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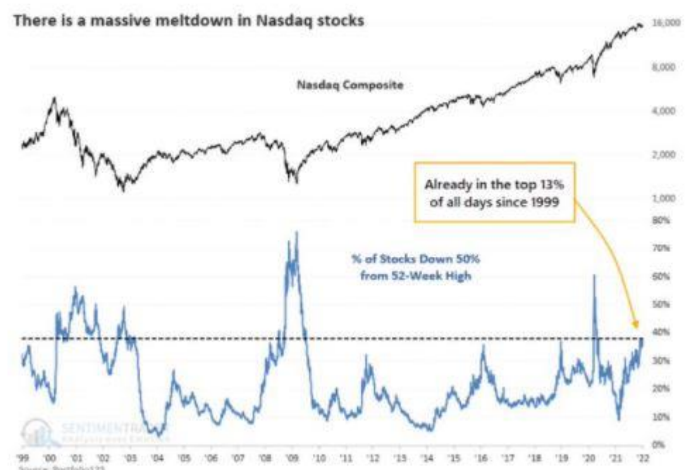
Editorial

Every person is predisposed towards some combination of gullible and sceptical across many aspects of their lives. We might be sceptical about information we read on social media but gullible in accepting opinions in a favourite newspaper. In investing, one person may think 'it's too good to be true' while another sees a great opportunity. Scientist and author, Carl Sagan, wrote in an essay called 'The Burden of Skepticism' (yes, English versus US spelling):

"It seems to me what is called for is an exquisite balance between two conflicting needs: the most skeptical scrutiny of all hypotheses that are served up to us and at the same time a great openness to new ideas. If you are only skeptical, then no new ideas make it through to you. You never learn anything new. You become a crotchety old person convinced that nonsense is ruling the world. (There is, of course, much data to support you.)

On the other hand, if you are open to the point of gullibility and have not an ounce of skeptical sense in you, then you cannot distinguish useful ideas from the worthless ones. If all ideas have equal validity then you are lost, because then, it seems to me, no ideas have any validity at all."

My summer reading about the psychology of persuasion and influence showed how clever sales techniques take advantage of our gullibility. We might be surprised that the techniques work but we can't resist them. This week, supported by comments from leading journalists **Ross Gittins** and **Geoff Kitney** that we need *"traditional hard-bitten, no-bullshit Australian scepticism"*, we explore our gullibility and hope it's not quite as bad as in the US. We can't even agree how to spell 'sceptical'!



Which is a good segue to what's happening in the sell off of technology stocks, where many dreams of unlimited growth backed by a good story are souring (for the moment, at least). Disguised by the success of a few big stocks in the US, according to **Bloomberg**, 40% of stocks on the NASDAQ are down 50%+ from their 52-week high, as shown.

The most spectacular rise and fall in tech funds is **Cathie Wood**'s ARK Innovation ETF. It generated inflows of over US$15 billion and in 2020, gained a stellar 150% by investing in disruptors such as **Tesla, Zoom and Roku**. But senior executives in the

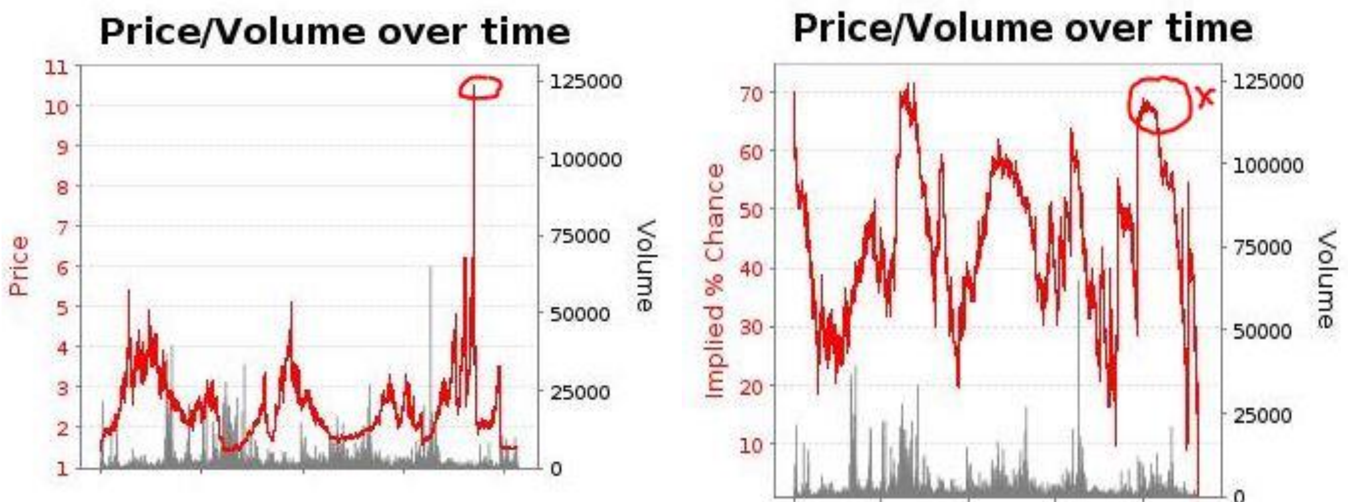
companies held by the fund in the six months to 31 December 2021 sold US$3.5 billion of stocks (excluding **Elon Musk** selling US$10.7 billion) and bought only US$11 million. That's not only a lot of wealthy executives riding the tech boom but suggests they have little conviction in the future of their own share prices. The ARK fund has lost 50% of its value since its peak in February 2021.

These tech losses are not quite as bad in Australia but there's plenty of blood on the streets. According to the Morningstar Australia Tech Index, eight of the 22 stocks in the index are more than 40% off their 52-week high, with **Afterpay** over 50% off its high.

(As a reminder not to make too much of short-term movements, the NASDAQ tech index was off 2.7% at one stage on Monday but ended the day flat, then rose 1.4% Tuesday. That 4.1% turnaround represents billions of dollars and turned talk of a 'sell off' into 'buy the dip'. Only history will tell the full story).

We deep dive into the Morningstar database to show market performance to the end of 2021 across a wide range of assets and time periods, including the risk and drawdowns tolerated to generate those returns. Which asset class wins over the long term?

One part of Australia's culture that Americans have not supplanted is the love of cricket, and this summer has been dominated by the Ashes. I must admit, I find watching the live betting as entertaining as the cricket itself. One online bookie, **Betfair**, matched $75 million of bets on this single category of bet - the outcome of the fourth Ashes test - and it's remarkable how volatile the prices are. For example, at one stage on day 5, as **Ben Stokes** and **Johnny Bairstow** delivered a rearguard recovery, the price for an Australian victory rose to over $10 (for a $1 investment), as shown below. The instant Stokes was dismissed, the market fell to around $2. If this looks like an inefficient market, there's lots of money to be made backing your judgement. Betfair also translates the odds into an implied % chance of victory, with the 'x' showing after the Stokes dismissal.



A great diversity of subjects as we motor into 2022 ...

Brendan Ryan presents his Retiree Checklist of 25 items anyone in or heading for retirement should know. With a bit of effort contacting service providers, significant savings are available for eligible people.

And judging by the global research conducted by **MFS International** and reported on by **Marian Poirier**, Australians could do with a little help because they feel less confident about retirement than peers in other countries.

Then **Di Johnson** attacks the problem of whether it is better to pay off a mortgage or put more into super. Ultimately, you should be guided by your long-term plans and expected relative returns, but at least in the short term, you know how much you save in interest costs by paying off your mortgage, and you don't know your future super returns.

Warren Buffett's mate, **Charlie Munger**, reached the age of 98 at the turn of the year, and he is one of the few investors who does not care if he offends anyone with his forthright views. He's not the type of person anyone wants to confront. We have extracted some classic Mungerisms from a recent compilation video.

And **Rob Prugue** takes a swipe at the preoccupation of investors, and now regulators with their 'heat maps', on fund manager past performance, saying it's likely to be a poor guide to investment timing given the potential for mean reversion.

One thing we know for sure about the coming months of 2022 is that every government decision will be made with one eye on the election, now likely in May. Later, budget repair and addressing $1.2 trillion of debt will come into focus. An example is the third stage of the planned cuts to personal tax rates due from 2024-25. They will only benefit a minority of wealthier taxpayers with an income over $120,000, many of which have experienced a wonderful rise in their wealth in 2021, but the tax cuts come with an annual cost of $17 billion. Surely, the current COVID crisis has confirmed we need to invest more in essential services such as the health system.

This week's White Paper from **Martin Currie**, part of the **Franklin Templeton** group, looks at the prospects for 2022 for equity markets. Spoiler alert: they are optimistic overall.

Many thanks for the emails, comments and tweets to mark the start of our 10th year, and as these say, it's hard to believe it's been a decade.

HLB Mann Judd Wealth @HLBMJ_Wealth · Jan 6
It hardly seems like a decade - WOW and congrats @FirstlinksAus @GrahamHand1 @MstarAus + gr8 holiday reading/start to 2022:

Stephen Huppert
@stephenhuppert
Congratulations to all at @FirstlinksAus on entering your 10th year of publication.
bit.ly/3qRw9fD

Gullible travels, or are Aussies more sceptical?

Graham Hand

My summer reading included the joy of escapism fiction in a classic Frederick Forsyth thriller and a fascinating autobiography by playwright Neil Simon. Non-fiction included Robert Cialdini's *Influence: The Power of Persuasion.* It is essential reading for anyone in sales or marketing, describing the psychological processes people go through when they decide to buy something, and how businesses exploit these behaviours.

Although it's easy to see your own gullibility in the hundreds of examples, conned into buying stuff you don't need or really want, in some sections, the human behaviour seems irrational. Of course, what I consider rational someone else will consider ridiculous, but the book left me wondering if the sales techniques are more likely to work in the United States (where all the testing and sampling was done) rather than Australia.

Has Australia become too 'American'?

Over the holiday season, two of our leading journalists analysed the troubling transition of Australian culture and markets into more of an American way of life.

Ross Gittins writing in a *The Sydney Morning Herald* article called '*This isn't America so please stop acting like a Yank*', said:

"If there's one thing that annoyed me about 2021, it's the way people have been aping all things American. Our financial markets copped a bad dose of it, the media got carried away, we looked to the Yanks – the smart ones and the crazies - to know what we should think and do about the coronavirus, and many on the 'Right' of politics took their lead from Trump's Republicans.

One on one, I like the Americans I know. But put them together as a nation, and they seem to have lost the plot. We've long imagined the US to be the wellspring of everything new and better, but these days it seems to be racing headlong towards dystopia."

It's an irony that Americans we know personally are easy to like, and many of the most amazing global companies founded by Americans, and yet:

"They have loads of the super-smart, but even more of the really dumb."

Then Geoff Kitney of *The Australian Financial Review* wrote:

"Pentecostalism is an American import, based on a strange mix of faith in two Gods – the Christian God and the God of Free Markets ... Capitalism and Christ! How does that work?

This might suit fundamentalist America but, I would have thought, would repel traditional hard-bitten, no-bullshit Australian scepticism.

But I might be wrong. Maybe the decades of brain-washing of too much US culture via commercial TV and Murdoch media has changed us."

Gittins and Kitney are asking the same question that the Cialdini book prompted in my mind. Have we become so dominated by American culture, entertainment and politics that Australia has changed, and to use Kitney's words, we have lost our '*traditional hard-bitten, no-bullshit scepticism*"?

Testing some of Cialdini's techniques

There is much to admire in the Cialdini book, and no doubt many of the techniques work on most of us. Here, I'm more interested in exploring a few examples of the sales techniques that made me cringe.

1. Similarity

Salespeople can increase their popularity and success by claiming they have interests similar to our own. For example, car salesmen are trained to look for evidence of similarities while examining a customer's trade-in.

"If there is camping gear in the trunk, the salespeople might mention, later on, how they love to get away from the city whenever they can; if there are golf balls on the back seat, they might remark they hope the rain will hold off until they can play the eighteen holes they've scheduled for the next day."

It seems trivial but it gets results. One survey gained a greater response rate if the cover letter contained the name of a survey-taker similar to the survey recipient. For example, a letter to Robert Greer sent from, say, Bob Gregar. Adding a name resemblance doubled survey completions.

2. Making friends

Joe Girard was the most successful car salesman in the General Motors network for 12 consecutive years, averaging over five car and truck sales every working day, and receiving the title 'Greatest Car Salesman' in the *Guinness Book of World Records*. He employed a simple formula, focussed on two things: offer a fair price and be someone the customer likes to buy from. So what did Girard do? Each month, he sent each his 13,000 former customers a greeting card containing a printed message.

"The message printed on the face of the card never varied. It read 'I like you.' As Joe explained it, "There's nothing else on the card, nothin' but my name. I'm just telling 'em that I like 'em."

Say what! These days, his 'unsubscribe' button would be the most important part of his message. What would you think if you received a card in the mail 12 times a year, every year, saying "I like you"? From a car salesman!

3. Commitment and consistency

If a salesperson can convince you to make a commitment, any commitment, they set the stage for an ill-considered and automatic consistency which makes you buy a product. Cialdini uses the example of charities making donation requests by telephone. The caller first asks, "Hello Mrs Targetperson, how are you doing today?" The question is not simply an opening line, it's designed to draw out a public statement that you are doing well, such as "I'm good, thanks." This makes it more difficult for some people to knock back an appeal for those who are not doing well. Writes Cialdini:

"Residents of Dallas, Texas, were called on the phone and asked if they would agree to allow a representative of the Hunger Relief Committee to come to their homes to sell them cookies, the proceeds from which would be used to supply meals for the needy. When tried alone, that request (labelled the standard solicitation) produced only 18% agreement. However, if the caller initially asked, "How are you feeling this evening?" and waited for a reply before proceeding with the standard approach … 32% agreed to receive the cookie seller at their homes. True to the consistency principle, almost everyone (89%) who agreed to such a visit did in fact make a cookie purchase when contacted at home."

Really? A cookie seller at home. My version of the Cialdini book is 'new and expanded' in 2021, not 1951. Aside from COVID, who would want a cookie seller in their home, and who wants their crap cookies? If it's a good cause, just send a donation.

4. Low-balling

Low-balling is where an advantage is offered that induces a favourable purchase decision, but before the bargain is sealed, the advantage is removed. Cialdini says the technique is a staple procedure for many car dealers.

"Automobile dealers have come to understand the ability of a personal commitment to build its own support system of new justifications for the commitment."

He gives the example of an inflated trade-in offer which the customer recognises as inflated and jumps at the deal. Later, before the deal is finalised, a manager enters and says the salesperson's estimate is too high and reduces the trade-in offer. The customer realises the lower offer is fair and sometimes feels guilty about taking the higher estimate, and the deal proceeds.

"I once witnessed a woman provide an embarrassed apology to a salesman who had used this version of low-balling on her – this, while she was signing a new car contract giving him a hefty commission. He looked hurt but managed a forgiving smile."

Talk about gullible. Really … apologise to him? Give me a break.

5. The desire for unity

People are inclined to say yes to someone they consider is 'one of them'. There are tribe-like categories such as race, ethnicity, nationality, family and affiliations. Members feel 'at one' with each other. Cialdini cites the example of the US$15 billion in frauds committed by Bernie Madoff which went undetected for decades. He had a long-term presence on Wall Street and 'allowed' investors into this inner circle and his fund. He was Jewish, and so were the majority of his victims. There was social proof and unity in investing with him.

Here's a tip for anyone selling what Cialdini calls 'retirement plans'. Online research showed that if participants are shown artificially aged images of themselves, they are willing to commit more funds to their retirement. This was specific only to images of themselves, as it elevated the importance of looking after that person in future.

The book also makes the case for engaging with people by asking for 'advice' rather than 'feedback' or 'opinions'. In a survey, those asked for advice about a restaurant reported far more desire to eat there. Here are two great quotes:

Ben Franklin: *"We all admire the wisdom of those who have come to us for advice."*

Saul Bellow: *"When we ask for advice, we are usually looking for an accomplice."*

Are Australians less gullible?

Geoff Kitney talks about *"traditional hard-bitten, no-bullshit Australian scepticism."* Would these techniques work here? We could write a book on cultural similarities and differences between Americans and Australians, and our top-rating television programmes are hardly highbrow: Nine's *Married at First Sight*, Seven's *The Voice* and Ten's *MasterChef Australia*.

Cialdini's book is more about influence generally but let's confine this answer to financial markets. There are plenty of gullible candidates out there.

Last year, ASIC reported a doubling of financial scams in Australia. This includes imposter bond scams, and fake platforms using imitation social media pages, websites, phone lines and stock exchanges.

Mayfair 101 and IPO Wealth raised over $210 million from investors before ASIC stepped in.

While Australia has not experienced the excesses of the GameStop and Robinhood manias that hit the US, we have our own versions of stock 'pump and dump'. ASIC recently released a report which said:

"We have observed blatant attempts to pump share prices, using posts on social media to announce a target stock, a designated time to buy and a target price or percentage gain to be reached before dumping the shares. In some cases, posts on social media forums may mislead subscribers by suggesting the activity is legal."

According to *The Australian Financial Review*, ASIC entered a chat room on the platform Telegram with a warning to participants who were using the forum to pump up share prices.

To prove the point, ASIC followed social media posts on Twitter, Facebook, Reddit and Twitter and particularly a group on Telegram called 'ASX Pump and Dump', and produced a list of 14 companies experiencing suspicious activity.

We're all human

Much in Cialdini's book is relevant to human behaviour generally, not specific to particular countries, and there is little to believe Australians would not be vulnerable to similar psychological sales processes. But I doubt we would welcome cookie (and we call them biscuits, anyway) sellers into our homes, although Tupperware did well here. Most Australians would like to believe we are not as gullible to some of the excesses and extremes, as we often say, "*Only in America*".

But probably, unfortunately, we're not that far apart. Thank goodness for cricket, which no American can understand, and Vegemite, which everyone else hates.

Graham Hand is Managing Editor of Firstlinks.

Start the year right with the 2022 Retiree Checklist

Brendan Ryan

Nothing stays the same for retirees, especially during a pandemic, with concession cards such as the Pensioner Concession Card and the Commonwealth Seniors Health Card again used to target government support.

This is our list of what retirees need to be aware of in 2022. It is a long list and not everything will apply to your situation.

Managing your risk

1. If you deal with or need a financial adviser, check their credentials using the ASIC Financial Adviser Register.

2. If you manage your own superannuation, it may be a good time to review other ways of managing your savings, understand the difference, and familiarise yourself with the responsibilities of managing your own superannuation.

There is a lot of responsibility and administration that may be better organised by a large company that may be offering better and cheaper service than was available when you first decided to manage your super fund yourself.

Apply for the age pension or Commonwealth Seniors Health Card

3. Confusion around how to apply for the Commonwealth Seniors Health Card means many eligible self-funded retirees give up. In addition to the confusion around eligibility, there is confusion around what card holders actually get. In recent years it has become clear that the Government uses the Commonwealth Seniors Health Card to *identify self-funded retirees*. The income support during the pandemic, and more recently access to Rapid Antigen Tests, shows that having the card can mean more than just help for medical and pharmacy costs. Claiming up to 10 Rapid Antigen Tests will available for holders of a Pension Concession Card (i.e recipients of the age pension), Commonwealth Seniors Health Card, as well as DVA cards.

4. You are now eligible for the age pension at 66.5 which is a little confusing if this is the year you turn 66. Make a diary note to look closely at age pension application 12 weeks before the actual birthday so you can address any hiccups well in advance of your first payment being due.

5. As soon as you get your Pensioner Concession Card, start applying for your entitlements, including:

- Gas rebate
- Electricity rebate
- Water rebate
- Council rate discount
- Drivers licence and registration concession

6. If you are turning 66.5 this year and you are not eligible for the Centrelink age pension, make sure you know why, so you can get ready to apply if things change.

7. If not eligible for an age pension, perhaps you are eligible for the Commonwealth Seniors Health Card, which is income tested and could save you more than $2,500 on healthcare costs. If you think you were not eligible for the Commonwealth Seniors Health Card, check again. Low income returns on investments and changes in deeming rates mean that your eligibility may have changed.

8. If you have a younger spouse, there may be an opportunity to organise your super to maximise your entitlement to the age pension. See here.

Update Centrelink

9. If you are already receiving a part pension, make sure Centrelink is up-to-date with the right data. For part pensioners, a change in assets of $10,000 could mean an extra $780 per year in age pension payments. Check the right value for the car or caravan is in the system, and household contents are realistically valued, not at cost but at sale value. These assets are means tested so it's worth it. Your savings may have changed due to a holiday, renovation or medical emergency. Making contact may increase your pension.

Get MyGov organised

10. The Government is working at a rapid pace to get you to access departments online. If you haven't arranged a setup online, now is the time. Here are some of the things you can do via MyGov:

- Easily update income and assets by accessing Centrelink
- Check your Medicare claims and track your safety net threshold by accessing Medicare
- Complete your tax at the press of a button (or two) using MyTax
- Start collecting your health data for easier use via My Health Record

Check on what you are entitled to

11. If you are in NSW, hold a Commonwealth Seniors Health Card, and haven't applied for the Seniors Energy Rebate, you should do so. You need to re-apply for this each *financial* year (This is not for age pensioners).

12. If you are in NSW, hold a Commonwealth Seniors Health Card or get an age pension, and live in a regional area, apply for this year's $250 Regional Seniors Travel Card after 18 January for your 2022 Card.

13. Travelling by public transport in NSW? If you want to make the most of government transport help, take a look at the following: Pensioner OPAL Card, Pensioner Travel Vouchers, Country Pensioner Excursion Tickets and Regional Excursion Daily (RED) Tickets. Got all that? Hopefully you have more time to plan now you are retired?

14. Make sure you keep searching for entitlements, concessions, rebates, programmes or whatever they are called. In my list, I have more than 40 and counting. Policies change, governments try and get re-elected, budgets have announcements - it's a moving feast. Everything from replacement appliances, fishing licences, pet registration and stamps from all levels of government. Oh yes - in different departments in the different levels of government too. There's work to do here. We work with our clients to make sure they get all they are entitled to.

15. If you are part of a couple, make sure you are registered for the Medicare safety net as a family or couple. This is something most people set up when they first get married but things can change a lot over time and this is definitely worth having. With access to Concessional Medicare Safety Net thresholds as a holder of a Pensioner Concession Card or the Commonwealth Seniors Health Card, this one is a no-brainer.

Making and adjusting your plans

16. If you are trying to work out how your savings are going to last, try the ASIC Moneysmart Retirement Planner. It's much better than many of the services provided by for-profit companies as it includes age pension eligibility, and works this out over time.

17. While you are making plans, why not look out how your spending compares to the ASFA Retirement Standard. This is a great tool for checking how your spending in retirement might look if things are going well, and how your spending could look if you had to tighten your belt.

Fine tuning your investing

18. If your investments are hard to track, hard to organise, or you cannot link your investment strategy to your retirement plans, it might be time to consolidate and simplify. There is a link between asset allocation strategies and expected returns. ASIC explains it here.

19. For Australians in later life more likely to invest at the conservative end of the spectrum, the reliability of returns in a diversified portfolio improves. Use these expectations, an understanding of spending, and expectations of Government support to be the basis of long term retirement spending plans. It's easier than it sounds. A long-term plan should be easy to hang your hat on - with the discipline in making regular reviews to make sure the plans still make sense - and of course with crisis meetings when things unexpectedly change - think medical emergency, aged care, sudden yearning for travel, urgent house upgrades and maintenance, bailing out a child... the list is endless.

20. Environment, social, ethical, responsible - these are all words we are seeing a lot. Aligning your investments with your beliefs is now easier and cheaper than ever before.

Home Equity Access Scheme (formerly the Pension Loan Scheme) now

21. If you own property and need a top up for your day-to-day living expenses, the Home Equity Access Scheme may be right for you. The interest rate has just been reduced to 3.95%.

22. If you are eligible for the Centrelink age pension at $0 you can apply for the Home Equity Access Scheme. What this means is that you can apply for a loan even if you are a self-funded retiree. This may suit people with illiquid assets that stop them from getting an age pension, who may be cashflow poor. The Scheme now allows recipients to draw down a lump sum as well as regular payments.

Know how the Budget changes will impact retirees

23. Many of the key changes in the May 2021 Budget have not yet passed legislation but are supposed to come into effect 1 July 2022. Take a closer look if you:

- Are between 66 and 74, not working, and want to put more money into super
- Are looking at downsizing and you are 60 or over.

Aged care planning

24. If this is on your radar, start planning. Home Care Packages have waiting times and unique means testing outcomes that should be understood when looking at the wait.

Some final words

25. Low interest rates, unpredictable markets, long lives, uncertain future expenses - this story is the same balancing act, yet different in this age of low interest rates. Putting all the elements together takes work, but is worth it for the peace of mind. Independent advice will help you get this setup in your best interest.

Brendan Ryan is a financial adviser and Founder of Later Life Advice. This article is for general information purposes only and does not consider the circumstances of any person.

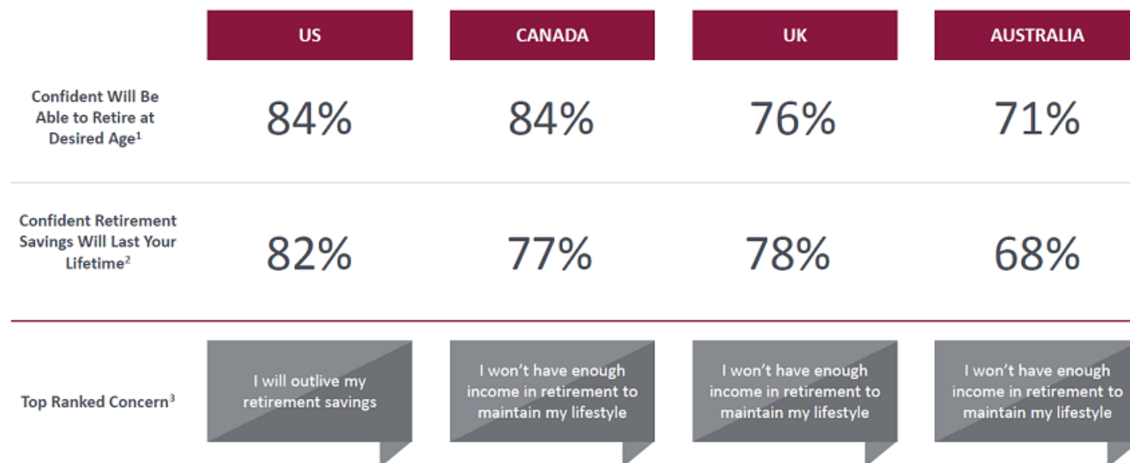
Global survey shows Australians least confident about retiring

Marian Poirier

Australians remain optimistic about retiring comfortably, yet their confidence levels significantly lag those of retirement savers in the United States, Canada, and the United Kingdom, according to the latest MFS Global Defined Contribution Participant Survey.

The study, which surveyed over 4,000 people globally, including more than 1,000 who contribute to an Australian superannuation fund, showed 71% of local savers are confident about retiring at a desired age, but less so that their retirement savings will last their lifetime, at 68%. This contrasts sharply with retirement confidence in the US, the highest of any market, where respectively 84% and 82% of savers are confident in realising their desired retirement age and income adequacy throughout retirement.

Top concerns contradict high levels of confidence



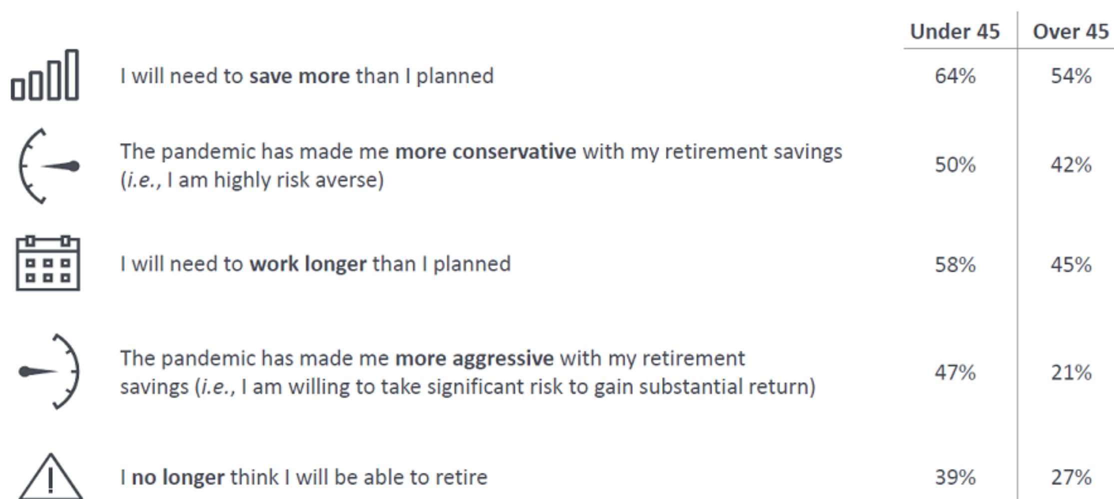
	US	CANADA	UK	AUSTRALIA
Confident Will Be Able to Retire at Desired Age[1]	84%	84%	76%	71%
Confident Retirement Savings Will Last Your Lifetime[2]	82%	77%	78%	68%
Top Ranked Concern[3]	I will outlive my retirement savings	I won't have enough income in retirement to maintain my lifestyle	I won't have enough income in retirement to maintain my lifestyle	I won't have enough income in retirement to maintain my lifestyle

Source: MFS 2021 Global Retirement Survey. Q[1]: How confident are you that you will be able to retire at the age you want to? Q[2]: How confident are you that you will have enough retirement savings to last for your lifetime? Percentages represent the sum of respondents that chose somewhat confident, very confident, or extremely confident. Q[3]: What are your top 3 financial concerns or worries regarding retirement? Percentages represent the sum of respondents that chose each statement as a top 3 concern.

Longer working and retirement saving horizons due to COVID, felt most by under 45s

Australian investors are in step with global peers in believing they need to save more and work longer than planned due to COVID-19, particularly those under 45 years old. 64% of this younger cohort in Australia believe that they will need to save more for retirement, while 58% believe they will need to work longer to achieve their retirement savings goals. These younger investors are twice as bullish as their older peers, with 47% taking on 'significant' risk to gain a substantial return, compared to 21% of people aged over 45.

Data suggests younger members feel a greater impact (counterintuitive)



	Under 45	Over 45
I will need to **save more** than I planned	64%	54%
The pandemic has made me **more conservative** with my retirement savings (*i.e.*, I am highly risk averse)	50%	42%
I will need to **work longer** than I planned	58%	45%
The pandemic has made me **more aggressive** with my retirement savings (*i.e.*, I am willing to take significant risk to gain substantial return)	47%	21%
I **no longer** think I will be able to retire	39%	27%

Source: MFS Global Retirement Survey, AU respondents.

Retirement age and income adequacy remain ongoing and highly complex discussions for Australia's wealth industry, perhaps more so given the retirement investing psyche clearly appears quite sensitive and risk averse at present relative to other markets.

The shock and persisting uncertainty caused by the pandemic has undoubtedly left an indelible mark on younger retirement investors, and their concerns need to be properly addressed for them to get back on track, with a deeper appreciation that uncertainty and opportunity are often key to long-term investing.

With a growing spotlight on performance against a backdrop of YFYS policy, pandemic waves and escalating global risks, fostering investor confidence and active engagement in retirement saving decisions, with a focus on risk management, must remain a core objective for the whole, long-term investment industry.

ESG appetite soars within superannuation

Like global investors, Australians want to see more ESG investments in their superannuation fund portfolios, a view expressed by 74% of all local respondents, including 83% of local millennials. Generation X and baby boomers followed with 72% and 65%, respectively.

	Millennials *Ages 23 - 38*	Gen X *Ages 39 – 54*	Baby Boomer *Ages 55 - 73*
Are interested in seeing **more ESG** investments offered in their super fund	83%	72%	65%
Would accept slightly lower returns if they were sure their super fund was managing their super in a way that is consistent with their personal values	56%	41%	33%
Prefer the funds they invest in within their retirement plan **NOT take E, S, or G factors into consideration**	12%	25%	38%

Source: MFS Global Retirement Survey, AU respondents.

ESG investing continues to transform the way in which investors view and allocate their capital, and while quality long-term, purpose-focused investments inherently integrate ESG, superannuation funds are responding to demand for greater depth and diversity of investments that target change and impact. The associated noise however can be intense, and we see a growing role for advisers to educate investors on the many shades of green and ESG within offerings, along with pointing out the differences between asset managers that integrate ESG into their overall investment approach and those that approach it strictly from a product perspective.

Superannuation advice gaps

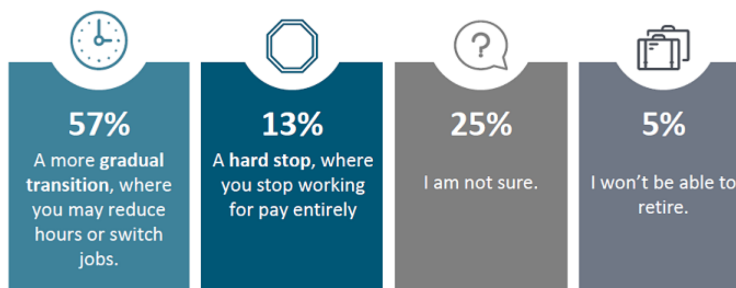
Australian respondents are also the most unsure about what levels of return to expect on their retirement savings and at what rate are they likely to withdraw funds during retirement, factors potentially contributing to low confidence levels. Almost one-third (32%) rely on their superannuation fund to help them make retirement contribution and planning decisions, 30% turn to a family member, while only 29% receive professional advice. Just over half of advised people elected their planner based on fees, followed by years of experience and retirement planning expertise. 46% of all prefer to receive advice in-person with their planner, including video calls.

Applying a gender lens, 34% of men turned to a financial adviser for retirement advice, compared to 24% of women.

Sources, quality and consistency of advice vary widely. We see enormous potential for advisers to provide a greater and more specialist role in providing asset allocation advice to superannuants, especially women who remain under-advised despite their working lives typically being more varied and punctuated by life events.

Concept of retirement is evolving

The survey found that the average Australian expects to retire at the age of 60.7 years; however, almost one quarter (24%) expect this to be closer to 71 or older. Only 13% expect a hard stop retirement, with the overwhelming majority (57%) expecting to reduce working hours or switch jobs.



- **33%** expect to retire between the ages of **66 and 70**
- **24%** expect to retire at age **71 or older**
- Survey population has an average expected retirement age of **60.7 years**
- Members with larger super fund accounts are more likely to anticipate their retirement to be a hard stop

Source: MFS Global Retirement Survey, AU respondents.

Our research shows that retirement is not the hard stop, party event that some may have once envisaged. The findings, gleaned through multiple waves of COVID, are a reminder that retirement is an evolving concept shaped by a myriad of factors, which will continue to change the composition and delivery of wealth management and financial advice.

Marian Poirier is Senior Managing Director, Head of Australia and New Zealand at MFS Investment Management. These views are for informational purposes only and should not be relied upon as a recommendation to purchase any security or as a solicitation or investment advice. No forecasts can be guaranteed. This article is issued in Australia by MFS International Australia Pty Ltd (ABN 68 607 579 537, AFSL 485343), a sponsor of Firstlinks.

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About the MFS 2021 Global Defined Contribution Member Survey

Dynata, an independent third-party research provider, conducted a study among Defined Contribution (DC) plan participants in the US, Canada, UK, and Australia on behalf of MFS. MFS was not identified as the sponsor of the study.

To qualify, DC plan participants had to be ages 18+, employed at least part-time, active workplace retirement plan participants / members: in the US, actively contributing to a 401(k), 403(b), 457, or 401(a) / in Canada, actively contributing to DC Pension Plan, Group Registered Retirement Savings Plan, Deferred Profit Sharing Plan, Non-Registered Group Savings Plan, or Simplified Employee Pension Plan / in the UK, actively contributing to a Defined Contribution Scheme, Master Trust, or Individual Savings Account. / in Australia, actively contributing to an industry, retail, corporate or public sector super fund or a self-managed super fund. Data weighted to mirror the age / gender distribution of the workforce in each country.

1,020 US, 1,012 Canadian, 1,017 UK and 1,011 Australian plan participants answered the survey, which was fielded between March 31 – April 13, 2021.

Should I pay off the mortgage or top up my superannuation?

Di Johnson

At a certain point in life, many wonder what's better: to pay off the home loan ASAP or top up your superannuation?

If your emergency cash buffer looks OK and you have enough to cover you for around three to six months if you lost your job, the super versus mortgage question is a good one to ponder. There's no one-size-fits-all answer.

On the face of it, there's a compelling case for building up your super; you can take advantage of the magic of compound interest (and, potentially, some tax breaks as well) – all while interest rates on mortgages are low.

If you're getting 8% compound interest on super and paying only 3% on your mortgage, building up super might seem a good option.

But financial decisions are about psychology as well as numbers. Much depends on your debt comfort zone.

It's best to seek professional assistance from a financial counsellor or adviser. But here are some questions to consider along the way.

1. Am I 'on track' to have enough super upon retirement?

Use the government's Moneysmart retirement planners or your super fund's calculator to check.

If it's looking sparse – perhaps due to career breaks or part-time work – you might consider salary sacrificing extra into your super (on top of what your employer already puts in there).

An additional A$50 a week, for example – even just for a few years – can help remedy your meagre super projections.

According to Moneysmart:

"The payments, called concessional contributions, are taxed at 15%. For most people, this will be lower than their marginal tax rate. You benefit because you pay less tax while you boost your retirement savings […] The combined total of your employer and salary sacrificed concessional contributions must not be more than $27,500 per financial year."

Try the Industry Super or Moneysmart calculators to see how much extra you'd have at retirement if you salary sacrificed into super for a few years. Consider seeking advice from your super fund on your super investment options and Age Pension entitlements.

You might also consider an after-tax personal super contribution (that is, putting extra money from savings or from your take-home pay into super). The contributions may be tax deductible, but even if not, the returns in super are tax friendly.

2. What about the pension?

Are you expecting a full Age Pension? To find out if you're likely to qualify for one, use an online calculator or ask your super fund. People with "too much super" don't get the pension (although most retirees get some part pension). For some, the more you put into super, the less you get in Age Pension payments.

For single homeowners, the total asset threshold for a full Age Pension is $270,500 (including super but excluding your main residence), while the part-Age Pension threshold is $593,000. For couple homeowners, the combined total asset threshold for a part-Age Pension is $891,500 (also including super but excluding the main residence).

If you're on a median income and your super balance is predicted to land between the lower and upper asset thresholds for the pension, some models predict that for every extra $1,000 put into super at age 40, you would only be around $25 per year better off in terms of retirement income (due to the tapering off in eligible Age Pension income).

For people on low incomes, extra super contributions may not be the answer at all if the result is more financial stress during your working life and immediate housing security risk.

3. If I retired with a mortgage, could I cope?

Many people end up retiring earlier than planned, due to health or other issues.

If you were still paying off your mortgage at retirement, would you feel comfortable about that? Or would it be a source of worry?

Traditionally, most people enter retirement having paid off their home loan but now more are approaching retirement with some mortgage remaining. It might not be the end of the world if you had $100,000 left on the mortgage when you stop working. After all, you can draw out up to $215,000 of your super tax free at retirement to pay off debt. Doing so can also increase your Age Pension entitlement (as your primary residence is exempt from pension assets tests while super is not).

The wealth accumulation in superannuation is going to outpace the interest on a mortgage in most cases for some time, even after you retire. Even so, you might feel it's worth making the last vestiges of your debt go away in retirement so you can stop worrying about it.

4. Will the choices I make today cost me later – am I OK with that?

Australian property values have skyrocketed and many have borrowed more to pay for renovations. The full "cost" of a renovation may not be apparent at first.

The true cost of a $150,000 renovation over the next 20 years could be more like $700,000. How? Well, if that $150,000 was put into a balanced allocation in super for a couple of decades, it would likely grow to be about $700,000. That's compound interest for you. You'd hope to get that in capital gains from the renovation.

But it's never just about the finances. The extra mortgage might be worth it because it paid for a home that brings comfort and joy (as well as the capital gains).

Likewise, paying off your mortgage ASAP might mean forgoing the extra you'd get if you'd put it in super. But for some, wiping out a mortgage will be worth it to be debt-free. Perhaps after the mortgage is gone, you can maximise salary sacrificing into super until retirement, while also reducing your tax bill.

At least do the sums

There's always more than one solution. To know what's right for you, you'll need to get advice for your personal circumstances.

But it's good to look at where your super is now and where it's heading, and calculate your debt-to-income ratio (debt divided by income). It's often used to guage how serious (or not) your debt is. Lenders and regulators might consider a debt-to-income ratio over six times your income to be "high", but your personal debt comfort zone might be much lower.

Emotions play a bigger part in financial planning than many like to admit. Desire to pay off a mortgage quickly can be influenced by how you were raised, feelings of anxiety and stigma that often come with debt, and Australia's cultural bias toward debt-free home ownership.

Depending on circumstances though, it may be time to rethink the bias to paying down housing debt over wealth accumulation in super. At least do the sums, so you can make an informed choice.

The Conversation

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At 98-years-old, Charlie Munger still delivers the one-liners

Graham Hand

Charlie Munger has been investing with Warren Buffett at Berkshire Hathaway since 1978. While Warren hosts the company's Annual Shareholder Meetings, answering questions for hours, it is Charlie who delivers the acerbic wit. Given his wealth and age, nobody and nothing is off limits, sometimes to Warren's chagrin. It makes for fine entertainment when he is prepared to speak the truth that others avoid.

Charlie was born on 1 January 1924, and to mark his 98th birthday, some of his one-liners are collected on this video. As the introduction says:

"Charlie Munger isn't just one of the greatest investors who has ever lived, he is also one of the few brilliant minds who basically has no filter. When he sees something which he thinks is wrongdoing or stupid, he just can't help but being opinionated and speak up about it."

Let 'er rip, Charlie

"Those of you who are about to enter business school or are there, I recommend you learn to do it our way but at least until you're out of school, you have to pretend to do it their way."

"Warren, if people weren't so often wrong, we wouldn't be so rich."

"I think you would understand any presentation using the word EBITDA, if every time you saw that word, you just substituted the phrase 'bullshit earnings'."

"I'm optimistic about life. I can be optimistic when I'm nearly dead. Surely the rest of you can handle a little inflation."

"The best way to get what you want in life is to deserve what you want. How could it be otherwise? It's not crazy enough so that the world is looking for a lot of undeserving people to reward."

"Everybody wants fiscal virtue but not quite yet. They're like that guy who felt that way about sex. He's willing to give it up but not quite yet."

"Well, you don't want to be like the motion picture executive in California. They said the funeral was so large because everybody wanted to make sure he was dead."

"It was investment banker-aided fraud. Not exactly novel."

"Sure, there are a lot of things in life way more important than wealth. All that said, some people do get confused. I play golf with a man he says, 'What good is health, you can't buy money with it.'"

"Well, there are a lot of things I don't think about and one of them is companies that are losing $2-3 billion a year and going public."

"In accounting, you can do things like they do in Italy when they have trouble with the mail. It piles up and irritates the postal employees. They just throw away a few cartloads and everything flows smoothly."

"The general system for money management requires people to pretend that they can do something that they can't do, and to pretend to like it when they really don't. I think that's a terrible way to spend your life, but it's very well paid."

"I can't give you a formulaic approach because I don't use one. If you want a formula, you should go back to graduate school. They'll give you lots of formulas that won't work."

"As Samuel Johnson said famously, 'I can give you an argument, but I can't give you an understanding.'"

"It's perfectly obvious, at least to me, that to say that derivative accounting in America is a sewer is an insult to sewage."

"Competency is a relative concept. And what a lot of us need, including the one speaking when I needed to get ahead, was to compete against idiots. And luckily, there's a large supply."

"I don't like multi-tasking. I see these people doing three things at once and I think, what a terrible way that is to think."

"I like cryptocurrency currencies a lot less than you do. And I think that professional traders who go into trading cryptocurrencies, it's just disgusting. It's like somebody else is trading turds and you decide 'I can't be left out'."

"Once I asked a man who just left a large investment bank and I said, 'How's your firm make its money?' He said, 'Off the top, off the bottom, off both sides and in the middle.'"

"Well, I would rather throw a viper down my shirt front than hire a compensation consultant."

"I think I'm offended enough."

Morningstar asset class performance, 2021 and historical

Graham Hand

The start of a new year is a good time to review portfolio performance and consider long-term settings for a financial future.

This article breaks Morningstar reporting into five tables to show market performance over all time periods to 30 years, as well as measures of risk and drawdowns. The chart on long-term performance shows Australian equities and listed property doing best since 1989.

Table 1: Asset class performance from 1 month to 30 years

	Aust. Equity	Small Caps	Intl. Equity	A-REITS	Global REITS (H)	Aust. Fixed Interest	Intl. Fixed Interest (H)	Cash	Emerging Markets	Infrastructure (H)	Commodities	#Hedge Funds
Return												
1-month	2.7%	1.4%	1.7%	5.2%	7.0%	0.1%	-0.4%	0.0%	-0.6%	5.7%	0.0%	3.6%
6-month	3.8%	5.5%	11.5%	15.3%	12.9%	-1.2%	0.1%	0.0%	-6.2%	7.3%	0.0%	8.7%
1-year	17.2%	16.9%	29.6%	27.0%	34.5%	-2.9%	-1.5%	0.0%	3.8%	13.7%	23.4%	14.5%
3-year	13.6%	15.7%	20.6%	13.4%	12.5%	2.9%	3.5%	0.5%	10.1%	7.8%	5.0%	7.9%
5-year	9.8%	11.2%	15.1%	9.9%	7.9%	3.4%	3.2%	1.1%	10.2%	6.0%	2.6%	6.1%
10-year	10.8%	8.0%	16.8%	14.1%	11.4%	4.2%	4.6%	1.9%	9.6%	8.9%	0.2%	8.6%
15-year	6.2%	3.4%	8.1%	3.4%	5.8%	5.2%	6.0%	3.0%	5.4%	5.8%	-1.2%	5.1%
20-year	8.5%	7.2%	6.1%	7.2%	10.9%	5.3%	6.3%	3.6%	8.0%	9.2%	1.8%	4.0%
25-year	9.0%	6.2%	7.9%	8.4%	7.9%	5.7%	6.7%	3.9%	7.0%	---	---	7.3%
30-year	9.5%	7.7%	8.2%	8.8%	9.2%	6.5%	7.2%	4.3%	7.8%	---	---	---

Table 2: Standard deviation (a measure of risk) by asset class

	Aust. Equity	Small Caps	Intl. Equity	A-REITS	Global REITS (H)	Aust. Fixed Interest	Intl. Fixed Interest (H)	Cash	Emerging Markets	Infrastructure (H)	Commodities	#Hedge Funds
Standard Deviation												
3-year	17.1%	20.5%	11.4%	26.4%	20.4%	4.5%	3.2%	0.2%	11.6%	18.7%	16.8%	7.4%
5-year	14.2%	17.3%	10.7%	21.3%	16.9%	3.7%	2.7%	0.2%	10.7%	15.3%	14.2%	7.4%
10-year	13.1%	16.0%	10.6%	17.3%	14.7%	3.3%	2.7%	0.3%	10.4%	12.4%	13.7%	9.0%
15-year	14.3%	18.9%	11.7%	19.8%	19.5%	3.2%	2.8%	0.6%	12.9%	13.6%	14.1%	10.7%
20-year	13.2%	17.3%	11.7%	17.7%	18.0%	3.1%	2.9%	0.6%	13.7%	12.7%	14.2%	10.0%
25-year	13.2%	17.1%	12.3%	16.6%	17.6%	3.3%	2.9%	0.6%	16.7%	---	---	11.0%
30-year	13.2%	16.4%	12.1%	15.6%	17.4%	3.8%	3.0%	0.6%	16.8%	---	---	---

Table 3: Historical 1-year returns

	Aust. Equity	Small Caps	Intl. Equity	A-REITS	Global REITS (H)	Aust. Fixed Interest	Intl. Fixed Interest (H)	Cash	Emerging Markets	Infrastructure (H)	Commodities	#Hedge Funds
1-Year Performance Analysis*												
Minimum 1-year return	-40.0%	-56.1%	-33.4%	-58.2%	-57.0%	-5.3%	-1.5%	0.0%	-41.0%	-41.1%	-39.6%	-19.5%
Median 1-year return	11.1%	7.3%	8.2%	13.3%	13.3%	5.2%	6.9%	4.0%	10.0%	13.8%	2.2%	3.3%
Maximum 1-year return	44.7%	63.0%	48.0%	45.4%	80.2%	15.2%	14.0%	7.5%	67.6%	40.0%	49.1%	33.9%
Percentage of 1-year returns that were negative	25.4%	30.4%	28.3%	20.0%	19.2%	5.0%	3.3%	0.0%	25.8%	23.0%	44.2%	35.8%

Table 4: Historical 5-year returns

	Aust. Equity	Small Caps	Intl. Equity	A-REITS	Global REITS (H)	Aust. Fixed Interest	Intl. Fixed Interest (H)	Cash	Emerging Markets	Infrastructure (H)	Commodities	#Hedge Funds
3-Year Performance Analysis*												
Minimum 3-year return	-8.2%	-14.8%	-18.5%	-26.0%	-24.0%	2.4%	2.9%	0.5%	-16.2%	-9.5%	-14.8%	-8.3%
Median 3-year return	8.0%	6.3%	8.5%	12.2%	10.7%	5.8%	6.9%	4.5%	6.7%	9.8%	1.3%	5.1%
Maximum 3-year return	27.5%	32.9%	29.5%	26.8%	37.7%	9.0%	11.5%	6.6%	38.8%	32.5%	23.0%	20.5%
Percentage of 3-year returns that were negative	13.3%	34.2%	33.3%	18.3%	17.5%	0.0%	0.0%	0.0%	18.8%	19.9%	42.7%	26.3%

Table 5: Historical drawdown (market falls)

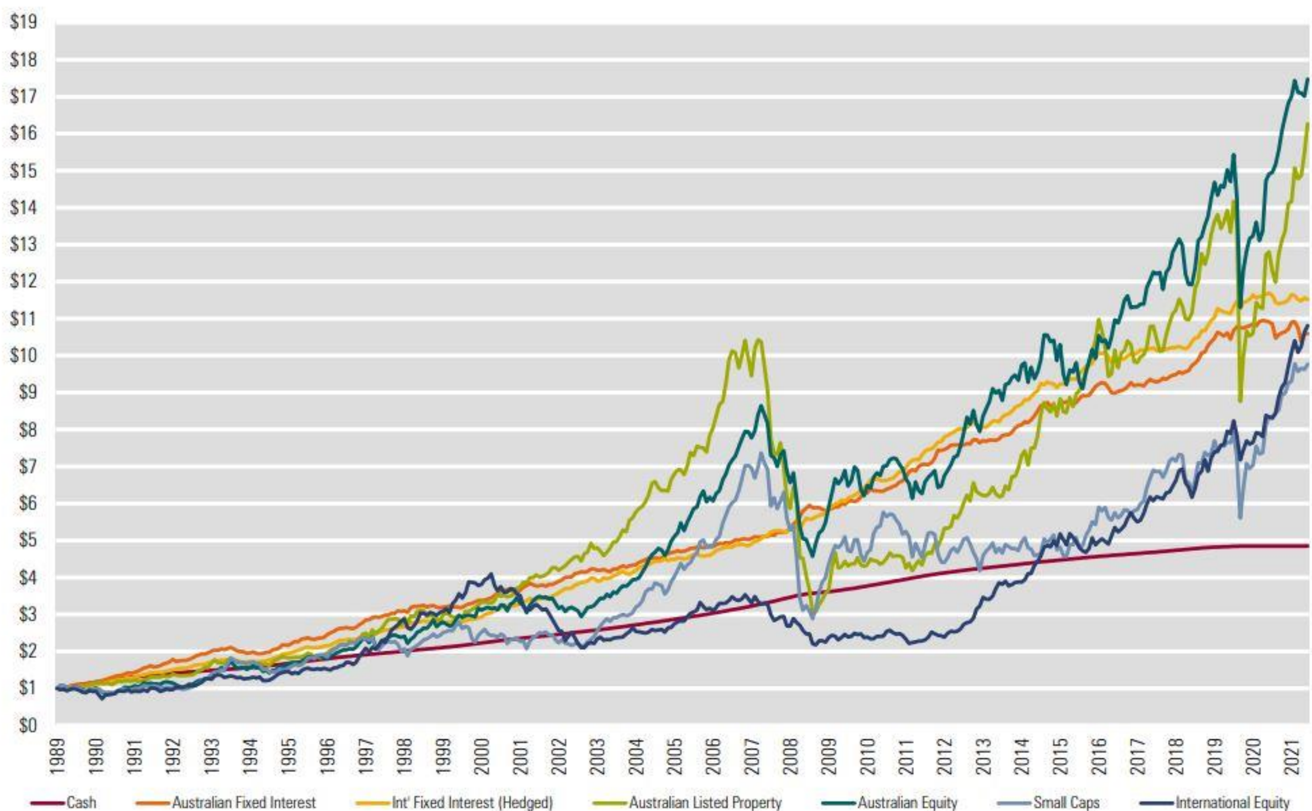
	Aust. Equity	Small Caps	Intl. Equity	A-REITS	Global REITS (H)	Aust. Fixed Interest	Intl. Fixed Interest (H)	Cash	Emerging Markets	Infrastructure (H)	Commodities	#Hedge Funds
Largest Historical Drawdown												
Drawdown	-55.0%	-60.9%	-48.7%	-70.6%	-66.6%	-22.5%	-5.0%	---	-44.1%	-46.9%	-60.0%	-23.2%
Peak	Jan-73	Oct-07	Oct-00	Sep-07	Jan-07	Apr-73	Jan-94	---	Oct-07	Oct-07	Jun-08	Feb-09
Low Point	Sep-74	Feb-09	Feb-03	Feb-09	Feb-09	Jun-74	Jun-94	---	Feb-09	Feb-09	Apr-20	Nov-11
Duration (months)	19	15	27	16	24	13	4	---	15	15	141	32
Recovery Date	Apr-78	Apr-19	Sep-14	Jul-16	Mar-13	Sep-77	Feb-95	---	Jan-15	Mar-13	---	Aug-13
Months to Recover	43	122	139	89	49	39	8	---	71	49	---	21

Tables sourced from [Morningstar Adviser Research Centre](#).

Chart

Asset Class Investment Growth

Growth of $1 from July 1989 to December 2021



Source: [Morningstar Adviser Research Centre](#).

Using past performance is a risky way to invest

Rob Prugue

We've all walked by restaurants and assumed they were 'good' based only on the number of patrons inside. It's a common and recurring trait for many of us, so it's not too surprising how we often assign quality in investment choice by historical returns, further backed up when we see fund flows directed towards such historically well-performing funds. Others are investing, so it must be good.

But sadly, this is a misinformed judgement about the prospects of fund managers, a mistake equally made by investors, regulators and rating agencies.

Watch for mean reversion

While marketers love fund manager and super fund awards, I've yet to meet a fund manager who loves them. Accolades based on historical results cannot anticipate a forthcoming force greater than nuclear fusion: mean reversion. As I used to tell my clients, I've yet to see a pendulum swing just halfway.

No investment nor actuarial book endorses picking investments based on historical results. On the contrary, marketing always finishes with a 'past returns do not predict future ones'. Yet this hasn't stopped the creation of 'heat maps' or delivering fund awards.

In the early 1980s, one academic report showed how an equally-weighted portfolio of the 43 'excellent' companies listed within Waterman and Peter's "In Search of Excellence" book had underperformed over a 5-, 10- and even 20-year basis subsequent to the book's release.

A recent study published in The Journal of Portfolio Management [April 2020], showed how pension funds which have invested with strong-performing managers have lagged those fund managers terminated for underperformance over the same period. While we may find comfort from heat maps and fund awards, their efficacy in predicting future returns is unproven.

Exhibit 1: Before and After Returns of Investment Manager (8,755 hiring decisions over 10 years)

Source: The Journal of Portfolio Management, Vol. 46, Issue 5

Not making a case for passive index funds

Be assured that I'm not endorsing passive allocation. I hate the term 'passive' as it wrongly implies neutrality against active manager selection risk. Choosing between active or passive is itself an 'active' decision. Even passive portfolios have their own risk/return characteristics. For example, a high factor weighting towards price momentum can often hold sector weightings far from the actual representation of companies within the broader economy.

As with any portfolio construction rule, every selection must take into account how it contributes to the final risk/reward characteristics on the total portfolio. In every risk statement I've ever read, 'balanced funds' are described using an absolute return target expressed through:

- CPI+
- One in # years of negative returns
- Maximum drawdown (fall in value)
- BUT NOT on some relative peer ranking over a historical finite period.

Careful what you wish for on consolidation of funds

Just as we don't drive our cars by looking through our rear-view mirrors, constructing a pension fund based on peer rankings, asset size, Management Expense Ratios and heat maps is a gross misrepresentation as to what we tell members in our risk statements.

When we read media or regulator criticism of a fund for underperforming, be mindful that tomorrow's praise may be on the same fund they're criticising today (and vice versa).

Regulators are also pushing for super fund consolidation, especially among the so-called underperformers. Perhaps I've been watching too many conspiracy movies on Netflix during lockdown, but my fear is that once we are down to six to eight mega funds, and a systemic failure happens (not if but when - the challenge is the size), superannuation will be nationalised along the lines of the six Swedish National Pension Funds. After all, Direct Contribution (DC) retirement savings is founded on a belief of 'caveat emptor'.

Were a mega fund to fail, it's highly unlikely that the government would not bail them out, thereby compromising the principle that each member is responsible for their own retirement funding. The metrics used to regulate funds have nothing to do with what funds proclaim are their objectives (as listed above: CPI+, max drawdown, etc.).

Lest we forget, the Government allowed members to drawdown on their super at the very bottom of the market cycle in 2020 (instead of, for example, moving it into a loan agreement). I can't help but wonder who is advising the Government on superannuation based on the 'sell low, buy high' policy.

In fact, each superannuant has varying actual returns (given their varied entry points) and differences in when individuals plan to retire. I believe the one-, three- and five-year snapshots we see in performance reports should be the furthest thing from how we manage the risk/return profiles of funds. When we win awards, we seem vindicated, but when we mean revert, we disregard the low relative ranking.

I find it sad how our gatekeepers and regulators (speaking as a former member of both groups) fall back on probably the worst measure and construct fancy-named agency ranking metrics such as heat maps. Such rankings tell members next to nothing about what their retirement savings will deliver.

Rob Prugue is Principal Consultant at Callidum Investment Research Pty Ltd. He was Senior Managing Director and CEO at Lazard Asset Management (Asia Pacific) for 15 years until March 2018. This article is general information and does not consider the circumstances of any investor.

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