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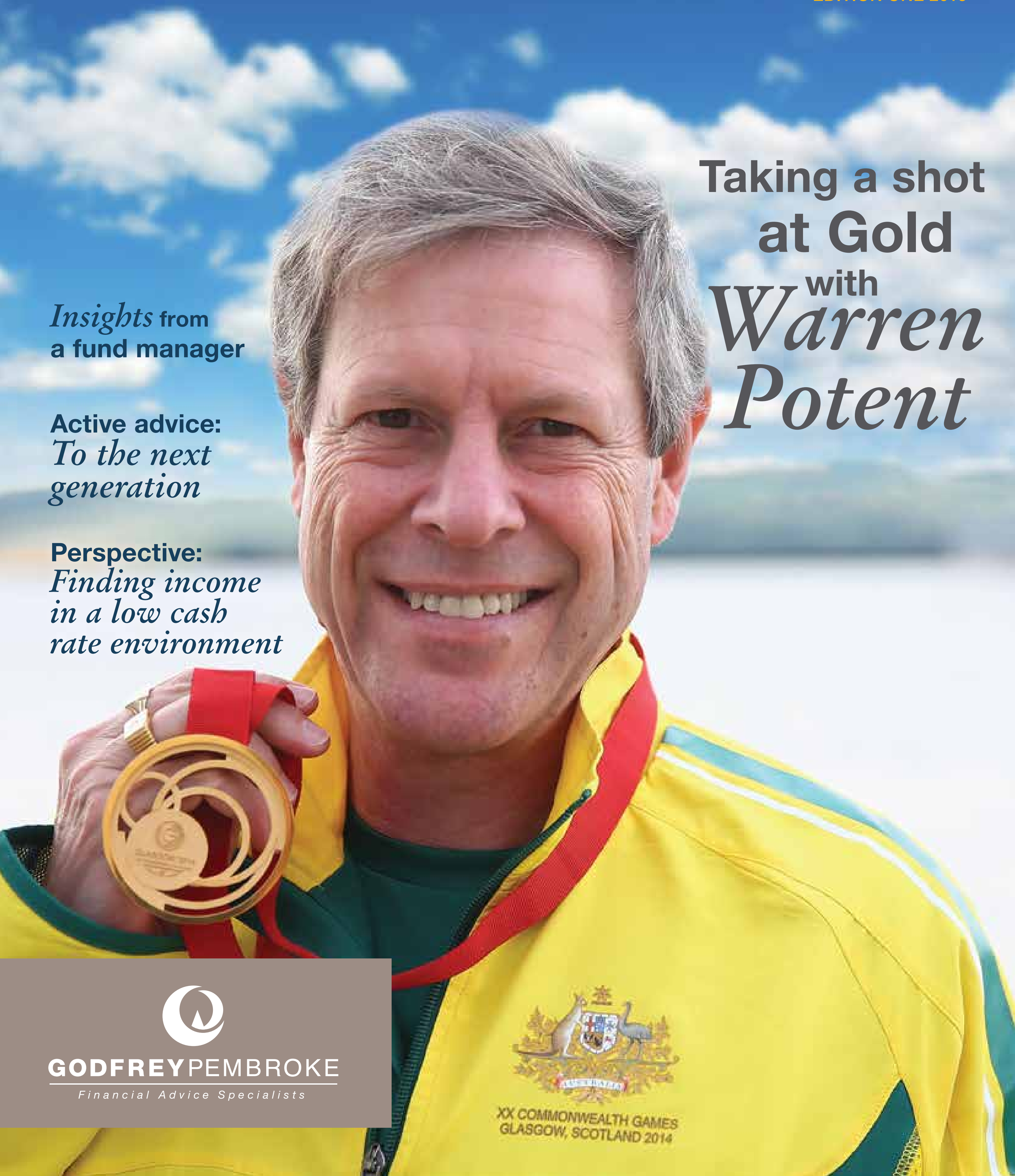

Taking a shot at Gold with *Warren Potent*

Insights from a fund manager

Active advice: *To the next generation*

Perspective: *Finding income in a low cash rate environment*

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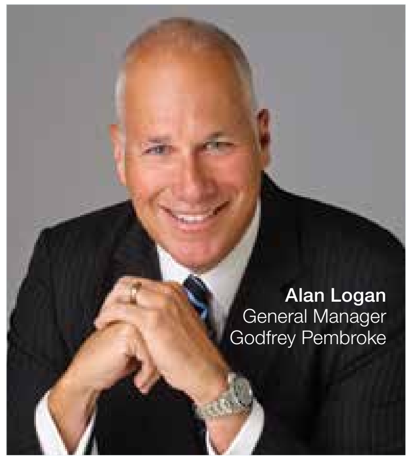
Welcome to the winter issue of Outlook for 2016



With shorter days and colder nights upon us, chances are you're spending some of your evenings indoors, settled in front of the TV. So you may have seen one of MLC's advertisements for our 'Let's Save Retirement' campaign. If you haven't, here's the gist: set in the future, a busy archaeological dig is unearthing a set of golf clubs, remnants of an ancient phenomenon that no longer exists – retirement.

The advertisement is a light-hearted take on a very serious issue – the estimated $1 trillion gap in our country's retirement savings. This shortfall, coupled with our increasing longevity, means that many Australians may miss out on at least some of their retirement. And this isn't just an issue for low-income earners; many in the highest tax bracket aren't adequately prepared either.

Fortunately, there are things you can do while still working to help ensure you're financially set up for a secure lifestyle when you retire. For ideas on how to accumulate wealth for the future and make the most of your life once you've stopped working, I strongly recommend you make contact with your adviser to help you understand which strategies are right for you and to help you achieve a comfortable retirement lifestyle.

Getting professional advice is even more important than ever, given that today's low interest environment has investors and retirees alike looking to strike the right balance between volatility and returns.

In this issue of Outlook, we look at the challenges the current environment presents, and explore the pros and cons of other investment options. We also speak to Gareth Abley about alternative investments, like hedge-funds and performance in the current environment.

For those of you who are thinking about giving a helping hand to your children or grandchildren, be sure to read our Active Advice article To the Next Generation. Charmaine Curtain talks about the increase in intergenerational advice, and how older Australians can help the next generations attain financial security.

Finally, with the Rio Olympics just around the corner, we're all hoping for Gold – but probably not as keenly as rifle-shooter Warren Potent. As Australia's oldest athlete and a former Olympic Bronze medallist he's set to attend his fifth Olympic Games and take another shot at the gold. We talked to him about his journey to the top of his sport and the thrill of competing to win.

As always, we welcome your questions or suggestions for articles that you'd like to see in future issues of Outlook. Simply email us at outlook@godfreypembroke.com.au.

Yours sincerely,

Alan Logan
General Manager,
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In this issue

Taking a shot *at Gold* with Warren Potent

In August, **Warren Potent** will be Australia's oldest competitor at the Olympic Games in the 50 metre prone rifle shooting event. At 54-years of age, he'll also be one of the most experienced, with the 2016 games marking his fifth Olympic appearance. And this time, he's gunning for gold.

Taking a shot *at Gold*

with Warren Potent

While most athletes dream of representing their country at the Olympics, only a small proportion ever see that goal become a reality. Even fewer manage to compete more than once.

This year, Australian rifle shooter Warren Potent looks set to join a very small and elite set of athletes, competing in his fifth consecutive Olympic Games. To give you an idea of how rare and impressive this is, less than 10 Australians have competed in five or more Games since the modern Olympics began in 1896.

Earning his place

Born in Sydney's west, Potent had his first crack at shooting when he was just 16, when a friend invited him to come along to the local rifle range.

"I was a pretty strong tennis player at the time – so I had a good eye," Potent said. "When I was leaving the shooting range one of the people at the club asked me to come back and I said 'Yeah – I will.'"

He began visiting the rifle range each week, and started competing regularly from around 18 years of age. Like a lot of Australians, he said he always harboured a desire to compete for the country in sport, especially in the Olympics.

"I wasn't the fasted runner or the highest jumper or anything like that, so shooting sort of worked out for me I suppose," he laughed. "I have the kind of mind that focuses on very fine details, and very fast reflexes – that's what makes a good shooter."

In 1986, when he was just 24, Potent won the 50-metre prone team event in the East Germany World Championships, but narrowly missed out on a place in Australia's team for the 1988 Seoul Olympics.

However, his skill and dedication were soon to pay off, with a place on the Australian teams for both the Sydney 2000 and Athens 2004 Games. Then in 2008 in Beijing, he had his first taste of Olympic glory, taking the Bronze in the 50 metre prone event. He followed up with a silver and a bronze in the 2010 Commonwealth Games, then went on to win gold at the world championships in Granada, Spain in 2014 – the first Australian to ever achieve such a win.

The buzz of competing

Despite spending almost the whole of his adult life competing at the highest level, Potent isn't considered a professional shooter, as he's not paid to compete.

"I don't actually make a living out of the sport – I've got a nine to five job like other Australians," Potent explained. "That means I'm classed as an amateur – although I do compete against a lot of professional sports people."

Instead, Potent says that the reward comes from the buzz that competing gives him.

"What I enjoy is going around the world competing and getting a chance to win these competitions."

Finding his focus

To stay in form, Potent fits regular weekly training sessions into his busy work and home schedule. Regular repetition helps keep him on top of his game.

"I'm probably as good as the number of shots I've fired," Potent said. "Shooting's like any other sport – a tennis player doesn't become great by hitting three tennis balls. I've achieved what skill I have through firing a lot of shots, and staying mentally focused."

But he says that finding the right level of focus hasn't always been easy.

"Probably the most challenging time of all was between 2011 and 2013," he said. "I wasn't shooting very well because I was trying too hard."

Potent had to learn how to mentally relax again and let things happen instead of trying to force outcomes.

"Learning to mentally let go and let it happen automatically got me out of my slump," he explained. "Since then I've been doing pretty well."

The right support team

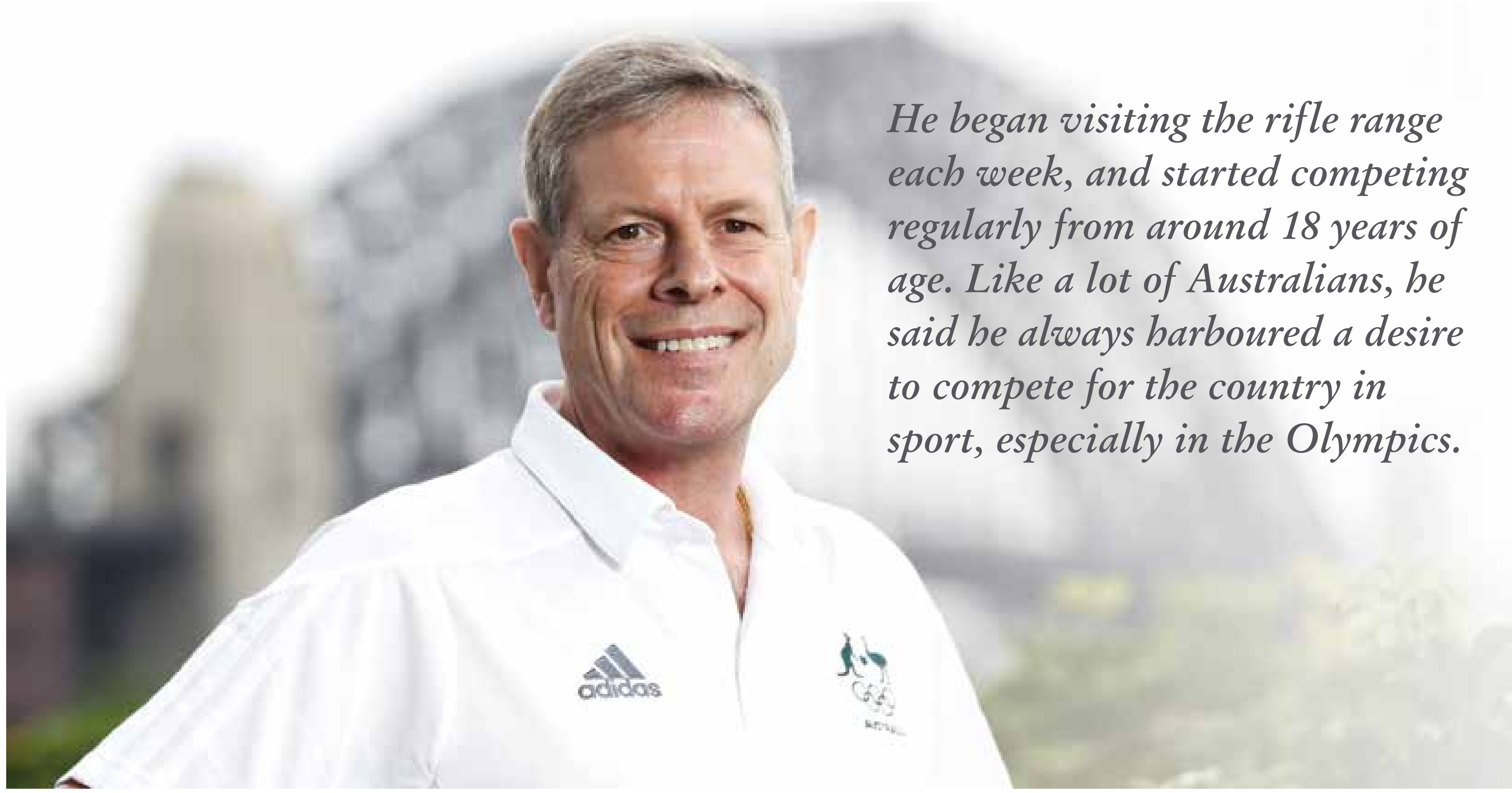
Like all athletes, Potent has had help and support along the way, starting with his first mentor, Ken Asquith, who's been looking after him at his home range since he was a junior.

"He's not credited as my coach but he probably is! He's one of the best coaches in the world when all's said and done," he said.

"I've also got a very good national coach, Petr Kurka, who's great."

But he says his strongest supporter is his wife, Lee, who he met by chance when competing in Bangkok.

"I was in at the World Cup Final, waiting for the official bus to take me back to my hotel," Potent explains.



He began visiting the rifle range each week, and started competing regularly from around 18 years of age. Like a lot of Australians, he said he always harboured a desire to compete for the country in sport, especially in the Olympics.

"There were two Thai women also waiting, and one of them came over and said 'Hi, do you remember me?' It was the wife of an ex-pat Australian friend of mine. She introduced me to her very pretty friend, Lee – and we started talking."

Potent was free the next day so the couple caught up again, this time exchanging numbers.

"We've now been happily married for almost seven years," he said. "I'm so glad I decided to take the bus that day! If I hadn't, I would never have met her."

Potent says that Lee helps him keep things in perspective when competition isn't going his way.

"She's always relaxed," Potent said. "When things go wrong she'll just say to me: 'Don't worry, the sun will still come up tomorrow'."

Gunning for gold

Potent says that he can't help but hope for gold at Rio – but he remains philosophical about it.

"Sport being sport, you never know what's going to happen on the day," he said. "And in my competition, where there are probably about 20 people who could win."

"But if it's my day I'll have a medal around my neck. Hopefully it'll be a gold one – but I won't' be disappointed if it's another colour!"

"I don't actually make a living out of the sport – I've got a nine to five job like other Australians, that means I'm classed as an amateur – although I do compete against a lot of professional sports people."

Insights from a *fund manager*

As leader of MLC's Alternatives Strategies team, **Gareth Abley** is guided by 'open-minded scepticism'. He talks to Outlook about the role that hedge funds play in the current high volatility/low interest rate environment – and how investors' behavioural biases can be their own worst enemies.

Gareth, with volatility in sharemarkets persisting and interest rates still at historic lows, what do you see as the main challenges for investors?

I believe there are two key challenges facing investors. The first one is a structural long-term portfolio composition challenge, where investors don't have balanced exposures within their portfolios. In other words: in a typical 70 growth / 30 debt type portfolio, 95% of the risk comes from equities, because they're so volatile. This translates into a single risk, which is equities risk.

Now, over the last 50 years that's worked pretty well because in general, it's been quite a benign period – economic growth has been good, demographics favourable and there have been no major wars. But if we look over history, and across countries, we see periods where equities have been far less kind – even over 10 and 20 year periods. So in my view, if equities are providing 95% of the risk in your portfolio, that's too much.

The second challenge arises from our starting point today. Traditional diversifiers for equities are bonds, which generally deliver stable returns and rise in price when equities fall. But in the present low rate climate, they're obviously less attractive on both return and diversification grounds. We know that holding a 10 year bond with a 1% yield to maturity can only give you 1% pa.

In this environment can alternative investments, like hedge funds, property and commodities, provide a solution?

In a situation like we find today, the natural reaction is to look for other things rather than equities and bonds (such as hedge funds) and obviously commodities and property. While this makes sense, they're not a silver bullet for investors' problems.

Although the strategy we manage is focused on hedge funds, we don't think the average hedge fund is a good investment. Fees are too high, diversification is usually less than advertised and returns can be underwhelming.

Instead, we search the very expansive hedge fund universe for strategies that provide attractive returns (after deducting fees) and diversification, which in our view is a very narrow subset. So I think that investors need to tread carefully and seek good advice before seeking diversification in hedge funds.

What kind of investors are alternative investments best suited to – and why?

On one level, alternative investments could suit any investor due to the returns and diversification that the best quality alternatives can provide. But if you dig deeper, I think all investors – mums and dads, financial advisers, or large-scale institutions – need to first reflect on their circle of confidence for appraising these more complex strategies. In other words: they need to understand what they are qualified to have a view on and what they're not.

At the various layers within the investment pyramid (from company CEOs, broking analysts and fund managers through consultants, financial advisers and investors) one of the big challenges is information asymmetry. People are generally buying (whether it is an opinion or a product) from someone who knows more than they do. So for me one of the most valuable qualities for any investor is open-minded scepticism. They want to be open-minded in seeking to find attractive alternatives – given the portfolio benefits can be big - but they must always view them through a sceptical lens.

What is your strategy and how do you achieve it?

Our objective is simple. We aim to deliver attractive returns regardless of whether equities are going up or down. To achieve this, we focus on various strategies, which look different to a lot of others.

One group of strategies is what we call uncorrelated risk premiums, where we get paid for consciously taking a risk that is generally uncorrelated to everything else in our portfolio, particularly equity risk. An example of this is natural catastrophe reinsurance. This is where you take exposure to risks like a hurricane in Florida or an earthquake in California. These events are completely unrelated to what's happening in the markets, or to the decisions of the central banks. As such, it's probably one of the purest diversifiers available. We have made strong returns here and have reduced exposure as yields have come down.

Another niche strategy we invest in is merger appraisal rights. This involves investing in merger deals where the target company is being acquired at a price that is deemed to significantly undervalue its shares. This is rare – most transactions have an attractive takeover premium, but sometimes there can be a flawed sales process, or misaligned executive incentives that see a deal done that is below the 'fair value' of the company. Merger appraisal rights exist to protect disadvantaged minority shareholders in these cases. The opportunity is to identify these situations, exercise these appraisal rights, and then litigate to achieve a fair value, which is determined by the Delaware Court (if not settled beforehand). If done selectively, there is a strong chance of the Court awarding a higher price. What makes this strategy attractive is that there is also statutory interest paid to the shareholder pursuing appraisal rights, which is currently cash+5% pa, to compensate them for their capital being locked up during the process. This is paid on top of any uplift to the merger price. Overall, this creates asymmetric upside, very low downside risk and a very low correlation to markets.

With any investment, we do a lot of work in meeting with various layers of people within the firm, meeting with the banks who act as counterparties, meeting with their competitors and people who've left the firm, to try and triangulate as objectively as possible the managers' characteristics. Our view is that the quality hurdle has to be very

high – so it generally takes 7-8 months of detailed work before we are willing to invest.

We only invest in 12 funds but we've probably met with well over 500, and have done detailed work on about 200.

You have a deep interest in behavioural economics. Why does this area appeal to you?

Behavioural economics teaches that we have a plethora of biases that are deeply hard-wired, and which affect our investment decisions. Next to investing, my other big passion is meditation, and I'm fascinated by how the mind works. So for me, behavioural economics is a bridge between these two passions.

Many studies show there's a huge difference between the return experience of the investor and the actual performance of the strategy they invest in. That's driven by the fact that people have a strong tendency to invest in strategies after they've done well and get out of strategies when they've done badly. This has a big cost to returns over time and is perhaps one of the most important behavioural biases to be aware of.

Are investors and investment managers able to overcome these biases?

In 2002, I was lucky enough to meet Daniel Kahneman, who won the Nobel Memorial Prize in Economic Science. I asked him, having spent his whole life studying these biases, whether his self-awareness made him any less exposed to them, and his answer was a very clear no.

So because self-awareness doesn't control these biases, we need an investment process that actively minimises them and improves our decision-making.

We've been using these insights to help understand how we can to create process that allows us to be as objective and as skilful as possible when selecting investments. For instance, we have a 12-point behavioural bias checklist of the key behavioural biases, which we have woven into our research process.

One of the benefits of our approach is that it is designed to deliver smooth returns over time. If you can create a much smoother journey for investors by avoiding those big ups and downs then you dampen those psychological tendencies to act in the wrong way at the wrong time.

For investors, another way to mitigate these biases is by having an adviser who can hold your hand and stop you from doing something that's counterproductive. I can't stress how valuable this kind of support is – along with all the other benefits that an adviser can provide.

Active advice: *to the next generation*

Charmaine Curtain, Managing Director of Global Partnerships Financial Consulting, has been advising clients for more than 27 years. She spoke to us about families seeking financial advice collectively.

As the costs of housing and living in Australia is rising, so does concern that today's young people may be locked out of home ownership and the comfortable lifestyle their parents enjoy.

Around one-third of parents worry their kids won't have the same quality of life as them, and almost one in five children expect to be relying on the family inheritance to pay off their mortgage, according to MLC's Australia Today report.[1] This is why a growing number of families are seeking advice together — to achieve positive financial outcomes across generations.

Recently, Charmaine has noticed a distinct increase in demand for intergenerational advice, as parents and children manage the transfer of wealth within the family.

"There is currently a big wealth shift as baby boomers receive inheritances from their parents. But there is also a growing trend of baby boomers who are gifting money to their adult children – or giving direct inheritances to grandchildren to help them along their way," Curtain explains.

Helping the next generation

Curtain says that parents are using a number of strategies to help their children out financially – from offering to cover the cost of their weddings, to paying off some of their mortgage or their grandchildren's education.

But she says the best assistance that a parent can give the next generation is the tools to help them stay financially secure – and that means seeking advice early.

"People aged in their 30s and 40s often have two incomes and are busy building their careers, raising children, paying off their mortgage and trying to fit in a holiday to maintain some sort of balance," says Curtain.

"But many wait until their children have finished school and they have paid off their mortgage before they seek advice. This delay often means they may not have the most effective cash flow, debt repayment strategy, super portfolio or back-up plan in place."

Curtain also warns that by not seeking advice earlier, families could be putting their financial security at risk – causing a ripple effect across several generations.

"Working parents must have adequate insurance, like income protection or trauma insurance, in place – just in case something goes wrong and they can't work," says Curtain. "Otherwise, their newly retired parents may find they have to cover them financially, which could seriously impact their retirement plans."

The value of advice

So how does intergenerational advice work? Curtain's Global Partnerships Financial Consulting's philosophy is centred around 'the wheel of life'. This wheel includes all the elements of a person's life: personal growth, career, family and friends, health, relationships, social, hobbies and, finally, wealth. It's a tool that assists people to reflect on their level of satisfaction across all elements of their lives.

"Money isn't the most important thing in life," Curtain comments, "but it touches everything that is. The wheel of life is a starting point for creating balance, happiness and success. It's a tool that helps you reflect on how satisfied you are in life's different areas."

Curtain tells her clients that it is only by taking control of their finances that they can find time to pursue personal life goals.

"Most people want an understanding of where they are now, where they want to be and how best to manage the gap in between. They want a clear plan to achieve their lifestyle goals and peace of mind that they have a financial strategy in place to help them reach their ideal destination.

"Our expertise lies in being able to provide sound financial advice in addition to emotional guidance. Our role is to coach and inspire people to live the life they want free of stress and money worries, so they can concentrate on the other areas of their life.

Smooth transitions

While it is often parents recommending advice to their adult children, the focus is shifting to aged care and estate planning as baby boomers watch their own parents grow older.

"An estate plan is a must," Curtain advises. "If done well and executed properly, it can make a real difference to the financial position of the recipients. If misjudged or poorly handled, it can cause arguments, grief and resentments that often are never forgotten or forgiven."

Advisors from Global Partnerships will often see a family as a unit , acting as an intermediary between generations. This enables the family unit, sometimes spanning up to 3 generations, to express diverse opinions and perspectives in a safe and independently managed environment with customized understanding of individual needs.

"Families are complex and there are often conflicting opinions, needs and wants," Curtain says. "The challenge often arises when loved ones are lost or become unwell, or there are family breakdowns."

By seeking advice collaboratively, families can resolve issues as they arise to prevent disputes down the track.

"Families that have a well-documented estate plan with clear instructions, and whose beneficiaries understand the plan, experience a smoother transition of wealth between generations," says Curtain.

This plan gives parents peace of mind that their assets will be divided according to their wishes, and won't lead to discord in the family. An effective estate plan takes into account the implications for all beneficiaries, including what tax they'll have to pay and where their inheritance might end up.

The gift that keeps giving

For Curtain, the greatest satisfaction of providing intergenerational advice is knowing she has helped families put the best possible financial road maps in place for their futures.

"The most rewarding part of what we do is watching families prosper through successive generations; children born, weddings, career success, transitioning to a fulfilling retirement and other life events," Curtain says.

"Being a trusted and valued life partner for generations is a great privilege."

Top tips to help *your kids financially*

1. Make a binding beneficiary nomination through your super or life insurance policy
2. Create a family business structure for your company.
3. Give a cash gift — up to $10,000 a year capped at $30,000 over 5 years.
4. Seek guidance from a financial adviser early and plan for your future.

[1] IPSOS, Australia today: A look at lifestyle, financial security and retirement in Australia, 2016

the good *oil?*

The falling price of oil means it's much cheaper to fill up at the pump. That's a good thing for your weekly budget, but what does it mean for the global economy?

You've probably noticed that the cost to fill up your car has been a little lower lately, thanks to a fall in oil prices across the globe. But why is it happening? And what are the broader economic impacts of a persistently lower oil price for Australian businesses and consumers?

A brief history of oil prices

Since the late 1960s, world oil prices have been through a number of periods of volatility – often as a result of instability in one of the world's major oil producing regions, the Middle East.

Then in 1971, the US government's decision to move to a floating currency[1] put downward pressure on the price of oil, with a negative impact on the economies of oil producing nations.

When the US supported Israel in the Yom Kippur war against Egypt in 1973, the Organization of Arab Petroleum Exporting Countries (OAPEC) responded too by dramatically raising the price of crude oil, and putting an embargo on the US and other allies of Israel[2].

At the same time, oil production in the US was declining, and the country's reliance on foreign sources of crude was rising[3].

These factors created a perfect storm, resulting in an oil crisis in which the price of crude oil leapt by four times – from $3 to a staggering $12 a barrel. There was a chronic fuel shortage in the US, causing turmoil at the petrol pumps, and straining relations between the Middle East and the West. The oil shock also had an impact on the US automotive industry, as consumers increasingly purchased Japan's more fuel-efficient cars over the thirstier domestically produced models.

The impacts of the oil crisis reached beyond the US to its allies in Europe, with affected countries introducing transport restrictions in response to the crisis. In the UK, the government went as far as suggesting that citizens restrict their use of heating[4].

While the crisis eventually ended after the US attempted to broker peace negotiations in the Middle East, it had an ongoing effect on the global economy. The high cost of oil had intensified already existing economic woes in Western countries. It also saw oil-producing countries lending out some of the huge surpluses created during the embargo to oil importing countries, to cover their energy costs. In response, the US and other western countries began to look at ways to conserve energy, such as reducing speed limits[5]. But even with these strategies, demand for oil stayed strong, and countries such as Saudi Arabia continued to control the price of oil.

Oil prices today: heading south

Since 2014, oil prices have been in a steady decline and at the time this article went to print, crude oil was trading at US$47 a barrel[6] down from the record peak of US$145 in July 2008.

The price drops have been driven by a number of factors.

Firstly, in the US and Canada, there's been an increase in production of what's known as unconventional oil, such as shale oil, which is produced by fracking.

The amount of energy supplied from renewable sources such as solar and wind has also increased. And at the same time, other oil-producing countries such as Russia, Venezuela, Nigeria and Argentina have started to become more productive, finally breaking OAPEC's monopoly as chief oil producers. India now imports its largest supply of oil from Africa, while Russia has overtaken Saudi Arabia as China's biggest supplier[7].

In the last two decades or so, rapid industrialisation of China and India increased the two countries' demand for oil. At first, this boosted the price of oil across global share markets. But with China's economy slowing, the super power's demand for oil has waned.

Finally, Saudi Arabia, one of the world's largest oil producers of oil, decided against cutting production to boost the prices, so that it didn't have to give up market share[8].

So with supply increasing and demand waning, there's now a glut of oil on the market. And because it's expensive to store, suppliers can't squirrel it away, so they're selling it cheaply on the market. Because of this oversupply, oil prices are predicted to remain low, at least until the end of the year.

Falling revenues and instability

Naturally, those that have the most to lose from falling oil prices are producers and exporters. Oil has become so cheap that in some cases, it's become more expensive to produce than sell. As a result, many companies are cutting production.

Smaller energy companies that took out loans to expand their production are now under pressure from the higher cost of debt, which is affecting their cash flow and profits.

Countries which rely on oil as their major export have seen their terms of trade decrease markedly, devastating their economy. For instance, oil and gas forms 25 per cent of Venezuela's GDP and accounts for 95% of the South American country's export earnings. Falling oil revenue, which used to support government education and health programs, is now causing hyperinflation and could lead to political instability[9].

In Saudi Arabia, where oil brings in around 90% of the country's revenue, falling prices have also seriously affected the country's wealth, which supported the country's generous welfare programs and high standard of living. There is concern that this could cause further unrest in a region already plagued by instability.

Australian consumers and investors

For Australia, which gets 20% of its oil from exports[10], the falling price of crude oil is a boon. For starters, it's increased our terms of trade, and is driving down the cost of doing business, especially for industries like transport and construction, which rely heavily on oil.

Consumers are also enjoying lower prices at the petrol pump, which means they've got more left over at the end of the week to spend elsewhere or save. Finally, Australia's trading partners, particularly China, should benefit from cheaper oil prices – so that's good news for the Australian economy too.

But what about investors? With share prices of energy companies so low, is it a good time to buy? While MLC has been exploring this option, we still believe that for now, there is better value to be found in sectors other than energy or countries that aren't heavily reliant on commodities. But we continue to keep a close eye on the price of oil and its implications for economies and investments.

[1] University of California, Berkeley Slaying the Dragon of Debt – fiscal Politics and Policy from the 1970s to the Present
[2] US Office of the Historian (2016) Oil Embargo, 1973–1974
[3] Whiffen, Katie (2016) The oil revolution: what's happened and where's it heading? NAB Asset Management
[4] The Guardian (2011) Background: What caused the 1970s oil shock?
[5] RBA Statement of Monetary Policy February 2015

[6] www.nasdaq.com/markets/crude-oil.aspx (as at 24 June 2016)
[7] Upadhyay, Rakesh (2016) China And India Rewrite The Rules Of The Oil And Gas Game
[8] Oil Price (2016) The Hidden agenda behind Saudi Arabia's market share strategy
[9] The Centre of Global Energy Policy (2015) The impact of the decline of oil on the economic, politics and oil industry of Venezuela
[10] Australian Institute of Petroleum, Facts about Petrol Prices

Perspectives: *finding income in a low cash rate environment*

The Reserve Bank recently announced another cut to the cash rate, which means our persistently low-interest rates aren't going up anytime soon. So why is the rate so low? And what alternative income sources are there for people in, or approaching, retirement?

We all know that if you're paying off a mortgage, the announcement of another interest rate cut is good news. But for investors who are searching for healthy returns on their savings, low interest rates are much less welcome.

As in other developed countries, Australia's cash rate is currently at a record low. In May this year, the official rate fell to just 1.75%, the lowest it's been in 34 years. And, if the Reserve Bank's comments are anything to go by, it's unlikely this situation will improve any time soon.

For those in retirement, or about to retire, this presents something of a problem. With fixed interest investments and term deposits offering very low rates of return, those relying on them for income may find themselves having to draw down more of their capital to fund a comfortable lifestyle. Depending on the size of retirement savings, this could mean a smaller legacy to leave behind – or the risk of running out of super altogether.

So why are interest rates so low? And what can investors do to boost their earnings, without taking on too much risk?

How did we get here?

The interest we earn on cash and fixed interest investments is not only affected by the RBA's official cash rates, but also by the global availability of credit. For instance, in 2009 when the GFC was in full swing, it was far more difficult and expensive for Australian banks to borrow the money they lend out to customers from their overseas counterparts.

This meant that banks had to rely more on their other source of loan funding – customer savings. So they increased interest rates on customer accounts, creating an incentive to save.

Today, however, the global economy is in better shape, so credit isn't as difficult or costly for banks to come by. This, coupled with a very low cash rate, means that interest on savings accounts and term deposits aren't as attractive as they once were.

Term deposits

It is only as far back as 2011 when it was possible to earn more than 6% on term deposits[1]. But with rates for a $25,000 investment now at around 3%, things could certainly still be worse[2].

Term deposits still offer a secure and positive return that's holding just above the inflation rate, which was at 1.3% at the end of the March 2016 quarter[3]. So while your term deposit may not be paying much interest, at least you won't be going backwards.

Bonds

Another traditionally secure source of income is government bonds. If you're investing for income, there's plenty to like about them: they're liquid, provide a regular source of income and you're guaranteed to receive the face value of the bond if you hang onto it until it matures.

However, in mid-May 2016, the interest rate on 10-year Australian government bonds fell to a record low of 2.2%, driven by the low cash rate and weak economic forecasts. While this won't affect the price of any bonds you've bought in the past, this isn't great news for investors wanting to buy bonds now.

Another option for investors is corporate bonds – offering similar characteristics to government bonds, but with generally higher levels of return. Corporate bonds may offer fixed or variable interest payments, with coupons paid throughout the term, but are unlikely to give you any capital growth.

While they also have a higher level of risk than government bonds, it is lower than if you invested in the same company's shares, as bondholders are considered creditors and would be paid out ahead of shareholders if the company failed.

Remember, like other investments, the better the rate of return, the higher the risk is likely to be, so do your homework and seek advice before you invest.

Dividend-paying equities

A common strategy for boosting retirement income is to invest in large, high-quality mature companies with positive earnings outlooks and which historically pay out regular dividends – think Telstra or the big banks.

Because these companies aren't in the growth phase of their business, they're not using large amounts of their profits on expanding their operations. This means they're more likely to have funds to pay dividends to their shareholders. Many high-yield companies pay dividends twice a year, which can provide retirees with a regular source of income.

But in this current volatile market, even the most successful and reliable companies are under pressure. And if they lose value, it will affect the dividends they'll be able to pay out – and you could also face a loss of capital in the shorter term.

What's more, the Australian market is top-heavy in banking, energy and resource stocks. And even within certain sectors, such as utilities and telcos, a few large companies dominate. So relying too heavily on these high yield companies could mean your portfolio isn't as diversified as it should be.

Exchange Traded Funds (ETFs)

Like shares, ETFs can be bought and sold on the stock exchange. They track the performance of a market index or sub-index, such as the ASX 200, or assets such as commodities or foreign currencies.

Investors in ETFs receive dividends, franking credits and coupon interest payments, making them an attractive option for income investors. Plus, they often have lower fees compared to managed funds. What's more, because they follow an index made up of a number of investment components, like stocks or commodities, they can offer greater diversification than investing in similar shares.

On the other hand, because the underlying investment of ETFs will rise and fall with the market, they do have a higher associated level of risk, compared with traditional income investments. ETFs that are exposed to commodities, emerging markets and derivatives may carry even more risk and could be difficult to sell. And remember, if you're buying international ETFs, you'll also be exposed to currency risk.

The value of advice

If you're concerned about your retirement income, remember that the first place to go is to your adviser. Because they understand your personal situation, they will be able to help you create a strategy that best meets your retirement needs.

It is only as far back as 2011 when it was possible to earn more than 6% on term deposits. But with rates for a $25,000 investment now at around 3%, things could certainly still be worse.

[1] NAB historical rates, 6 June 2011: http://www.finder.com.au/historical-term-deposit-rates

[2] Canstar 30 May 2016: http://www.canstar.com.au/compare/term-deposits/

[3] RBA website, 201

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