outlook

EDITION ONE 2017

Investment:
Insights from a fund manager

Active advice:
Simple Pleasures

Specialisation:
Review your plans and stay on track

Perspective:
Reasons to be optimistic

Unlocking your wealth opportunities outside of super

Blazing a new trail in *women's AFL*

GODFREYPEMBROKE
Financial Advice Specialists

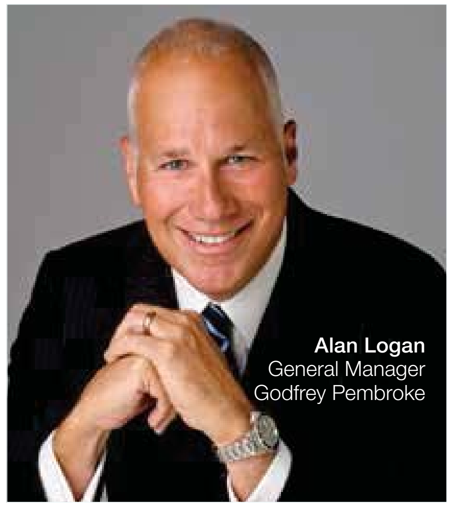
Toll Free Enquiry Line
1800 023 867

godfreypembroke.com.au

Published by
Godfrey Pembroke Limited 2017

Registered address:
105–153 Miller Street,
North Sydney NSW 2060

Welcome to Outlook's winter issue


Alan Logan
General Manager
Godfrey Pembroke

It's hard to believe another winter is well and truly upon us. And while it's tempting to stay indoors as temperatures drop, plenty of Australians are braving the cold and getting active on the sports field (or the ski slope if they're really lucky).

This year marks the beginning of a momentous event in one of Australia's favourite winter sports – the inaugural season of the AFL Women's League, with NAB as its major sponsors. As part of the NAB family, Godfrey Pembroke is proud to be associated with this historic time for women in sport. In our Enjoying Life segment of the magazine, we look at the enormous level of excitement that Women's League has generated among footy fans, and speak to Western Bulldogs captain Katie Brennan about her experience in this year's competition.

We then move our focus from Australia to overseas – specifically, international markets. It's fair to say that a lot of Aussie investors shy away from investing overseas. However, Head of Distribution at Intermede Investment Partners, Mike Gallagher, argues the case for the international share market, citing diversification and exposure to blockbuster sectors like IT as good reasons to consider offshore markets.

Of course, deciding where – and how – to invest your money is a deeply personal choice, and depends on your individual goals and appetite for risk. In our Active Advice section, we talk to Bob and Julie Hogan, two self-disciplined savers and planners who didn't want to take big risks where investment was concerned. They tell the story of how Godfrey Pembroke adviser, Harry Mantzouratos, is helping them achieve the lifestyle of their dreams, without having to step outside their comfort zone.

Finally, we catch up with demographer Bernard Salt, whose 'smashed avocado' comments set the Twittersphere alight last year, provoking heated discussion about housing affordability across the generations. Bernard discusses the topic in more detail – and explains why he feels very optimistic about Australia's future.

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,
Godfrey Pembroke Limited

In this issue

Blazing a new trail in *women's AFL*

For the first time in history, female AFL players have entered the big league. Bulldogs Captain **Katie Brennan** was one of the many talented women to be part of the inaugural NAB AFL Women's Competition. She shares with us her experience of being part of the unprecedented level of excitement it generated among footy fans.

Blazing a new trail in *women's AFL*

Twenty-four-year-old **Katie Brennan** can't remember a time when she wasn't playing footy, having picked up a ball at just five years old.

"I think I always had a footy in my hands – my brother played, and I was always very competitive with him. My dad played when he was younger too – so I guess I have footy in my blood," she said.

But despite sharing her brother and father's passion for the game, as a woman, there was no professional league for Katie to aim for – until now.

2017 marks a major achievement for female footy players, with the launch of the inaugural NAB AFL Women's Competition. What's more, this significant event smashed all expectations as spectators flocked to the grounds to watch Australia's most talented female AFL players compete for the grand title. Katie Brennan was among them.

The dream of a lifetime

Brennan started playing as part of the NAB AFL Auskick program, and continued with the boys' teams until under-14s. After playing with the girls' and women's leagues in Queensland, she moved to Victoria to play in the Victorian Women's Football League – joining the Western Bulldogs in 2013. She was announced captain of the team in 2017 ahead of the inaugural AFLW season.

The Women's competition showcased the talents of female footballers from eight teams across Australia. Several hundred women were drawn by the opportunity to make the leap from amateur football players to semi-professionals for the first time in their sporting careers.

Despite being confident about the quality of the women's game, Brennan admits being overwhelmed by the public reaction to the new competition.

"There was so much support at the games, and it was great that so many media outlets jumped on board," she said. "I knew that we had a good product – with the talent in the teams and the way we played those games. But the response was much bigger than I expected – it was such an amazing experience."

The two-month competition kicked off on Friday 3 February, with an historic match between traditional football rivals Carlton and Collingwood.

The first two matches in the season had to be moved to larger grounds to hold larger-than-expected crowds, as ticket sales soared. Almost 25,000 spectators packed the stadium to watch Carlton and Collingwood make history in the first match, causing police to call for a lockout as a further 2,000 fans lined up outside.[1]

But it didn't stop there – around 50,000 people took advantage of free tickets to attend the first four games.[2] And even more tuned in at home to catch the live broadcast, with almost a million viewers recorded for the first match alone.[3]

For Brennan, the highlight of the season – and her career to date – came when she was running out onto her home ground of Whitton Oval in Footscray for the first game.

"Being in front of 10,000 fans, hearing the roar of the crowd and wearing the premiership colours – for me, that was a dream come true."

A new era in AFL

The season ended in spectacular fashion on Saturday 25 March as the two top teams, Brisbane Lions and Adelaide Crows, battled it out in the nail-biting grand final. Adelaide made a surprising victory, defeating the Lions 35 to 29 – ending the season's winning streak for the Brisbane team.

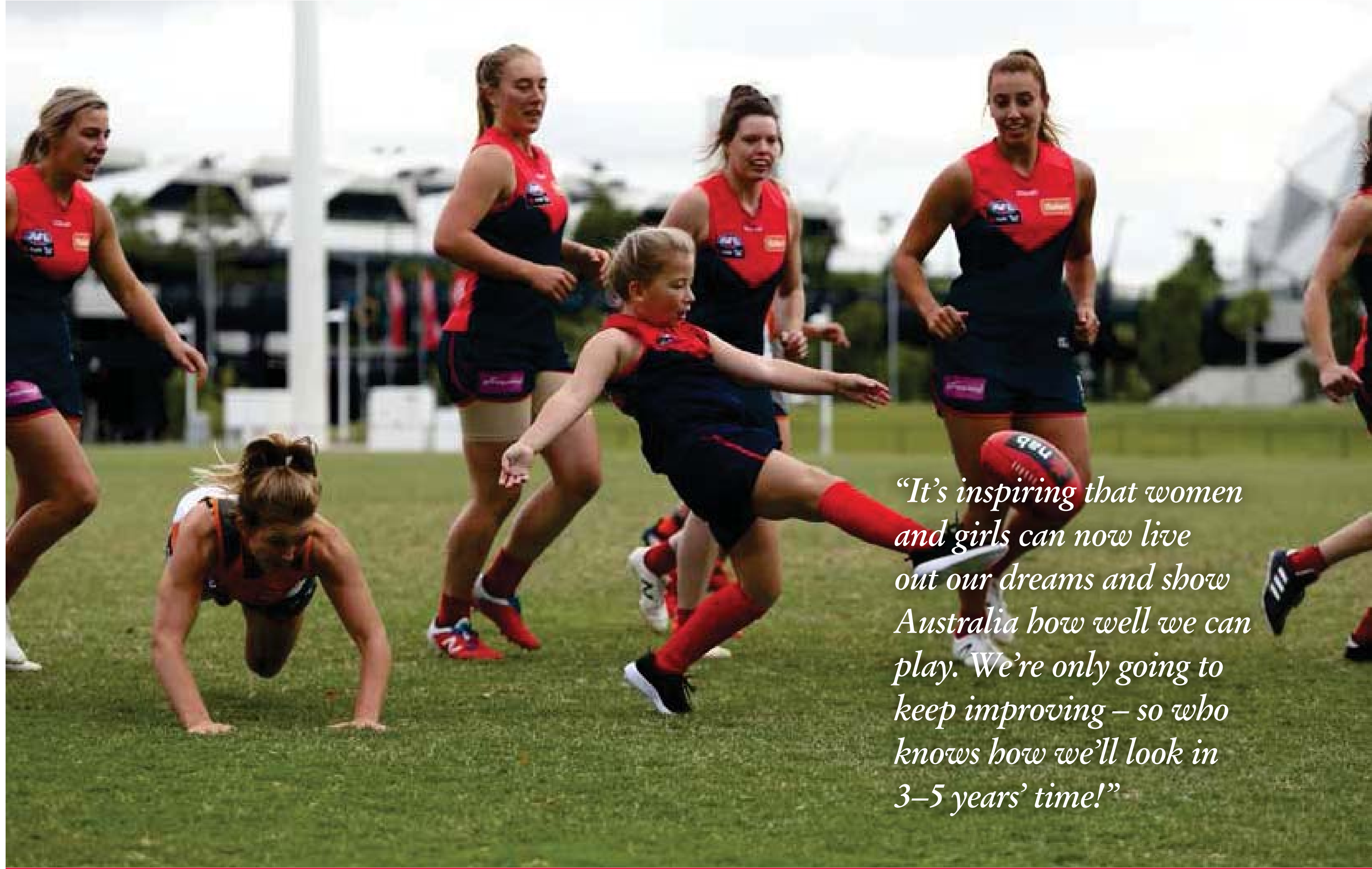
While Brennan was only able to play two games in the season before being sidelined by injury, she continued to support the game through her role as a NAB AFLW Ambassador.

"It was a great honour to be associated with the NAB brand – their support of the AFL as its major sponsor is one of the reasons we were able to get the women's competition off the ground. They support the game by sponsoring the whole player pathway, from Auskick through to the women's academy – which supports the footy stars of the future."

Brennan is looking forward to the 2018 season, promising to bring her best game to the pursuit of a premiership. But no matter what the future brings for Brennan and her team, she's excited to see how the women's game develops.

"I would love to see the competition expand to 18 teams, playing 18 games plus the finals. That would see more opportunity for girls coming through now – and the potential for the sport to be our main profession and source of income."

[1] ESPN, AFLW Wrap: What to make of the first round, Feb 2017.
[2] BBC, AFLW: How a women's league has captivated Australia, March 2017.
[3] Australian Football League, TV ratings bonanza for AFLW opener, Feb 2017.



NAB and women's AFL: Creating clear pathways

NAB is proud to be the major sponsor of the 2017 NAB AFL Women's competition and to have played a vital role in paving the way for female AFL players to reach their full potential.

To achieve such phenomenal success, aspiring female footballers need a clear pathway for developing their skills to a professional level. That's why NAB is committed to fostering young talent through the men's and women's NAB AFL Rising Stars Programs, as part of their 14-year partnership with AFL.

Andrew Thorburn, CEO of NAB, said, "At NAB, we don't just sponsor footy, we grow it and we want to make it a better game for all Australians. We're excited about the opportunity to provide all aspiring young girls with the chance to play footy at the elite level."

NAB aims to make football more affordable and accessible to all families – with the NAB Auskick program creating opportunities for 170,000 young kids across the country to learn football skills and realise their potential in the sport.

Gillon McLachlan, CEO of AFL, said, "NAB has been, and continues to be, a great sponsor of the AFL and the game's grassroots. Women and girls now have a clear pathway to play the game from NAB AFL Auskick to the NAB AFL Women's League."

For our brightest female AFL stars, the long-awaited opportunity to compete at a professional level is not just a personal achievement – it's a milestone for all Australian women, including the next generation of up-and-coming AFL talent.

With an evolving talent pool, and the ongoing support of NAB behind the sport, we can expect the AFL Women's competition to continue to thrive and flourish in the years to come.

Insights from a fund *manager*

Foreign investment can sometimes get a bad rap – especially given the current mood of uncertainty in global markets.

But with access to a diverse range of sectors and industries, investing overseas can also open up a world of possibility for Australians looking to diversify their portfolios.

Fund manager Intermede Investment Partners specialises in global equity investments. We spoke to Intermede's Head of Distribution, **Mike Gallagher** to learn more about the opportunities foreign markets have to offer.

Australian investors have long had a love affair with domestic shares – why do you think that's the case?

'Home bias' is when investors disproportionately invest in their domestic equity markets, despite other options being readily available.

This instinct to 'stick with what you know' is not just an Australian behaviour – research shows that it is a pervasive factor in markets all around the world. In fact, in 2015, Anil Mishra, of the University of Western Sydney, identified dozens of studies revealing the prevalence of this homing instinct.[1]

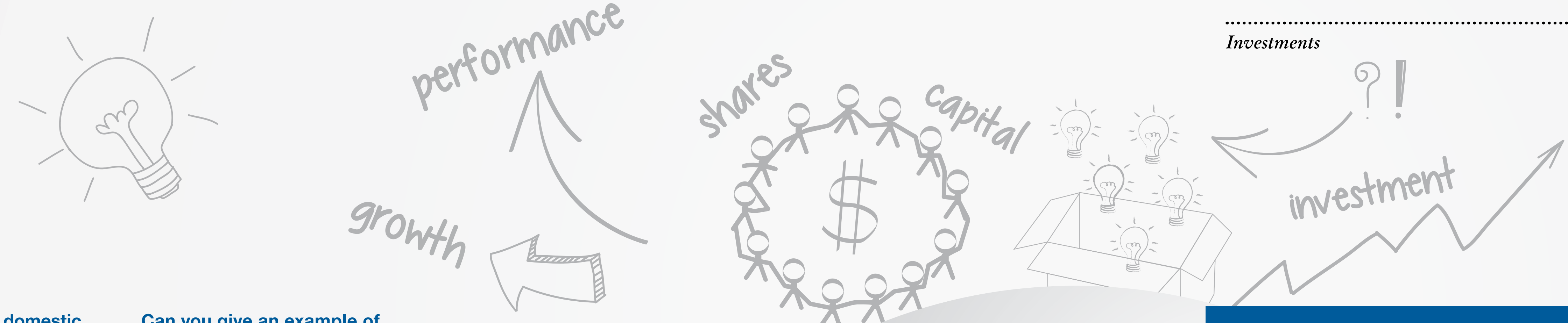
For Australian investors, home bias has worked out well in recent years. For example, a dollar invested in 2002 in the MSCI Australia Index, which tracks Australia's large cap companies, would now be worth A$3.05.[2] Whereas, if you had invested the same dollar in the MSCI All Countries World Index (MSCI ACWI) it would only be worth A$1.88.

On this basis, domestically focused Australian investors could be justified in scoffing at advice to abandon the comforts of home base for distant shores. Their attitude is, basically, if it ain't broke, don't fix it.

[1] 'Measures of equity home bias puzzle', Mishra AV, Journal of Empirical Finance, 34, December 2015.

[2] 'MSCI Australia Index (AUD) (net) fact sheet', MSCI, as at 31 March 2017. Past performance is not a reliable indicator of future performance. The value of an investment may rise or fall with the changes in the market.

Insights from a fund *manager*



Given the long-term outperformance of local markets, why should investors consider diversifying with international shares?

No matter how well a domestically-focused approach has worked for Australian investors in the past, today it presents significant risks relative to a more globally diversified approach.

By focusing solely on the Australian equity market, investors are limiting themselves to a tiny subset of the opportunities that are available worldwide. To put this into perspective: the market cap of the MSCI Australia index is US$991 billion, just 2.4% of the market cap of US$40.0 trillion for MSCI ACWI.[3]

The Australian market also presents significant concentration risk, at both the stock and industry sector level. The top ten companies by market cap make up 55% of the MSCI Australia Index, and features five banks and two mining companies. This concentration is also a factor across the broader Australian market, with financials and materials companies making up around 56% of the market.

This concentration introduces substantial risk into domestically focused Australian equity portfolios. For example, if the financials and materials sectors were to experience headwinds, the effect on portfolio performance could be profound.

What opportunities are domestic investors potentially missing out on?

Without international investments, Australians risk missing out on exposure to the fastest growing, most dynamic sectors of the global economy, including information technology (IT) and healthcare.

To illustrate, IT and healthcare stocks represent 28% of the MSCI ACWI market cap, but only around 7% of the MSCI Australia Index (with information technology at a paltry 0.5%).

As such, emphasising an allocation to Australian stocks at the expense of global diversification will mean that Australian investors won't enjoy the potential benefit of gains made by these dynamic companies.

And the impact of this can be significant - in 2015, the so called 'FANG' companies (Facebook, Amazon, Netflix, Google) rose an average of 83% in US dollar terms, during a year in which the S&P 500 index was approximately flat.[4]

Can you give an example of an international stock which illustrates the opportunities in foreign investment?

A stock we hold which helps highlight the scale of the potential opportunity away from Australian shores is Alibaba Group, the leading internet/e-commerce business in China.

Alibaba operates consumer-to-consumer (Taobao), business-to-consumer (Tmall), and business-to-business (alibaba.com) web portals, which collectively capture approximately 77% of online revenues in China.[5]

Alibaba Group also owns and operates a rapidly growing cloud computing business, and is entitled to 37.5%[6] of the pre-tax profits of Ant Financial, the private entity controlled by Alibaba founder, Jack Ma, which owns China's leading online payments platform, Alipay.

The financial characteristics of the business are formidable when measured on revenue growth (54% in 2016), cash flow (US$4.9 billion in Q4 2016), and margins (64% for ecommerce operations, Q4 2016).[7]

Alibaba is also the leading e-commerce play in south-east Asia through its holding in Lazada. We see a continued multiyear growth opportunity for Alibaba, and believe the valuation is compelling, given the potential for substantial profit growth and abundant free cash flow generation.[8]

If you're an Australian seeking out investment opportunities abroad, remember that your financial situation is unique – and there's no one-size-fits-all solution. Your financial adviser can help you tailor a portfolio to meet your needs.

[3] 'MSCI ACWI Index (USD) (net) factsheet', MSCI, as at 31 March 2017.
[4] 'How FANG stocks could bite Wall Street', Wieczner J, Time Inc, 12 January 2016.
[5] 'Alibaba beats earnings and revenue estimates in Q3', Nasdaq, 25 January 2017.
[6] 'The strength of Alibaba Group Holding Ltd', InvestorPlace, 22 March 2017.
[7] 'December quarter 2016 results', Alibaba Group, 24 January 2017.
[8] Any projection or other forward looking statement ('Projection') in this document is provided for information purposes only. No representation is made as to the accuracy of any such Projection or that it will be met. Actual events may vary materially.

Simple Pleasures

Godfrey Pembroke clients **Bob** and **Julie Hogan** are living proof that you don't need to take big risks with your money to enjoy a prosperous retirement.

In times of complex investment offerings and high personal debt, retirees **Bob** and **Julie Hogan** have taken a simple and sensible approach to money – and ended up exactly where they want to be.

They represent a generation that worked hard and lived within their means – avoiding high levels of debt and putting money away for the future. It's an old fashioned approach, but one that has served them well.

"We're the type of people that – if we didn't have the money for it, we didn't buy it. We didn't like accumulating debt, and were fairly disciplined. We worked hard and were good savers – we had a social life, but weren't party animals, and for holidays we liked to get away in the van."

Their sensible attitude to money saw the couple enjoy a modest but comfortable lifestyle, while paying off an investment property through the Defence Housing Association (DHA) fund.

But when Bob had the opportunity to take an early retirement from the Australian Post Office after 30 years' service, he was keen to take the opportunity to change his lifestyle.

Seeking financial advice

Bob says he was very interested in the prospect of retiring young (at 57). But, he was worried that his investments and savings might not be enough to sustain the pair through a longer than usual retirement.

"I knew that our investment property and super put us in a reasonably sound position – but I wanted to be sure that I was in a position to retire. I didn't want to take that step then find out a few years on that we couldn't actually afford it."

"Also, I wasn't overly impressed with the super scheme I was in, in terms of the pensions and scope of investment strategies. I looked into SMSFs, but it became clear that with government requirements, I needed to get hold of a good accountant and an independent financial adviser."

That's when Bob was referred to Godfrey Pembroke adviser Harry Mantzouratos, CEO and Principal of PGD Financial Services. While he was keen to get advice, Bob says he wasn't really sure what to expect.

"We didn't have a clear picture – but we were definitely open for advice. The only thing clear at that particular time was that we're not big risk takers, but were good savers and good planners. We wanted to work to achieve what we can within our means."

Earning trust

While Bob and Julie agreed they needed financial advice, they were still a little apprehensive.

"When you look at an environment where you are seeking advice from someone you don't know, you're not sure of the process and wondering if you're going to get conned!

"I didn't want us to have to take risks outside our comfort zone to achieve retirement. We've worked hard, so it would be silly to throw that away on an investment strategy we weren't comfortable with."

Their caution meant that when they first met with Harry, they were very clear about their personal risk tolerance.

"After the first meeting, we left Harry on no uncertain terms that we were conservative investors, that we didn't want to try to make a million bucks and then lose it all."

Harry agrees that in the beginning he needed to earn Bob and Julie's trust, by being open and clear about the reasons for his advice.

"When I first started seeing Bob and Julie it was 2008 – right in the midst of the Global Financial Crisis. So they really wanted transparency and education around what I was recommending – basically what we were doing and why."

"They were the sort of people looking for good advice – and who were prepared to take it. But it was important for me to provide proof points around the value of the advice, and how it matched their investment goals."

Creating the plan

Harry helped the couple set up an SMSF, so they could sell their existing DHA property and deposit the money into superannuation.

"Because they had had a good experience with it in the past, they wanted to purchase another DHA property through the fund, and get the benefits of less complexity and tax by having it in super."

He then helped them determine an investment strategy, based on quality managed funds and stocks they trusted, to provide an additional income stream. He says that Bob and Julie's conservative approach meant each investment was considered carefully, based on its potential risk and contribution to the strategy.

"We talked about taking calculated risks to help generate more income – if you're happy to have your money in a bank, or borrow from them – how would you feel about owning the shares?"

By choosing investments with the right risk and income profile, Harry built a strategy where Bob and Julie were getting two regular income streams – one from the investments and one from the rental income.

He says that while Bob and Julie may be conservative investors, the strategy still factors in room for growth.

"We set up the investments strategy so that there was the potential that 10 years into retirement, Bob and Julie could potentially have more money than they did at the start. But we did it in a way that planned for spending and a bit of bad luck – like another GFC. There will probably be two, three or four market crashes in this part of their lifecycle, so it's important to factor that into the plan."

A stress-free retirement

Almost 10 years later, Bob and Julie are living their dream, with 14.5 acres on the mid-North Coast of NSW, two horses "with attitude", and a lot of machinery Bob enjoys looking after. Julie spends her time pursuing her hobbies of sewing and craft, and they still regularly get away on holidays in the van.

Bob says that the advice process has been an extremely positive one for them.

"We've been very comfortable with the advice, as we both honed in on the same end result: financial longevity and a stress free retirement environment."

"Harry came up with a plan that met those requirements and then some – and we've never looked back."

"We've never had any reason to challenge it or change it, and we haven't needed for our pensions to be increased. We've done everything we wanted to be able to do, financially, so that tells us both that we're on a winner."

Bob says that it's impossible to put price on a lifestyle where worrying about money isn't a factor.

"When you're retired you don't need sleepless nights worrying about financial things – so we can wake up and enjoy life. When I was working, the stress that people put on you – you always look forward to the weekend so you can wind back and enjoy life. Now, every day is a weekend!"

"As for Harry's involvement in the process, setting up the plan and fine tuning it as we went on – you can't underestimate or understate that."

Review your plans *and stay on track*

The Federal Government's superannuation reforms leave most people in a neutral – or even positive – position.

It's worth understanding the latest super changes and how they could impact your current super contribution strategy. There's a chance you may also want to make some amendments.

Pre-tax opportunities

One reason for this is that as of 1 July 2017, the annual cap for concessional (pre-tax) super contributions reduced to $25,000 per annum. In the 2016/2017 financial year, the concessional contributions were capped at $35,000 pa – for anyone 49 years of age or older – and $30,000 pa for anyone else.

From 1 July 2017, concessional contributions attract an additional 15% tax if your income[1] is greater than $250,000 pa as opposed to the income threshold of $300,000 pa that applied in the 2016/2017 financial year.

Concessional contributions

Annual before-tax contribution caps

Before 1 July 2017

$30,000pa
age 48 or under†

$35,000pa
age 49 and over†

From 1 July 2017

$25,000pa
for everyone

From 1 July 2018

$25,000pa

There is an opportunity to contribute more than the annual cap if you haven't fully utilised the cap in previous years and your super balance is $500,000 or less. Cap amounts unused from 1 July 2018 can be carried forward for up to five consecutive years.

Everyone who is eligible to make personal super contributions will be able to claim a tax deduction for these contributions to eligible super accounts, up to the concessional contribution cap.

† As at 30 June of previous financial year

Tax on concessional contributions made within the cap

If your income is‡

Before 1 July 2017	From 1 July 2017
15% ≤$250,000pa	15% ≤$250,000pa
15% $250,000pa to $300,000pa	30% $250,000pa to $300,000pa
30% $300,000+pa	30% $300,000+pa

‡ Income for these purposes is determined according to the Tax Law.

After-tax opportunities

The cap on non-concessional (after-tax) contributions has reduced in the new financial year as well. From 1 July 2017, the cap for non-concessional contributions reduced from $180,000 pa to $100,000 pa – or from $540,000 to $300,000 if you bring forward two years' worth of contributions[2] (certain eligibility conditions apply).

Non-concessional contributions

Annual before-tax contribution caps

Before 1 July 2017	From 1 July 2017
$180,000pa	$100,000pa*
or	or
$540,000	$300,000*
over a three year period if certain conditions are met	over a three year period if certain conditions are met

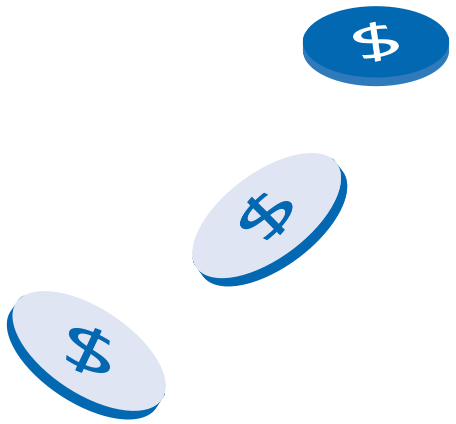
Transitional rules will apply for contributions made between now and the 2018/19 financial year. These rules are complex and it's recommended that you speak to a financial adviser or call us today on 132 652 between 8 am and 6 pm AEST, Monday to Friday.

* After-tax contributions cannot be made where super balance exceeds $1.6m.

Delayed benefits

If it's not a great time to make additional contributions to super, there may be another option available to you in the years ahead. From 1 July 2018, if you don't use up your annual concessional contribution cap, you're able to accrue the unused amounts for use in subsequent years. If your total super balance (accumulation and pension) is less than $500,000, unused amounts may be carried forward on a five-year rolling basis with 2019/20 being the first financial year. That's a great new opportunity for those who have broken work patterns or competing financial commitments.

It may also help to manage your tax or put more money into your super when selling assets that result in a capital gain.



1 Taxable income, reportable fringe benefits, total net investment losses and low tax contributions (also known as concessional contributions).
2. It's important to ensure that concessional and non-concessional contributions are made within the caps. Exceeding the cap may result in significant tax penalties.

Review your plans *and stay on track*

Hold that thought

There are other good reasons to act sooner rather than later. The super reforms impact transition to retirement (TTR) pensions as well – and the role they can play in your pre-retirement planning.

TTR pensions are those pensions that have been started with super money when you have reached your preservation age[3] and haven't committed to retirement. As of 1 July, the tax paid on earnings from investments held in these pensions has increased from 0% to a maximum of 15%. This change – together with the reduced annual cap on concessionally taxed super contributions – makes it important to review your strategy to see whether it's still suitable or not.

Transition to retirement pension

A transition to retirement (TTR) pension allows you to reduce your working hours but not your lifestyle by using TTR pension payments to supplement your income.

Earnings tax rates

Before 1 July 2017	From 1 July 2017
Tax free	15%

Spouse contributions

Before 1 July 2017	From 1 July 2017
Tax offset for spouse contributions only where recipient income† is less than	Tax offset for spouse contributions only where recipient income† is less than
$13,800pa	$40,000pa

† Assessable income plus reportable fringe benefits and reportable employer super contributions.

Sometimes it's worth waiting

That's because the new super reforms allow more people to access the spouse contributions tax offset from 1 July 2017. Before 1 July 2017, a tax offset of up to $540 was available to those who contributed to their spouse's super when their spouse's income[5] was less than $13,800 pa. That has now changed. Since 1 July 2017, the spouse contribution tax offset is available when their spouse's income is less than $40,000 a year.

A $1.6 million limit

From 1 July 2017, a 'transfer balance' cap of $1.6 million limits the amount you can hold in the retirement (pension) phase of super[4]. That doesn't mean your excess funds have to be withdrawn from the super system altogether.

Rather, the amount in excess of $1.6 million can remain in the 'accumulation' phase where earnings are taxed at up to 15% – or, in reality, a lot lower once deductible expenses, franking credits and other items are taken into account in the fund.

Earnings tax in the accumulation accounts

15%

Remains the same at 15%
(10% on capital gains‡)

‡ Where eligible for the capital gains tax discount.

Super pension limits (Limit amount transferred to tax-free pension accounts)

Before 1 July 2017	From 1 July 2017	
No limit	$1.6 million lifetime cap applies to everyone	People with existing pensions over $1.6 million need to have **reduced their total pension balance** to or below this limit by **1 July 2017** to avoid penalties Any amount exceeding $1.6 million can be **held in an accumulation account**

For many of us, little has changed

The new reforms continue to offer ample opportunities to grow your super and retire with more. Indeed, for many of us, little has changed. While we build up our super, pre-tax contributions and investment earnings are still taxed at the low rate of 15% for most people, not the marginal tax rate of up to 49%[6]. An additional 15% tax may apply to concessional contributions made by high income earners. However, this may still be lower than their marginal tax rate. When we retire, we can transfer a generous amount into a superannuation pension, where no tax is paid on investment earnings and payments are generally tax free at age 60 and over. At the end of the day, super is still super.

Nevertheless, you need to be aware of the upcoming changes. It's important to review your current super contribution strategy to assess the impact of these reforms and any amendments that may be required. At the same time, care should be taken to avoid contributing in excess of the contribution caps. A tax penalty is still a tax penalty!

3 Preservation age is currently age 56 and will gradually increase to age 60 depending on your date of birth. Further information is available at www.ato.gov.au
4 The limit applies per person. That means it is possible for up to $3.2 million to be transferred to pensions by a couple.
5 Assessable income, reportable fringe benefits and reportable employer super contributions.
6 Including Medicare Levy and Temporary Budget Repair Levy.

Reasons to be *optimistic*

Last year, demographer Bernard Salt's 'smashed avocado' comments caused outrage amongst millennials, launching a national conversation about housing affordability. We spoke to Bernard to find out what he meant by the comments – and to find out the key trends shaping tomorrow's economy.

There's no question that housing affordability is the topic of the moment, as younger and less cashed-up Australians feel locked out of the property market.

But it was in October 2016 that the topic was catapulted into living rooms everywhere, when The Weekend Australian Magazine published an article by social commentator Bernard Salt, suggesting that millennials were prioritising extravagant lifestyles over saving for a home.

His satirical suggestion that the younger generations could afford to buy a home if they stopped frequenting hipster cafes and eating smashed avocado on toast hit a nerve – with opinions divided down generational lines.

"Anyone over 45 agreed with the sentiment, while anyone under 35 thought it was outrageous," says Salt.

But Salt says the strong reaction to the article was unexpected – and insists that his intended meaning was misconstrued.

"The 'smashed avocado' comment was made in jest – the article was intended to satirise the conservatism of baby boomers," says Salt. "It went viral partly because the quote was taken out of context – making it look critical of millennials instead."

Either way, the story sparked an extraordinary debate – focusing unprecedented attention on the issue. Politicians of all stripes scrambled to find solutions to the crisis, culminating in the Federal Budget proposal to allow home-savers to contribute extra and withdraw money for a deposit from super.

The start-up generation

While Salt concedes that affordability will be an ongoing issue for younger generations, he believes that Gen Y and Millennials enjoy certain advantages that will help them succeed in coming years.

"This generation is the most educated in history, the most widely travelled, and the most connected – and many have yet to settle down."

With fewer financial commitments and a parental safety net behind them, Salt says they are also the most entrepreneurial.

"Millennials love nothing better than being in a start-up: they are digitally connected with a global view and don't have a mortgage hanging over them – so they're free to have a go."

"Their pinup is Mark Zuckerberg – they've seen companies like Facebook take over the world, and they want to do the same."

Escape from the city

While capital city house prices continue to rise, Salt says that increased connectivity – spearheaded by the rollout of the National Broadband Network (NBN) – has the potential to transform how we live and work.

"The NBN will enable a new type of lifestyle – where you can actually move outside of the major cities and run a business or telecommute from somewhere you want to be," says Salt.

"Australians have discovered the sea change and tree change to improve their lifestyles – the next iteration of that is the 'eChange'."

"What this will do is disperse growth, rather than concentrate it in the capital cities. Workers won't be tied to suburbia, but will be able to make other choices.

"Given half a chance, Australians will take the lifestyle every time. Ultimately this will lead to people living happier and healthier lives."

Emerging generational trends

Here's a summary of some of the trends and challenges that are shaping Australia's future.

Gen Y & Millennials settle down

"Millennials are reaching a point in their lives where they are settling down, they are forming relationships, having children, letting go of the good time lifestyle, and transitioning into a family life and mortgages."

"As such, for people in their 20s and 30s, housing affordability is a major concern. However, it should be remembered that this is mostly a Melbourne and Sydney thing – it's not the whole of Australia – and isn't as much of an issue in other capitals and regional areas"

Generation X reach peak stress

"Gen X – now in their late 30s to early 50s – are slap bang in the middle of the toughest years of life. They're working hard, often with teenagers at home and in private school, putting on extensions, and trying to pay off their mortgage."

"While this is arguably the most difficult time of life, it can also be the most rewarding. They are at peak earning capacity – while also at the peak of their family time."

Baby boomers – 'my time now'

"Baby boomers are now straddling retirement – and they are also seeking to redefine it. Many – especially knowledge workers like doctors and lawyers – are choosing to stay in the workforce, so the level of part-time work in this age group is increasing."

"We're also seeing more baby-boomers looking at succession planning – how to pass on their businesses to the next generation."

"As they move into retirement, there is a perception among baby boomers that this is 'my time now'. With the children (hopefully) out of the family home, and work soon behind them, they have suddenly realised that they have a window of time while they are still young and well enough to enjoy life."

"So the story of many middle Australians is that they're booking that Rhine river cruise, buying a land cruiser and driving around Australia. And this is a good thing in terms of the economy!"

Unlocking your *wealth opportunities* outside of super

We all have dreams of what we want to achieve now and in retirement. Super is a big part of your wealth story, but it's not the whole story and growing your wealth outside super is becoming more and more important, especially with the changes coming to super this year. Did you know there are a variety of solutions available to you to help you reach your financial goals in the short to medium term?

Inside versus outside super

Putting money into super is a tax effective way of saving for retirement. Super is important, especially if you consider that for many of us, super could be our biggest investment after our family home. There are many benefits to investing in super, because it's the wealth your building to enjoy your retirement, and to help you achieve your longer-term aspirations.

But life is about more than retirement. What about your short to medium term goals? Having savings outside of super gives you more flexibility, and the freedom to take that extended trip overseas, buy the sports car you've always dreamed of, have the ability to send your children to private school or even be able to put down a deposit on your first house.

Benefits of investing outside super

When you invest outside super, you have more flexibility as you can exit at any time. Your money isn't locked away until you retire, which means you can manage your investment to meet your goals. Investing outside super may be tax effective as well, because the cost of loans taken for investment purposes may have the benefit of being tax deductible. Also, at any time, you can see all or part of your investment or add more money. It's up to you, giving you far greater control.

What are my options?

There are many options available to you to grow your wealth outside of super and most people will be familiar with borrowing to invest, which is why investment property in Australia is so popular. What most people don't know is that you can borrow to invest in non-property assets, and that there are now lending solutions in this space that are not margin loans. This may allow you to turn your small investment into a larger balance and invest this in a variety of investment options around the world. With interest rates at an all-time low, borrowing may be a cost effective strategy for investors who are looking to increase their exposure to other investment options.

For more information, please speak with your Godfrey Pembroke financial adviser.

Important information

Toll Free Enquiry Line
1800 023 867

godfreypembroke.com.au

GODFREY PEMBROKE
Financial Advice Specialists

A132006-1116