is thus a smaller amount.

The point of all this is that the reason duration is relevant to bond price volatility is because when you value the interest income you are earning compared with current market rates, the time period over which you are earning that income is a major factor in the valuation. If you invest at a high interest rate, but only for a short time period, then you will only earn that rate for a short time period. The value of your investment won't fluctuate much, but you will have to reinvest your cash flows relatively quickly. You are thus exposed to market fluctuations and over the longer term your investment outcome will be affected.

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What does the new charity regulator mean for trustees?

David Ward

After almost two decades of reports and debate, a new regulator of Australian charities, the Australian Charities and Not for Profit Commission (ACNC), began operating late last year. If you are a director of a not-for-profit organisation, this change will have an impact on you. Similarly, trustees or directors of trustee companies for foundations will also be affected, so the potential impact is widespread.

The ACNC has been established as the dedicated charity sector regulator. The previous regime had different regulators (some state and some federal) for specific segments of the sector with the ATO being the de facto regulator and doing most of the heavy lifting on the critical matters around tax exemptions. There were both significant gaps and widespread duplication. The ACNC as a sector focused organisation brings together at least Commonwealth supervision with the purpose of maintaining and enhancing public trust in the sector, providing support and reducing red tape. The hope is that state apparatus will be now be unwound to remove the remaining duplication, and South Australia has already started that process.

This is important for foundation trustees because charitable trusts come within the ACNC's jurisdiction for supervision and reporting and, as importantly, so do the many charities that trustees work with to implement their programmes.

Charitable trust and foundations

While it is often observed that the philanthropic sector in Australia is less developed than in the US in particular, there are over 6,000 charitable funds with income tax exemption. Australia's 60,000 charities depend much more on government contracts for service provision and individual donor support for funding than they do grants from philanthropic foundations. But foundations are often the critical gap funders of the difficult, new and sometimes politically marginal projects. This mean foundations' importance is greater than their simple dollar value.

Furthermore, there is a long history of foundations in Australia tracing back to the Wyatt Benevolent Fund origins in South Australia in the 1880s. There are also clear cases of significant impact including the National Gallery of Victoria's world class collection that owes much to the 1904 Felton Bequest and the Miller homes in many Victorian country towns providing accommodation for poor pensioners for almost 100 years.

For trustees of private charitable trusts and testamentary charitable foundations arising from wills, the ACNC has become the first effective regulator. This means for most charitable trusts, explicit governance standards, information returns, and financial reporting for larger trusts (with income over $250,000 pa), are commencing. Some did argue that this is additional red tape, but the more balanced view is that trusts that receive significant public support through tax exemptions should at least report. There are trusts claiming in excess of $1 million in franking credit refunds that until now have not been required to produce audited financial statements, let alone report to anyone.

While exemptions from probate or estate taxes up until the late 1970s encouraged philanthropy, growth in the philanthropic sector today is driven by tax-effective Public Ancillary Funds (introduced in 1963) and Private Ancillary Funds (introduced in 2000 as Prescribed Private Funds). More than 1000 wealthy families and individuals have now structured their giving through a Private Ancillary Fund. Community foundations, wealth advisers and others are now widening the scope and reach of Public Ancillary Funds through the use of subfunds to open options for structured philanthropy to more people. Both structures allow individuals and families to get actively involved in their community through increased philanthropy and offer tax deductible donations. Ancillary Fund trustees are used to reporting to the ATO under their respective guidelines, so the new

regime brings little substantive change. Most Private Ancillary Funds and Public Ancillary Funds are already under ACNC supervision with the remainder (those having opted to become an Income Tax Exempt Fund) likely to transition under the Statutory Definition of Charity Bill. At this stage, the Annual Ancillary Fund Return is still required to be lodged with the ATO. To underpin continued growth the Government acted in May this year on its commitment to allow those individuals who have established Private Ancillary Funds but want to keep their giving private to do so as long as they continue to adhere to the compliance and reporting requirements.

Wider charitable sector supervision

All foundations, irrespective of their legal structure, implement their charitable purpose through grant-making to charities that actually run the programmes in the Australia or overseas. So in terms of foundations' grant-making programme, the ACNC will regulate governance and reporting aspects of those charities and will make more readily available sector and organisation specific information. This is welcome and will facilitate cost effective and non disruptive due diligence by all foundations as part of their grant-making processes. Hopefully the ACNC itself or others will develop smart apps to enable ready access to and analysis of the public access component of ACNC database.

The ACNC legislation has been generally welcomed by the sector. The Coalition opposed the legislation on the basis the sector did not need more regulation and has indicated it will scale back the ACNC's regulatory powers should it win the September election.

But perhaps the greatest opportunity for the sector is in the ACNC mandate to reduce red tape for charities to allow them to focus resources on implementing effective programmes and not administration and filling in forms. Progress on removing the varying state requirements, which are a serious administrative burden particularly for national charities, will be a critical 'success' benchmark. This will require state and federal co-operation with all the politics that involves. One would hope that with all state governments focused on deficit reductions, maybe the opportunity to utilise the one federal regulator will become compelling.

So the ACNC has some challenges, but for the first time the sector has a dedicated regulator.

David Ward is Technical Director at Australian Philanthropic Services.

The characteristics of Australian retirees

Russell Investments

We have recently completed research which captures specific retiree attitudes and issues in the Australian marketplace. A key conclusion from this research is the difference between individual attitudes during the accumulation phase compared to retirement.

Members are invested generically in the accumulation phase, often in a default fund, and receive broadly equivalent service and returns. On the contrary, member attitudes immediately leading up to and post retirement become far more related to their unique circumstances: their superannuation account balance, contribution rate, planned retirement age, outstanding mortgage(s), number of children, current and desired lifestyle, level of assets invested outside of superannuation and many other individual circumstances.

Insights and learning from this Russell research include the following:

1) PEOPLE DO NOT DISSOCIATE THEIR FINANCES FROM THE OTHER ASPECTS OF GROWING OLDER, AND BENEATH THE EXCITEMENT OF RETIREMENT, THERE IS ANXIETY

The word 'retirement' conjures up a lot of different emotions in people and everyone is unique, but there are sufficient themes to make some general comments. As consumers, pre-retirees can visualise pleasant images, and existing retirees can ably point out things they like about not working - but by and large most individuals are scared about aspects of the future.

2) MANY CONSUMERS ARE OVERWHELMED BY UNCERTAINTIES, WHICH PREVENT THEM FROM TAKING ACTION

The majority of higher socio-economic consumers have a higher confidence level in their ability to face retirement and can see themselves taking actions that may help their situation. In contrast, many lower socio-economic consumers are so overwhelmed by the prospect of being responsible for their own retirement they fall into a state of utter inaction.

3) CONSUMERS IN ALL SOCIO-ECONOMIC GROUPS WELCOME HELP FROM THEIR FUND

Proactive contact from the fund can be a polarising issue - people either hate it or love it. However, the one area where proactive contact is always welcome is around *preparing for retirement*.

4) MARKET RISK IS STILL MORE IMPORTANT TO CONSUMERS THAN LONGEVITY RISK

Consumers are not really absorbing the gravity of statistics like, 'one in every three men retiring at age 65 will live into their nineties' (source: ABS). Within financial services, we know the risk of people outliving their money is a very real threat to their financial security (and hence the economic prosperity of the nation). But consumers are a way-off catching onto this notion. They struggle to imagine living beyond age 75, let alone into their 80s or 90s.

They are, however, consumed by the risk of market downturns. Market risk is very real to them because they have experienced it, sometimes multiple times. Because longevity risk can only be experienced by actually outliving one's savings, and they haven't lived through that experience yet, they downplay its threat. Many expect to run out of money due to market downturns long before they reach anything resembling a 'life expectancy'.

5) TURNING 50 IS A WATERSHED MOMENT FOR CONSUMERS

It seems that age 50 is somewhat of a reality check age for most people. For whatever reason, people attach special significance to this birthday. People reported feeling a jolt to the senses around their financial affairs, as well as their health and mortality. People at this age are often taking stock of their lives, wondering if they're doing enough to ensure financial security and how long they might be able to keep working at the pace they are accustomed to.

6) CONSUMERS HATE THE NOTION OF LOCKING THEIR MONEY UP

It is well-documented in the existing literature, and confirmed by Russell's Australian research, that consumers are resistant to the idea of handing over a lump sum of money, even if it means greater certainty in the long run. The removal a few years ago of preferential Centrelink testing for 'locked up' products only served to compound this. The only way people could foresee having any kind of risk protection in place was to pay for it bit-by-bit over time. That way, if anything changed, they hadn't committed a big chunk of cash (or didn't *perceive* to have committed a big chunk).

7) HIGHER SOCIO-ECONOMIC CONSUMERS WANT HELP FROM THEIR ADVISER AND SEE THEM AS PARTNERS AND SOUNDING BOARDS, WHILE LOWER SOCIOECONOMIC CONSUMERS ARE MORE OPEN TO RECEIVING EXPLICITLY DIRECTIVE INSTRUCTIONS

People who have a relationship with an adviser find it easier to see how the adviser adds value and are keen to chat with them, but still see the ultimate decision resting with them. They see their adviser as a guide, someone to toss ideas about with, but not the one in control of what to do in a crisis. Conversely, the bulk of the population does not have an adviser and seems to want help from their fund.

8) CONSUMERS ARE CONTENT/HUNGRY FOR THEIR FUND TO BE A ONE-STOP SHOP OF SERVICES AND SOLUTIONS

Consumers acknowledge that help and advice on financial matters can come from a variety of sources, including advisers, accountants and super funds. However, consumers do not readily detach their thoughts about privately saved finances from the other aspects of ageing, such as health, aged care, adjusting to a new lifestyle, and interacting with social security agencies. In this respect, they do not view advisers and accountants as viable sources of help. However, they very much like the idea of a one-stop shop for help around a broad range of retirement and lifestyle issues. They are quite content for this role to be played by their super fund.

9) PLAIN ENGLISH AND TRANSPARENCY ARE CRITICAL FOR TRUST AND LOYALTY

There has been progress in the last two decades around getting people to understand the importance of super, but the details are still overwhelming and confusing for the bulk of consumers. They are still looking for a provider to speak to them in the same fashion they speak to one another - in ordinary language without too many 'funny' terms and acronyms.

Transparency is about making it easy for people to see what they're getting for their money. Where fees are bundled, it needs to be clear to people what collection of services or features they are getting for the price. They don't expect to get something for nothing, but will sometimes want the option of opting into extra services and features (or opting out of them) to suit what they hold most important. They want choices so they can feel comfortable with what they're getting.

10) FEAR OF LOSING MONEY IS A MORE POWERFUL EMOTION TO CONSUMERS THAN THE APPETITE FOR GROWTH

Consumers are far more interested in protecting their capital than pursuing the thrill of market rallies. The level of emotion they feel from a 10% positive return does not correlate with the fear of losing 10%. They feel the loss a great deal more.

11) FEES REMAIN AN AREA OF SCRUTINY

Consumers and advisers alike both proactively reference fees without prompting when speaking about products and services. Both are very conscious of fees when assessing potential offerings. Advisers speak of the relatively high cost of annuities, referencing how fee conscious their clients are. Even consumers, scared of market losses, are not willing to pay *anything* to avoid such uncertainty. They indicate a willingness to pay a little extra for products that could protect them from account balance losses or income fluctuations, but not a great deal more.

12) CONSUMERS ARE MORE LIKELY TO WANT TO PAY A ONE-OFF FEE FOR *SERVICES*, BUT LOATHE LUMP SUM PAYMENTS FOR *PRODUCT*-RELATED FEATURES

For services such as advice or special training courses, consumers are comfortable paying a one-off, non-repeatable fee. They don't like the idea of inbuilt or bundled fees for services they may or may not use, and they are not comfortable with paying ongoing fees, particularly when it comes to advice, which they do not view as something they received on an ongoing basis but rather at a moment in time. However, when it comes to product features such as longevity or capital insurance, they are strongly opposed to paying a one-off fee. They are open to opting into (or even opting out of) such features if they could pay 'along the way', something like $1 a week.

13) AGED CARE IS AN AREA CONSUMERS BELIEVE IS LACKING INFORMATION AND HELP, AND IS MORE MYSTERIOUS TO THEM THAN SUPERANNUATION

Consumers' thoughts about ageing are inextricably linked to aspects not directly related to super savings. They are wondering:

- how long they and their partner can keep working
- whether they'll need to put elderly parents in appropriate aged care accommodation
- whether lumpy health care costs will catch them by surprise in future years
- whether they'll feel bored or isolated in retirement
- if they're entitled to social security; and
- if they'll be able to undertake all their wish-list activities, such as travel and self-development.

Aged care in particular presents a great mystery to people. They do not understand the difference between nursing homes and retirement villages, options and restrictions around paying for placements in such accommodation, and whether medical care, if required, is available either at their current home or at one of these specially created facilities.

Consumers find the issue of accommodation for seniors bewildering. They are looking for someone to provide them with a one-stop-shop of information on all things ageing related. The issue of aged care resonated highly with consumers. They are quite open to their super fund playing the role of specialist around all things ageing-related.

14) PRE-RETIREES AND EARLY RETIREES ARE MORE CONCERNED WITH CAPITAL PROTECTION THAN INCOME PROTECTION

Consumers in the 'retirement risk zone' are instinctively more concerned with protecting their capital than guaranteeing their income payments. (The retirement risk zone is the years leading up to retirement and immediately following retirement, where market losses are most deeply felt and difficult to recover from). Consumers that have been retired for some time (in our research over 10 years) begin to turn their attention to steadiness of income payments, and become more acutely aware of the need for regular income. However for those who have recently retired or are preparing to retire, *it is all about the capital.*

15) THERE IS A NEW TREND AWAY FROM FINANCIAL BEQUESTS TO CHILDREN

The generation above Baby Boomers may still be working toward financial bequests to their adult children, but Boomers do not appear to be leaning this way at all. The Boomers have been spared depressions and world war, but they worked hard for what they have and want to enjoy it. They see retirement as their time to spend and enjoy. They see the legacy they can pass their children is the *house.* Boomers acknowledge that property ownership is harder to get a foothold for their children and want to see the real estate pass to their offspring, but they are not picturing leftover pension savings to be passed on.

16) CONSUMERS GRIMACE AT THE THOUGHT OF LIVING OFF THE AGE PENSION, BUT MANY ARE FACTORING IT INTO THEIR THINKING NONETHELESS

Consumers are in agreement that the Government Age Pension will not provide them the retirement lifestyle they are seeking, and indeed some are even cynical that it will exist much longer! All are in agreement social security is not being planned for and that 'if you're not self-sufficient, you're going to be in trouble'. When asked if they would like help working out if they were eligible for a part pension, or any other social security entitlements, they are vigorously in agreement that it is a need and want.

17) LOVE AFFAIR WITH BRICKS AND MORTAR SOLID AS EVER

Regardless, of whether the mathematics of direct real estate investing stacks up over time against super's concessionally-taxed environment. There's no denying that Australians still have an ongoing love affair with property. Consumers in all socio-economic groups refer to the attractiveness of property. They make direct comparison between investing in super and investing in property.

18) THERE IS NO ONE-SIZE-FITS-ALL SOLUTION

We can make some general comments about the mood in the marketplace and statements that we believe largely represent segments of the customer base. However it is also clear that the issue of retirement funding is not clear-cut and cannot truly be solved by a single product or service. Consumers' value flexibility and choice, and advisers then by necessity need access to a range of solutions in order to cater to the preferences of those consumers.

This research is an extract from a longer paper by Russell Research titled, 'Retirement Solutions 1: Gaps in the state of the art." Reproduced with permission of Russell Investments.

Work life balance is about planning your priorities

Scott Fitzpatrick

I love the Billabong marketing line, "Life's better in board shorts."

Financial planning should not be just about the numbers. A good financial plan is an enabler to a life plan, and good financial planners help their clients achieve a fulfilling balance in their lives.

A healthy work life balance doesn't just happen, it's something you have to plan. Work life balance is actually a misnomer. Work for most of us is part of life and not a separate item. Life balance is a more accurate description of how we use our time and more specifically, spending too much time at work.

So what is life balance, and how does it relate to work?

A good life balance is about setting priorities. Some people love work, it energises them, it adds meaning to their life. Others won't work, have no work ethic and still expect financial rewards.

I have spent a lot of time giving financial and personal advice to high net worth individuals and families, and I've seen a lot of successful career people who work hard for their families. But in many cases, their families never see them. It becomes a vicious cycle. Overworking often becomes detrimental to their physical health, mental health, relationships and ultimately the business.

This is not a good life balance. It's usually a personal choice but influenced by other factors, such as personal values, peer group pressure, expectations, finances, ego, fear, greed. Another major factor is guilt. Guilt seems to be a big issue for modern executives, both men and women, to deal with. They often feel they should be at work, demonstrating corporate commitment and providing for the family, rather than spending time on their own well-being. They leave themselves last, and they don't include 'self time' in their day. Adding to the problem, they don't include enough 'family time'.

I'm in the camp where my work has to be meaningful, but it is only part of my life. Each of us has only 168 hours in the week, and we need to decide where we want to spend that time. One way to look at it is to take out work and sleep and see what's left. I prefer to think the other way round and create an ideal week.

I like to use Stephen Covey's concept of 'Big Rocks', placing the major priorities in your life or week first. He calls it 'first things first', but it's not as simple as it sounds. Often, we leave the major priorities to any leftover time.

My Big Rocks consist of:

- Exercise and surfing time. Leave this until last and it rarely happens. Do it first thing and feel energised for the day. You will work better and be a happier person and show up positive for the family. It's very hard to do at the end of the day, as you're mentally tired, the kids expect your time and you start on homework or dinner. There's less chance at the end of the day.

- Kid's time. Try to plan the time, since many working executives spend only 10 minutes per week one on one with their children. My kids are now 18, 16, 14, and 12 and I can't believe how fast the time has gone, and I'm always glad I made time with them.

- Spouse or partner time. A Friday lunch time date to catch up on the week and life is wonderful, and for those who say they don't have the time, just schedule it and make it happen.

- Work time. In order to make this time as efficient as possible, here are a few tips:

- ✓ cut out all the time wasters or time takers
- ✓ be vigilant with your diary time
- ✓ do a To Do list for the next day each afternoon or evening before you leave work
- ✓ include a Not To Do list
- ✓ turn off emails at home, that's time for one of your other Big Rocks
- ✓ delegate where possible and don't be a control freak, it steals your time.

For our business owner clients, we challenge them to work toward a 4 day 40 hour week programme. It's an initial challenge to get people to visualise this when they are always so busy, and feel guilty if they are not working. It needs a change in thought process.

I have Fridays off, and it's an important day for me and for the business. It's my thinking day, where I revitalise and get some headspace back. I have an opportunity to think clearly about future activities, plan events and take a back seat view of how life's traveling.

An important part of financial planning for everyone is how much is enough? If you have worked this out and your plans are on track, this may allow you to spend a little less time at work, and rebalance your time. You should have life goals as well as financial goals, but it requires making choices and exercising a little discipline.

Here as some well-known quotations that resonate with me with regard to life balance that I think about when making choices about the usage of my time.

You can't take it with you

Kids don't want your dimes, they want your time

On your tombstone it won't read, 'Great guy, spent a lot of time at the office'

No point having wealth without health

Give more than you take.

It doesn't always work out 100% for me on the life balance every week but it's a habit worth fostering, a choice based on the Big Rocks. Sit down with your partner and work out your ideal week. At first, you might feel guilty about not working so hard, but you'll get over it.

Scott Fitzpatrick founded Fitzpatricks Private Wealth in 1987 and is now a Non Executive Director of the Fitzpatricks Group.

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