The Retirement Advice Centre

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October is here and it has already been a month of thrills and spills for footy fans, from the AFL and NRL finals to the Rugby World Cup.

While excitement builds on the field, local investors could be forgiven for wishing they lived in less interesting times.

Global sharemarkets have been volatile since late August on concerns about a slowing Chinese economy, global growth and the timing of the next interest rate move by the US Federal Reserve. Fed chair Janet Yellen surprised the markets in September by not lifting rates as anticipated. Yellen indicated the Fed still expects to raise rates this year, depending on 'global economic and financial developments'.

Local share investors have something to smile about though. Over the next few weeks $22 billion in dividends will be paid out by Australian companies.

According to online broker CommSec, 91 per cent of locally-listed companies chose to pay a dividend from their full year earnings and 85 per cent lifted or maintained dividends.

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HOMING IN on retirement

Pick an Australian, any Australian, and chances are they dream of buying a home or upgrading the one they already own. There's the emotional satisfaction of knowing you own the roof over your head, the freedom to rip up carpets and keep a pet, and the stability it offers as you raise a family. But home homeownership also has a role to play in retirement planning.

For most of us, the long-term goal is to retire with a home fully paid for and enough investments both inside and outside superannuation to support a comfortable lifestyle. What is less well understood is that the better you manage your mortgage and other debts along the way, the more money you will have for income-producing investments to fund your dream retirement.

Spending too much on renovations or buying in the wrong location are common mistakes that may potentially reduce your retirement income. Moving is costly and if a renovation doesn't add value then it is money that can't be recouped if you decide to downsize later in life.

The right loan

The loan you choose can also make a big difference to your retirement nest egg. Interest rates may be at historic lows, but there are big difference in the rates available from different lenders so it pays to shop around. If you already have a mortgage, ask your lender for a better deal. More often than not they will reduce your interest rate to keep your business, which saves you the cost of refinancing.

It also pays to think about the type of loan you choose. While interest-only loans often make sense for investors, they can be an expensive choice for owner-occupiers even though on the face of it they appear more affordable.

The catch with this type of loan is that without any repayment of the loan principal, interest-only borrowers are continually paying interest on the full amount of the loan.

The Australian Securities and Investments Commission (ASIC) recently crunched the numbers and found that on a $500,000 loan at 6 per cent, making interest-only payments for just five years can add $37,000 to the long-term cost of the loan.

Once again, that money could be earning compound interest in super and bankroll some memorable travel experiences in retirement.

Tax efficiency

Tax also has a role to play when it comes to managing your housing debt for the best retirement outcome. While your family home is generally exempt from capital gains tax, the favourable tax treatment of the family home does not extend to your home loan.

Unlike investment loans, your mortgage is not tax deductible so paying down the mortgage and freeing up money for investment is an important step in your retirement planning. However, the best place for your surplus cash may depend to some extent on your marginal tax rate.

For people on high marginal tax rates, salary sacrificing into super may be more effective than paying down debt. That's because pre-tax contributions are generally taxed at just 15 per cent rather than your marginal rate. This strategy is even more effective when investment returns are higher than home loan interest rates.

For people in lower tax brackets it is generally preferable to pay down debt first and reduce interest costs.

Home and hosed

The closer you get to retirement the more important it is to be debt free, especially if your resources are limited.

Unless you rent out a room or enter into a reverse mortgage – a product that has never really taken off in Australia – your home won't produce any income in retirement. So a balance needs to be struck between the amount of money you sink into your home and the amount you direct into income-producing investments.

If you would like to take a more holistic approach to your retirement planning, including the role of your family home, give us a call.

Rise & shine

We Aussies have a reputation for being laidback, so it comes as a surprise that we don't tend to sleep in. When Jawbone crunched the data from the activity trackers it has sold around the globe it discovered the world's earliest rising international city wasn't frenetic Tokyo or bustling New York, but sunny Brisbane.

It seems the average Brisbanite leaps into action at 6.29am. And, according to another study, almost half of all Australians are up and at 'em by 7am.[i]

Apparently, millions of us have taken Benjamin Franklin at his word about health, wealth and wisdom arising from bouncing out of bed shortly after dawn. But does the evidence support Franklin's view?

Are early risers healthier?

Most early risers don't head straight to the workplace. Rather they set their alarm clock so they can kickstart their day with a yoga class, gym session, surf or jog. Of course, it's possible to engage in those activities later in the day. But without good time-management and self-discipline, exercise often gets put on the backburner as demands and distractions pile up.

While getting up early to exercise is a great way to fit physical activity into your day, it's difficult to determine whether getting up earlier makes people healthier, or healthy people get up early.

It may just be the post-workout meal rather than the workout itself that makes the difference. University of Roehampton research found that early risers were more likely to eat breakfast.[ii] And people who eat breakfast are less likely to be overweight.

Answer: Probably

Do early risers earn more?

According to a Danish study, morning people earn 7 per cent more than evening people.[iii] This could be because a society where most people start work by 9am favours people who enjoy an early start to the day. Early risers were shown to possess greater qualifications and had jobs in more lucrative fields than late starters. If a night owl possessed the same qualifications and job as an early bird, the difference in earnings would be only 2 per cent.

However, for every study showing larks out-earning night owls there's one that suggests the opposite. Studies from sources as diverse as the University of Madrid to the US Air Force have shown late risers have an edge in areas such as inductive reasoning and lateral thinking, which means they're more likely to have higher-paid, white collar jobs.[iv]

Answer: The jury is still out.

Are early risers smarter?

The University of Madrid study also revealed larks do better in school. But again, chicken and egg arguments scramble the matter. School lessons and exams are typically scheduled for the morning and early afternoon, which would seem to give early risers an unfair advantage.

All is not lost if you are not great in the mornings though, as night owls had a preference for independent thinking and while that was a handicap in sitting exams it did stand them in good stead in their careers.

Answer: Well, they get better exam marks.

How do I resist the urge to hit the snooze button?

Irrespective of what studies show us, rising a bit earlier is a great way to squeeze more out of your day, whether you use the time to hit the gym, work on that novel, or just get a head start on your working day.

For those of us who struggle to get out of bed in the morning but would like to reap the benefits of an early start, here are some tips to help you rise and shine.

1. ***Have a good reason to get up earlier***
2. ***Go to bed earlier***
3. ***Don't eat just before retiring***
4. ***Switch off all electronic devices & keep the room dark***
5. ***Start small - set the alarm a little earlier each day***

i http://www.smh.com.au/money/saving/larks-leave-sleepyheads-in-the-dark-20150630-gi165z.html

ii http://www.roehampton.ac.uk/News/Study-explores--morning--people/

iii http://www.jstor.org/stable/23646456?seq=1#page_scan_tab_contents

iv http://news.bbc.co.uk/2/hi/health/503631.stm

barriers come *tumbling down*

Australia has recently signed a number of free trade agreements (FTAs) and has another in the pipeline with India. The landmark deal with China and the largest free trade agreement, the Trans-Pacific Partnership (TPP) between 12 Asia-Pacific nations, including the United States will have a significant impact on all Australians.

As tariff barriers fall like dominoes, we can all profit from a greater understanding of the potential benefits, and pitfalls, for local businesses, consumers and investors.

The potential upsides

An FTA is an international treaty which removes barriers to trade. They can link two economies or cover entire regions with multiple participants.

Under the Australia-China FTA, for example, 95 per cent of Australian goods exported will be tariff free when the agreement is fully implemented. In Japan, high tariffs on Australian beef exports have been cut. Many of our agricultural exports can now enter Japan duty free, including prawns, lobsters, asparagus, cherries, grapes, macadamia nuts and almonds.

And it's not just all about food and minerals. In a world where service industries are increasingly central, free trade agreements often cover areas such as government procurement, intellectual property rights and competition policy.

The potential downsides

Australian governments have been enthusiastic about FTAs, having agreed to nine since 1990. But a recent Productivity Commission report was less enthusiastic, arguing that preferential trade agreements add to the complexity and cost of international trade for businesses, grant legal rights to foreign investors not available to Australians and expose Governments to potentially large legal costs in disputes with foreign corporations and other investors.[i]

Other potential pitfalls are the ability of powerful countries to tilt the economic playing field in their favour and the risk that large trading blocs will create global economic instability.

Organisations such as consumer advocacy group Choice worry that the TPP may benefit foreign businesses at the expense of Australian consumers. In particular, there's concern the agreement may allow the Australian government to be sued by companies for making laws in the public interest.[ii]

There are also fears the TPP may lock in laws that result in Australians paying higher prices than people elsewhere in the world for a wide range of goods from cars to computers and cosmetics.

Unprecedented opportunity

While the TPP will be significant, all FTAs that have been signed, sealed and delivered will be affecting Australian business people and consumers in the immediate future.

The government argues the completed FTAs will help to increase Australia's productivity and contribute to higher economic growth. They will achieve this by allowing businesses access to cheaper inputs, introducing new technologies, and fostering competition and innovation.

For consumers, increased competition should translate into a wider range of products and services at cheaper prices.

So what should I be investing in?

The new FTA with China will benefit Australian agribusiness, particularly dairy and meat producers. Australian service businesses, such as educational institutions, are also expected to do well out of increased access to Chinese markets.

Conversely, lower tariffs on Chinese imports – of which 94 per cent are manufactured goods[iii] – will benefit Australian consumers in the form of lower prices for products such as clothes, but they won't do our manufacturing sector any favours.

The FTA with Japan provides access to their markets for a range of Australian service suppliers, including financial, legal, education and telecommunications services. It also benefits consumers, with cheaper import prices on goods such as cars, white goods and electronics.

Australia's tighter embrace of the global economy will have winners and losers, with the biggest winners likely to be local businesses in a position to boost exports and crack new international markets.

If you would like to discuss how Australia's FTAs could impact on your investment portfolio, please give us a call.

i http://www.macrobusiness.com.au/2015/06/productivity-commission-slams-tpp-trade-deal/

ii http://www.abc.net.au/news/2015-03-18/tpp-could-force-government-to-spend-millions-subsiding-medicines/6328132

iii http://dfat.gov.au/trade/agreements/Pages/benefits-of-ftas.aspx