FIDUCIAN FOCUS

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# Who are Australia's High Net Wealth Individuals? You Might be Surprised.

Many of our clients are surprised to discover they are considered to be HNW individuals - or are close to becoming so. Find out what you need to think about if this is you.

Definitions of High Net Wealth vary across the globe and take in a multitude of factors. The Australian Taxation Office (ATO) deems wealthy Individuals within Australia as those with net investable assets (NIA) of over $1 million (or net assets that exceed $2.5 million including the family home) and also bank an earning of more than $250,000 per year.

For you to measure your investable wealth, the following calculation needs to be applied: add the total of all of your financial assets and subtract all of your consumer debt, factoring in credit card debt and loans.

For people with more than $1 million in investable wealth, the protection, growth and passing on of that wealth requires a strategic and measured approach. Here are some top level things you need to be thinking about.

## Financial planning

Financial planning is the process which helps you to set both mid and long-term financial goals. It's a clear roadmap for your financial future which will help guard and bolster your wealth.

People often believe financial planning is geared towards setting themselves up for retirement, but it can be much more. Financial Planners also help you with establishing major short and mid-term financial goals along the way which may include investments in shares, real estate, cash, term deposits and superannuation.

## Know your threshold for risk

Before you explore the appropriate blend of investments to match your financial goals, it's important to establish your appetite for risk.

An experienced financial adviser will help you to determine the right balance of risk and return and will also be able to explain other external factors which may affect your portfolio, including inflation and interest rate changes.

## Diversified portfolio

As mentioned above, there is risk associated with any kind of investing so it's important to maintain a diversified portfolio.

Diversified portfolios help flatten market fluctuations as there is less riding on individual stocks in specific industries - so where one may go down, another may be going up.

## Review and adjust

Your financial plan is not set-and-forget. Your financial planner will regularly review your assets, investments and your goals to make sure your wealth is doing what you need it to do.

Make sure you flag any changes in your financial circumstances with your planner. With an ever-changing financial climate, regular reviews are critical to minimise risk and optimise your portfolio's performance.

With significant rises in the property market over the last 2 to 3 years, and a national trend of an increase in household savings, the number of people who fall into the HNW bracket has increased. Many more are finding themselves on the threshold of this bracket, and who could, with the right advice, grow their wealth and create financial stability.

# Millennials are the winners in the ‘The Great Wealth Transfer’

According to the 2021/22 edition of The Boomer Guide, Baby Boomers are spending their wealth more than any other generation. A recent study by the Productivity Commission has revealed Baby Boomers will pass on a whopping $224 billion each year in inheritances by 2050.

If you’re part of the windfall, there are three key areas you need to focus on to protect and grow your inheritance.

## Financial planning

As Benjamin Franklin once said, “If you fail to plan, you are planning to fail”. The same applies to boosting and protecting financial wealth.

Financial planning will ease the stress of protecting your wealth by allowing you to build a nest egg for your long-term financial goals. It also allows you to maximise your return on investment by providing a clear roadmap for your financial future.

It’s important to remember financial planning isn’t only about setting yourself up for retirement. It’s also about establishing major financial goals along the way which may include purchasing a car, planning a holiday or renovating your home. Setting mid-term financial goals also allows you to experience some financial freedom as you work towards your big goal of retiring comfortably.

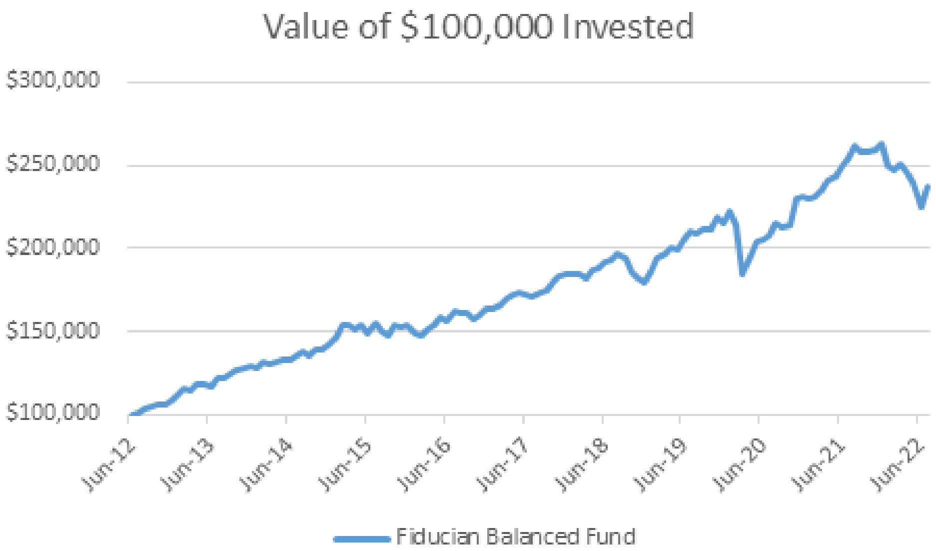
## Long-term investing

Long-term investing typically looks at investments spanning ten years and beyond.

The benefits of long-term investments include being able to ride out any downturns in the market and allowing your investments to have more time to appreciate. This process has almost always proven to deliver a solid return over time.

But is there a secret to ensuring you win when it comes to your long-term investments? The key is putting your money into long-term investments where you will not need a return in the short-to-medium term.

The chart shows an example of how investing $100,000 in a long-term Fiducian Balanced Fund has doubled returns over a ten-year period.




## Shorter term strategies

Depending on the amount you are dealing with, you may be able to invest in shorter term, higher return assets to allow you to reap the benefits for more immediate needs such as property improvements, and education.

A financial planner will take all your mid-term and long term needs into account when helping you create your strategy.

## Maximising your superannuation

Another great way to protect your wealth is by maximising your superannuation.

Before you look at maximising your super, you need to ensure it's in one place. According to the Australian Taxation Office (ATO) around four million Australians hold two or more super accounts, all being charged more than one set of fees.

Once you consolidate your super, here are a few other factors to consider:

- Know how your super is being invested: being across how and where your super is being invested is important because it is likely one of the biggest investments you have.
- Consider voluntary contributions: remember, the idea of super is for you to access it later on in life, so topping up contributions can really help bolster your balance.
- Check your employer contributions: it's important to work out if changing funds will affect how much your employer contributes as some employers contribute more to certain funds.
- Check your insurance cover: before you leave a fund, check to see if you have any insurance through the fund. This might be life, total and permanent disability (TPD), and/or income protection insurance.
- Be cautious when changing funds: if you switch funds, you might not be able to get the same insurance cover. Be particularly wary if you have a pre-existing medical condition or are aged 60 or over.
- And last but not least, if you're unsure about any of the recommendations made above, get advice from a financial adviser.

# Financial planning and budgeting are very different - this is what you need to know

Budgeting and financial planning are both processes designed to boost your financial wellbeing. And while there are striking similarities between the two, there are key differences in how the two work to help you achieve your financial goals.

## Budgeting

As the old adage goes, 'Budgeting is telling your money where to go instead of wondering where it went'.

Budgeting is an incredibly important financial strategy. It evaluates how much money you make, measures how much you spend, and helps you work towards spending less than what you bring in.

Items factored into budgeting include expenses such as rent or mortgage repayments, utility bills, groceries, petrol, clothing, savings, insurance and investments.

Budgeting is all about focusing on immediate money issues and is reviewed on a weekly or monthly basis to ensure you can get rid of unnecessary spending and work towards boosting your savings to achieve short or long-term financial goals.

Fiducian Financial Services offers a free budgeting tool to help track your spending and determine your savings potential.

# Financial planning

Financial planning is all about building a solid financial strategy to help achieve your long-term financial goals. While a budget helps you list your expenses and plan for the weeks and months to come, a financial plan looks at major financial goals over 5, 10, or 20 years.

A solid financial plan addresses your income and expenses, taxes, insurance, estate planning, and retirement. It also establishes major financial goals along the way which may include buying a new set of wheels, planning a much-needed holiday or giving your home a makeover.

When it comes to tracking your progress, a good financial plan is reviewed quarterly or semi-annually to stay on top of any fluctuations and changes in the market.

# How budgeting and financial planning work together

We've established that while budgeting and financial planning go hand-in-hand, they are not the same. So how do they work together?

Laying out your expenses not only shows you where your money is being spent, it also allows you to understand where funds can be saved or re-directed and allocated to your financial plan and potential investments.

Some options when it comes to investing include:

- Short-term investments: Depending on your appetite for risk, you may be willing to invest in shorter term, higher return assets that can give you an immediate and satisfactory return.
- Long-term investments: Long-term investing looks at investments spanning ten years and beyond. One of the biggest benefits of long-term investments is you get to ride out any fluctuations in the market, which means you could end up with a greater return than if you try to 'time' the market.
- Additional contributions to your Superannuation fund

As always, we strongly recommend engaging a financial planner to help you with the best strategies to boost your wealth.

# Financial security for women: What you need to know

There's a lot to love about being a woman. But when it comes to managing your finances females are at a disadvantage.

Statistics show women earn approximately $239.80 less than men per week. They also take more career breaks to care for their families and retire earlier with a lot less money than men do.

So how can women empower themselves and take charge of their financial well-being? Let's break it down.

## Entering the workforce

As you enter the workforce it's important that you set a disciplined budget and savings strategy that allows you to save 10% of your salary each month. This will in turn allow you to have an emergency fund that can sustain three to six months' worth of expenses should the need arise.

Once you establish a budget and savings strategy, consider setting a longer-term financial plan, under the guidance of a financial adviser.

The aim of a financial plan is to build a financial strategy to help you achieve your long-term financial goals over 5, 10, or 20 years. It looks at milestones such as buying a car, buying a home, and taking your savings and putting them into short and long-term investments.

Remember, a financial plan should be reviewed quarterly or semi-annually to stay on top of any changes in the market.

## Mid-Career

At this stage, you've hit the 30-44 age bracket and may be married or have become a mother. With increased commitments comes increased financial responsibilities, and potentially reduced income. You are likely to have purchased a home, and committed to a short and long-term investment strategy, all with the aim of building passive income streams to fund your golden years.

However, there are several questions you should ask yourself as you hit this critical point in your life and which can ultimately have a big impact on your financial future:

Once you've answered the basic questions, you need to do a deeper dive into your finances and ask yourself:

- Should I take on more debt? Depending on the state of the market it may be wise to look at investing more of your money on a big ticket item like an investment property.
- Am I maximising my superannuation contributions? By topping up your super contributions you can bolster your balance for retirement.
- Do I have an investment strategy and is it working for me? If you already have an investment strategy, it's imperative to review it annually. If you are yet to invest, speak to a financial adviser about a short and/or long-term investment strategy that is right for you.

## Preparing for retirement

At this stage you're in your late 40's to mid-50's and in your peak earning years.

Statistics reveal that you should be earning your highest income between the ages 45 and 54, so now is the time to get serious about saving every penny. Veering away from the "treat yourself" mindset and focusing on purchasing the essentials will help you work towards a comfortable retirement.

You should also update your knowledge when it comes to concessions to boost your superannuation fund. There are concessional super contributions, spouse contributions and government assistance that can help you increase your super balance.

It's also important to make sure you consolidate your super into the account that most suits your needs. According to the Australian Taxation Office (ATO) around four million Australians hold two or more super accounts, all being charged more than one set of fees. You can search for lost superannuation accounts here.

One of the last items on your to-do list and an item many neglect is the need to set up an estate plan. Regardless of your marital status, it's important you get this in order so your last wishes can be carried out correctly.

Here at Fiducian Financial Services, we've compiled a series of videos to help you with your finances for every stage of your life.

# This Year's Equity Bear Market.
# By Conrad Burge, Investment Manager.

## Background

The first half of this year saw investment managers hit by a perfect storm of negative performance by both equities and bonds.

Over the half-year period to the end of June, the broad US market declined by over 20%; while the US technology-focused Nasdaq index declined by almost 30%. Other major markets declined as well, with our market down 12%. Most bond markets also fell over this period.

While the Fiducian Manage-the-Manager system diversifies investments across a number of fund managers to spread the risk of any individual fund manager underperforming, this year's market weakness has also affected the Fiducian Funds.

Fiducian's diversified funds provide exposure across different managers and sectors and ultimately across a very large number of different stocks and securities. This provides protection by diversifying risk and, in our view, is an excellent way to invest over the longer-term, which has been proven over time. Nevertheless, no matter how well constructed the Fiducian Funds are, we cannot escape declines in the prices of the securities our external fund managers hold. The bulk of the decline in our diversified funds has come from the international sector, predominantly Technology and other global large company stocks.

The invasion of Ukraine by Russia was unforeseen and its impact has been widespread. China's lockdown of many of its cities, factories and ports in recent months has exacerbated a global shortage of manufactured goods.

In combination, these events have resulted in the prices of raw materials, food and goods rising and consequently inflation has accelerated in most western nations in recent months. Most central banks were caught unawares and have found it necessary to resort to a rapid tightening of monetary policy, including raising interest rates.

In Fiducian's view, interest rates could rise further before inflation is brought under control and this has raised the risk of a global recession.

## Fiducian's response

Prior to this year's sharp market declines, Fiducian had reduced its allocation to the fixed interest sector to around 60% of benchmarks and built up cash holdings as a defensive strategy to counter expected rises in bond yields which can result in capital losses.

More recently, Fiducian has added two new international shares managers, including a 'value' manager and it has reduced exposure to 'growth' managers. New managers have also been added to fixed interest, smaller companies and emerging markets sectors.

While the structure of our funds has shifted towards a more defensive posture, our asset allocation positions and moves are designed to benefit longer-term returns. We therefore recommend that clients stay invested and ride through the current period of market volatility.

For investors accumulating assets for the long term (5 to 7 years), this current period of market weakness could provide an opportunity to invest. Dollar-cost averaging into markets could represent a sensible way to gain market exposure over coming months. There will likely be continued market volatility for a time, at least until inflation starts to decline and interest rates stabilise.

The longer-term outlook remains positive, based on solid earnings growth forecasts over coming years and low valuation metrics (extremely low by historical standards in some cases) now being exhibited in a number of markets.

# Time to improve your retirement budget

With inflation rising, low bank interest rates and volatile markets, here are a few tips to help you think about what you could do to boost your household's bottom line.

1. Recheck your eligibility for the Age Pension. If your assets or income have gone down, you may now be eligible under the assets and income test limits.

2. For retirees turning 66 this year, you'll become eligible for the Age Pension at 66 years and 6 months, but you can submit an application to receive the Age Pension up to 13 weeks prior to reaching the qualifying age. The easiest way to apply for the Age Pension is through your MyGov account linked to Services Australia.

3. Check your eligibility for the Commonwealth Seniors Health Card (CSHC). The CSHC is a concession card giving you access to bulk-billed doctor visits, cheaper Pharmaceutical Benefits Scheme medications, a larger Medicare refund for out-of–hospital costs, and potentially, cheaper government services. Even if you are not eligible for the Age Pension, you may still qualify for the CSHC, so make sure you apply for this as soon as you turn 66 years and 6 months.

4. Review your Centrelink asset values. Financial assets like your car, caravan, boat or household contents depreciate over time. If you qualify for a part Age Pension, update the information Centrelink has about your assets with realistic, current valuations. Under the Age Pension asset taper rules, every $1000 reduction in the value of your assets could mean you receive an extra $78 per year in pension payments.

5. Apply for your state Seniors Card. Anyone who is aged over 60 years should apply for the state government's Seniors Card. These cards give you access to a range of goods, services and public transport concessions that can help your retirement dollars go that little bit further. State Seniors Cards are not means tested, so every retiree should have one.

# Welcome to our new Financial Planners

**Ann Le** - Fiducian Financial Services Surrey Hills

**Jeevanjot Kaur** - Fiducian Financial Services South Perth

**Marco Pandini** - Fiducian Financial Services Darwin

**Maria Faskheeva** - Fiducian Financial Services Adelaide

**Michael Murray** - Fiducian Financial Services Darwin

**Rashmi Shankar** - Fiducian Financial Services Adelaide

**Stephen Kelly** - Fiducian Financial Services Adelaide

**Steve Apostolou** - Fiducian Financial Services South Perth